

JUNIPER NETWORKS INC

FORM 10-K (Annual Report)

Filed 02/26/10 for the Period Ending 12/31/09

Address	1133 INNOVATION WAY SUNNYVALE, CA 94089
Telephone	4087452000
CIK	0001043604
Symbol	JNPR
SIC Code	3576 - Computer Communications Equipment
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

Table of Contents

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

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission file number 001-34501

JUNIPER NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

**1194 North Mathilda Avenue
Sunnyvale, California 94089**

(Address of principal executive offices, including zip code)

77-0422528

(IRS Employer Identification No.)

(408) 745-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.00001 per share	New York Stock Exchange LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes
 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes
 No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$8,114,000,000 as of the end of the Registrant's second fiscal quarter (based on the closing sale price for the common stock on the NASDAQ Global Select Market on June 30, 2009). For purposes of this disclosure, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. However, such treatment should not be construed as an admission that any such person is an "affiliate" of the registrant. The registrant has no non-voting common equity.

As of February 22, 2010, there were approximately 521,197,000 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

As noted herein, the information called for by Part III is incorporated by reference to specified portions of the Registrant's definitive proxy statement to be filed in conjunction with the Registrant's 2010 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended December 31, 2009.

Table of Contents

	<u>Page</u>
PART I	
ITEM 1. Business	3
ITEM 1A. Risk Factors	15
ITEM 1B. Unresolved Staff Comments	27
ITEM 2. Properties	27
ITEM 3. Legal Proceedings	28
ITEM 4. Submission of Matters to a Vote of Security Holders	28
PART II	
ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
ITEM 6. Selected Consolidated Financial Data	30
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk	58
ITEM 8. Financial Statements and Supplementary Data	60
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	114
ITEM 9A. Controls and Procedures	114
ITEM 9B. Other Information	115
PART III	
ITEM 10. Directors and Executive Officers of the Registrant	115
ITEM 11. Executive Compensation	115
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	115
ITEM 13. Certain Relationships and Related Transactions, and Director Independence	116
ITEM 14. Principal Accountant Fees and Services	116
PART IV	
ITEM 15. Exhibits and Financial Statement Schedules	116
EX-10.47	
EX-10.48	
EX-10.49	
EX-10.50	
EX-10.51	
EX-21.1	
EX-23.1	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

PART I

ITEM 1. *Business*

Overview

We design, develop, and sell innovative products and services that together provide our customers with high-performance network infrastructure that creates responsive and trusted environments for accelerating the deployment of services and applications over a single network. We serve the high-performance networking requirements of global service providers, enterprises, and public sector organizations that view the network as critical to their success. We believe we are uniquely positioned in the networking industry based on our core competencies in architecture, silicon design, and our open cross-network software platform that includes the Junos[®] operating system (“Junos OS”), Junos Space network application platform, and Junos Pulse integrated network client. We offer a broad product portfolio that spans routing, switching, security, application acceleration, identity policy and control, and management designed to provide performance, choice, and flexibility while reducing overall total cost of ownership. In addition, through strong industry partnerships, we are fostering innovation across the network.

Our operations are organized into two reportable segments: Infrastructure and Service Layer Technologies (“SLT”). Our Infrastructure segment primarily offers scalable routing and switching products that are used to control and direct network traffic from the core, through the edge, aggregation, and the customer premise equipment level. Infrastructure products include our Internet Protocol (“IP”) routing and carrier Ethernet routing portfolio, as well as our Ethernet switching portfolio. Our SLT segment offers solutions that meet a broad array of our customers’ priorities, from protecting the network itself, and protecting data on the network, to maximizing existing bandwidth and acceleration of applications across a distributed network. Both segments offer worldwide services, including technical support and professional services, as well as educational and training programs to our customers. Together, our high-performance product and service offerings help enable our customers to convert legacy networks that provide commoditized, services into more valuable assets that provide differentiation and value and increased performance, reliability, and security to end-users. See Note 11, *Segment Information*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for financial information regarding each of our Infrastructure and SLT segments, which is incorporated herein by reference.

During our fiscal year ended December 31, 2009, we generated net revenues of \$3.32 billion and conducted business in more than 100 countries around the world. See Item 8 of Part II for more information on our consolidated financial position as of December 31, 2009, and 2008 and our consolidated statements of operations, consolidated statements of stockholders’ equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009.

We were incorporated in California in 1996 and reincorporated in Delaware in 1998. Our corporate headquarters are located in Sunnyvale, California. Our website address is www.juniper.net.

Our Strategy

Our objective and strategy is to be the leading provider of high-performance network infrastructure by transforming the experience and economics of networking. Key elements of our strategy are described below.

Maintain and Extend Technology Leadership

Our Junos OS, application-specific integrated circuit (“ASIC”) technology, and network-optimized product architecture have been key elements to establishing and maintaining our technology leadership. We believe that these elements can be leveraged into future products that we are currently developing. We intend to maintain and extend our technological leadership in the service provider and enterprise markets primarily through innovation and continued investment in research and development (“R&D”), supplemented by external partnerships, including strategic alliances, that would allow us to deliver a broad range of products and services to customers in target markets.

Leverage Position as Supplier of High-Performance Network Infrastructure

From inception, we have focused on designing, developing, and building high-performance network infrastructure for demanding service provider and enterprise networking environments and have integrated purpose-built technology into a network-optimized architecture that specifically meets our customers' needs. We believe that many of these customers will deploy networking equipment from only a few vendors. We believe that the performance, reliability, and security of our products provide us with a competitive advantage, which is critical in gaining selection as one of these vendors.

Be Strategic to Our Customers

In developing our Infrastructure and SLT solutions, we work very closely with customers to design and build best-in-class products and solutions specifically designed to meet their complex needs. Over time, we have expanded our understanding of the escalating demands and risks facing our customers. That increased understanding has enabled us subsequently to design additional capabilities into our products. We believe our close relationships with, and constant feedback from, our customers have been key elements in our design wins and rapid deployments to date. We plan to continue to work hand-in-hand with our customers to implement product enhancements as well as to design future products that meet the evolving needs of the marketplace, while enabling customers to reduce costs.

Enable New IP-Based Services

Our platforms enable network operators to quickly build and secure networks cost-effectively and deploy new differentiated services to drive new sources of revenue more efficiently than legacy network products. We believe that the secure delivery of IP-based services and applications, web hosting, outsourced Internet and intranet services, outsourced enterprise applications, and voice-over IP, will continue to grow, and are cost-effectively enabled by our high-performance network infrastructure offerings.

Establish and Develop Industry Partnerships

Our customers have diverse requirements. While our products meet certain requirements of our customers, our products are not intended to satisfy certain other requirements. Therefore, we believe that it is important that we attract and build relationships with other industry leaders in a diverse set of technologies and services that extend the value of the network for our customers. These partnerships ensure that we have access to those technologies and services, whether through technology integration, joint development, resale, or other collaboration, in order to better support a broader set of our customers' requirements. In addition, we believe in an open network infrastructure that invites partner innovation and provides customers with greater choice and control in meeting their evolving business requirements, while enabling them to reduce costs.

Markets and Customers

We sell our high-performance network products and service offerings through direct sales and through distributors, value-added resellers, and original equipment manufacturer ("OEM") partners to end-users in the following markets:

Service Providers

Service providers include wireline, wireless, and cable operators, as well as major Internet content and application providers. Supporting most major service provider networks in the world, our high-performance network infrastructure offerings are designed and built for the performance, reliability, and security that service providers demand. Our networking infrastructure offerings benefit these customers by:

- Reducing capital and operational costs by running multiple services over the same network using our high density, highly reliable platforms;
- Promoting generation of additional revenues by enabling new services to be offered to new market segments based on our product capabilities;

- Increasing customer satisfaction, while lowering costs, by enabling consumers to self-select automatically provisioned service packages that provide the quality, speed, and pricing they desire; and
- Providing increased asset longevity and higher return on investment as their networks can scale to multi-terabit rates based on the capabilities of our platforms.

While many of these service providers have historically been categorized separately as wireline, wireless, or cable operators, in recent years, we have seen a move towards convergence of these different types of service providers through acquisitions, mergers, and partnerships. We believe these strategic developments are made technically possible as operators invest in the build out of next generation networks capable of supporting voice, video, and data traffic on to the same IP-based network. This convergence relies on IP-based traffic processing and creates the opportunity for multi-service networks and offer service providers significant new revenue opportunities.

We believe that there are several other trends affecting service providers for which we are well positioned to deliver products and solutions. These trends include significant growth in IP traffic on service provider networks because of peer-to-peer interaction, broadband usage, video, and an increasing reliance on the network as a mission critical business tool in the strategies of our IP customers and of their enterprise customers.

The IP infrastructure market for service providers includes: products and technology at the network core; the network edge to enable access; the aggregation layer; security to protect from the inside out and the outside in; the application awareness and intelligence to optimize the network to meet business and user needs; and the management, service awareness, and control of the entire infrastructure.

Enterprise

Our high-performance network infrastructure offerings are designed to meet the performance, reliability, and security requirements of the world's most demanding businesses. For this reason, enterprises and public sector organizations such as governments and research and education institutions that view their networks as critical to their success are able to deploy our solutions as a powerful component in delivering the advanced network capabilities needed for their leading-edge applications while:

- Assisting in the consolidation and delivery of existing services and applications;
- Accelerating the deployment of new services and applications;
- Offering integrated security to assist in the protection and recovery of services and applications; and
- Offering operational improvements that enable cost reductions, including lower administrative, training, customer care, and labor costs.

As with the service provider market, innovation continues to be a critical component in our strategy for the enterprise market. We believe that innovative enterprises view the network as critical to their success and therefore must build advanced network infrastructures that provide fast, reliable, and secure access to services and applications over a single IP-based network. These high-performance enterprises require networks that are global, distributed, and always available. Network equipment vendors need to demonstrate performance, reliability, and security to these customers in specific segments with best-in-class open solutions for maximum flexibility. We offer enterprise solutions and services for data centers, branch and campus applications, distributed and extended enterprises, and Wide Area Network ("WAN") gateways.

As customers increasingly view the network as critical to their success, we believe that customers will increasingly demand fast, reliable, and secure access to services and applications over a single IP-based network. This is partly illustrated by the success of our SRX Services Gateways that consolidate switching, routing, and security services in a single device, Integrated Security Gateway ("ISG") products that combine firewall/virtual private network ("VPN") and intrusion detection and prevention ("IDP") solutions in a single platform and Secure Services Gateway ("SSG") platforms that provide a mix of high-performance security with Local Area Network ("LAN")/WAN connectivity for regional and branch office deployments. We will continue to invest to develop these and other converged technologies and solutions.

Customers with Ten Percent of Net Revenues or Greater

AT&T, Inc., accounted for greater than 10% of our total net revenues in 2009. No single customer accounted for more than 10% of our total net revenues in 2008. Nokia-Siemens Networks B.V. (“NSN”) accounted for greater than 10% of our total net revenues in 2007.

Our Products and Technology

Early in our history, we developed, marketed, and sold the first commercially available purpose-built IP backbone router optimized for the specific high-performance requirements of service providers. As the need for core bandwidth continued to increase, the need for service rich platforms at the edge of the network was created. Our Infrastructure products are designed to address the needs at the core and the edge of the network as well as for wireless access by combining high-performance packet forwarding technology and robust operating systems into a network-optimized solution. In addition, as enterprises continue to develop and rely upon more sophisticated and pervasive internal networks, we believe the need for products with high-performance routing and switching technology is expanding to a broader set of customers, and we believe our expertise in this technology uniquely positions us to address this growing market opportunity.

Additionally, our SLT segment offers a broad family of network security solutions that deliver high-performance, cost-effective security for enterprises, service providers, and government entities, including integrated firewall and VPN solutions, secure sockets layer (“SSL”) VPN appliances, and IDP appliances. We also offer complementary products and technologies to enable our customers to provide additional IP-based services and enhance the performance and security of their existing networks and applications.

The following is an overview of our major Infrastructure and SLT product families:

Infrastructure Products

- *T-Series, TX, JCS, and M-Series:* Our T-series core routers are primarily designed for core IP infrastructures and are also being sold into the multi-service environment. Our M-series routers are extremely versatile as they can be deployed at the edge of operator networks, in small and medium core networks, enterprise networks, and in other applications. The T-series and M-series products leverage our ASIC technology and the same Junos OS to enable consistent, continuous, reliable, and predictable service delivery. The TX and TX Plus products connect multiple T-series chassis to deliver multi-chassis scale in a single network node for world’s largest core routing applications. The JCS product reduces complexity and operating cost for our customers by virtualizing the network infrastructure to allow multiple independent network services to run on top of the same physical network infrastructure.
- *E-Series:* Our E-series products are a full featured platform designed for the network edge with support for carrier-class routing, broadband subscriber management services and a comprehensive set of IP services. Leveraging our JUNOSe operating system, the E-Series service delivery architecture enables service providers to easily deploy innovative revenue-generating services to their customers. All E-series platforms offer a full suite of routing protocols and provide scalable capacity for tens of thousands of users.
- *MX-Series:* The MX-Series is a product family developed to address emerging Ethernet network architectures and services in service provider and enterprise networks. Using our Junos OS, the MX platforms provide the carrier-class performance, scale, and reliability to enable service providers and enterprises to support large-scale Ethernet deployments. The MX Series also leverages the recently announced Junos Trio chipset with “3D Scaling” technology to enable networks to scale dynamically for more bandwidth, subscribers, and services.
- *EX-Series:* Our EX-series family extends our product portfolio running our Junos OS to address the Ethernet switch market. Ethernet is a widely used technology used to transport information in enterprise networks. Our EX-series switches are designed to enable customers to cost effectively accelerate and simplify the way they install and manage business applications across their networks and enhance network operations without compromising performance.

SLT Products

- *Services Gateway, Integrated Firewall, and VPN Solutions:* Our firewall and VPN systems and appliances are designed to provide integrated firewall, VPN, and denial of service protection capabilities for both enterprise environments and service provider network infrastructures. These products range from our SSG products, which combine LAN/WAN routing capabilities with unified threat management features such as anti-virus, anti-spam, and web filtering technologies, to our ISG and NetScreen series firewall and VPN systems, which are designed to deliver high-performance security in medium/large enterprise and carrier networks and data centers. In addition, we recently introduced the SRX-series of dynamic services gateways. Running our Junos software, the SRX-series systems provide unrivaled firewall/VPN performance and scalability and combine routing, switching, and security functionality to meet the network and security requirements for data center consolidation, rapid managed services deployments, and aggregation of security services.
- *SSL VPN Appliances:* Our SSL VPN appliances are used to secure remote access for mobile employees, secure extranets for customers and partners, and secure intranets and are designed to be used in enterprise environments of all sizes.
- *IDP Appliances:* Our IDP appliances utilize advanced intrusion detection methods to increase the detection rate and prevent network attacks and also provide fast and efficient traffic processing and alarm collection, presentation, and forwarding. Once an attack is detected, our IDP appliances prevent the intrusion by dropping the packets or connection associated with the attack, reducing or eliminating the effects of the attack.
- *Application Acceleration Platforms:* Our WXC products improve the performance of client-server and web-enabled business applications for branch-office, remote, and mobile users. These application acceleration platforms enable our customers to deliver LAN-like performance to users around the globe who access centralized applications.
- *Identity and Policy Control Solutions:* Our portfolio of identity and policy control solutions integrate subscriber privileges, application requirements, and business policies with the IP network infrastructure in order to improve the end-user experience, enhance security, and help reduce operational costs.

See Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II of this Annual Report on Form 10-K, for an analysis of net product revenues by segment.

Junos Platform

In addition to our major product families, our extended software portfolio, known as Junos Platform, is a key technology element in our strategy to be the leader in high-performance networking. The Junos Platform includes the Junos Space network application platform and Junos Pulse integrated, multi-service network client, which have been built with the same core design principles, integration approach, and development discipline. The Junos Platform enables our customers to expand network software into the application space, deploy software clients to control delivery, and accelerate the pace of innovation with an ecosystem of developers.

At the heart of the Junos Platform is Junos OS. We believe Junos OS is fundamentally superior to other network operating systems in not only its design, but also in its development. The advantages of Junos OS include:

- One modular operating system with single source base of code and a single, consistent implementation for each control plane feature;
- One software release train extended through a highly disciplined and firmly scheduled development process; and
- One common modular software architecture that scales across all Junos-based platforms.

Junos OS is designed to maintain continuous systems and improve the availability, performance, and security of business applications running across the network. Junos OS helps to automate network operations by providing a single consistent implementation of features across the network in a single release train that seeks to minimize the complexity, cost, and risk associated with implementing network features and upgrades. This operational efficiency allows network administrators more time to innovate and deliver new revenue-generating applications, helping to advance the economics of high-performance networking.

The security and stability of Junos OS, combined with its modular architecture and single source code base, provides a foundation for delivering performance, reliability, security, and scale at a lower total cost of ownership than multiple operating code base environments. With an increasing number of our platforms able to leverage Junos OS, including routing, switching, and security products, we believe Junos OS provides us a competitive advantage over other major network equipment vendors.

Major Product Development Projects

In 2009, we announced two significant product development efforts: Project Stratus and Project Falcon. Project Stratus is our initiative to develop a single data center fabric designed to significantly advance scale, performance and simplicity, while lowering energy consumption and reducing overall operating costs compared to currently existing data center solutions. Project Falcon is an effort to develop mobility solutions for service provider customers based on our MX 3D Series Universal Edge Routers and the Junos software platform.

Customer Service and Support

In addition to our Infrastructure and SLT products, we offer the following services: 24x7x365 technical assistance, hardware repair and replacement parts, unspecified software updates on a when-and-if-available basis, professional services, and educational services. We deliver these services directly to end-users and utilize a multi-tiered support model, leveraging the capabilities of our partners and third-party organizations, as appropriate.

We also train our channel partners in the delivery of education and support services to ensure locally delivered training.

As of December 31, 2009, we employed 891 people in our worldwide customer service and support organization. We believe that a broad range of support services is essential to the successful customer deployment and ongoing support of our products, and we have hired support engineers with proven network experience to provide those services.

Manufacturing and Operations

As of December 31, 2009, we employed 244 people in manufacturing and operations who primarily manage relationships with our contract manufacturers, manage our supply chain, and monitor and manage product testing and quality.

We have manufacturing relationships primarily with Celestica, Flextronics, and Plexus, under which we have subcontracted the majority of our manufacturing activity. Our manufacturing activity is primarily conducted in China, Malaysia, Mexico, and the United States.

This subcontracting activity in all locations extends from prototypes to full production and includes activities such as material procurement, final assembly, test, control, shipment to our customers, and repairs. Together with our contract manufacturers, we design, specify, and monitor the tests that are required to meet internal and external quality standards. These arrangements provide us with the following benefits:

- We can quickly deliver products to customers with turnkey manufacturing and drop-shipment capabilities;
- We gain economies of scale because, by purchasing large quantities of common components, our contract manufacturers obtain more favorable pricing than if we were buying components alone;
- We operate without dedicating significant space to manufacturing operations; and
- We can reduce our costs by reducing fixed overhead expenses.

Our contract manufacturers manufacture our products based on our rolling product demand forecasts. Each of the contract manufacturers procures components necessary to assemble the products in our forecast and tests the products according to our specifications. Products are then shipped to our distributors, value-added resellers, or end-users. Generally, we do not own the components, and title to the products transfers from the contract manufacturers to us and immediately to our customers upon delivery at a designated shipment location. If the components remain unused or the products remain unsold for specified period, we may incur carrying charges or obsolete material

charges for components that our contract manufacturers purchased to build products to meet our forecast or customer orders.

Although we have contracts with our contract manufacturers, those contracts merely set forth a framework within which the contract manufacturer may accept purchase orders from us. The contracts do not require them to manufacture our products on a long-term basis.

Our ASICs are manufactured primarily by sole or limited sources, such as International Business Machines (“IBM”) Corporation each of which is responsible for all aspects of the production of the ASICs using our proprietary designs.

We have five core values: trust, respect, humility, integrity, and excellence. These values are integral to how we manage our company and interact with our employees, customers, partners, and suppliers. By working collaboratively with our suppliers, we also have the opportunity to promote socially responsible business practices beyond our company and into our worldwide supply chain. To this end, we have adopted, and promote the adoption by others, of the Electronic Industry Code of Conduct (“EICC”). The EICC outlines standards to ensure that working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity, and that manufacturing processes are environmentally responsible.

Research and Development

As of December 31, 2009, we employed 3,308 people in our worldwide R&D organization. We have assembled a team of skilled engineers with extensive experience in the fields of high-end computing, network system design, ASIC design, security, routing protocols, and embedded operating systems. These individuals have worked in leading computer data networking and telecommunication companies.

We believe that strong product development capabilities are essential to our strategy of enhancing our core technology, developing additional applications, incorporating that technology, and maintaining the competitiveness of our product and service offerings. In our Infrastructure and SLT products, we are leveraging our software and ASIC technology, developing additional network interfaces targeted to our customers’ applications, and continuing to develop technology to support the anticipated growth in IP network requirements. We continue to expand the functionality of our products to improve performance reliability and scalability, and to provide an enhanced user interface.

Our R&D process is driven by the availability of new technology, market demand, and customer feedback. We have invested significant time and resources in creating a structured process for all product development projects. Following an assessment of market demand, our R&D team develops a full set of comprehensive functional product specifications based on inputs from the product management and sales organizations. This process is designed to provide a framework for defining and addressing the steps, tasks, and activities required to bring product concepts and development projects to market.

Sales and Marketing

As of December 31, 2009, we employed 2,101 people in our worldwide sales and marketing organization. These sales and marketing employees operate in different locations around the world in support of our customers.

Our sales organization is generally split between service provider and enterprise customers, with each separate team ensuring focus on key customers in these respective markets. From a geographic perspective, the organization is grouped into three geographic regions, which are: (i) the Americas (including United States, Canada, Mexico, Central and South America), (ii) Europe, Middle East, and Africa (“EMEA”) and (iii) Asia Pacific (“APAC”). Within each region, there are regional and country teams, as well as major account teams, to ensure we operate close to our customers. There is a structure of sales professionals, system engineers, and marketing and channel teams each focused on the respective service provider and enterprise markets.

See Note 11, *Segment Information*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for information concerning our revenues by geographic regions and by significant customers, which is incorporated herein by reference. Our operations subject us to certain risks and uncertainties associated with international operations. See Item 1A of Part I, “Risk Factors,” for more information.

Our sales teams operate in their respective regions and generally either engage customers directly or manage customer opportunities through our distribution and reseller relationships or channels as described below.

In the United States and Canada, we sell to several service providers directly and sell to other service providers and enterprise customers primarily through distributors and resellers. Almost all of our sales outside the United States and Canada are made through our channel partners.

Direct Sales Structure

Where we have a direct relationship with our customers, the terms and conditions are governed either by customer purchase orders and our acknowledgement of those orders or by purchase contracts. In instances where we have direct contracts with our customers, those contracts set forth only general terms of sale and do not require customers to purchase specified quantities of our products. For this type of customer, our sales team engages directly with the customer. We directly receive and process customer purchase orders.

Channel Sales Structure

A critical part of our sales and marketing efforts are our channel partners through which we do the majority of our business. We employ various channel partners, including but not limited to:

- A global network of strategic distribution relationships, as well as region or country-specific distributors who in turn sell to local value-added resellers who sell to end-user customers. The distribution channel partners mainly sell our SLT products plus certain Infrastructure products that are often purchased by our enterprise customers. These distributors tend to be focused on particular regions or particular countries within regions. For example, we have substantial distribution relationships with Ingram Micro in the Americas and with NEC in Japan. Our agreements with these distributors are generally non-exclusive, limited by region, and provide product discounts and other ordinary terms of sale. These agreements do not require our distributors to purchase specified quantities of our products.
- Direct value-added resellers including our strategic resellers referenced below, which resell our products to end-users around the world. These direct value-added resellers buy the products and services directly from us and have expertise in deploying complex networking solutions in their respective markets. Our agreements with these direct value-added resellers are generally non-exclusive, limited by region, and provide product discounts and other ordinary terms of sale. These agreements do not require our direct value-added resellers to purchase specified quantities of our products.
- Strategic worldwide reseller relationships with NSN, Ericsson Telecom A.B. (“Ericsson”), and IBM. These companies each offer services and products that complement, but in some cases compete with, our own product offerings and act as a fulfillment partner for our products. Our arrangements with these partners allow them to resell our products on a worldwide, non-exclusive basis, provide for product discounts, and specify other general terms of sale. These agreements do not require these partners to purchase specified quantities of our products.
- OEM relationships with Dell Corporation and IBM. Our OEM arrangements with these partners allow them to rebrand and resell certain of our product lines on a worldwide, non-exclusive basis, provide for product discounts, and specify other general terms of sale. These agreements do not require these partners to purchase specified quantities of our products.

Within each region, we employ sales professionals to assist with the management of our various sales channels. In addition, we have a “direct touch” sales team that works directly with the channel partners on key accounts in order to maintain a direct relationship with our more strategic end-user customers while at the same time supporting the ultimate fulfillment of product through our channel partners.

Backlog

Our sales are made primarily pursuant to purchase orders under framework agreements with our customers. At any given time, we have backlog orders for products that have not been shipped. Because customers may cancel purchase orders or change delivery schedules without significant penalty, we believe that our backlog at any given date may not be a reliable indicator of future operating results. As of December 31, 2009, and 2008, our total backlog orders was approximately \$270 million and \$250 million, respectively. Our backlog consists of confirmed orders for products scheduled to be shipped to customers generally within six months. Our backlog excludes orders from distributors as we recognize product revenue on sales made through distributors upon sell-through to end-users.

Seasonality

Many companies in our industry experience adverse seasonal fluctuations in customer spending patterns, particularly in the first and third quarters. In addition, our SLT segment has experienced seasonally strong customer demand in the fourth quarter. This historical pattern should not be considered a reliable indicator of our future net revenues or financial performance.

Competition

Infrastructure Business

In the network infrastructure business, Cisco Systems has historically been the dominant player in the market. However, other companies such as Alcatel-Lucent, Brocade Communications Systems, Inc., Ericsson, Extreme Networks, Inc., Hewlett Packard Company, and Huawei Technologies Co., Ltd. are providing competitive products in the marketplace.

Many of our current and potential competitors, such as Cisco, Alcatel-Lucent, and Huawei have significantly broader product lines than we do and may bundle their products with other networking products in a manner that may discourage customers from purchasing our products. In addition, consolidation among competitors, or the acquisition of our partners and resellers by competitors, can increase the competitive pressure faced by us. For example, in 2007, Ericsson acquired Redback Networks, and in 2009, Brocade acquired Foundry Networks. In addition, many of our current and potential competitors have greater name recognition and more extensive customer bases that could be leveraged. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, and loss of market share, any of which could seriously harm our operating results.

SLT Business

In the market for SLT products, Cisco generally is our primary competitor with its broad range of products. In addition, there are a number of other competitors for each of the product lines within SLT, including Checkpoint Software Technologies, Fortinet, Inc., F5 Networks, Inc., and Riverbed Technology, Inc. These additional competitors tend to be focused on single product line solutions and, therefore, are generally specialized as competitors to our products. In addition, a number of public and private companies have announced plans for new products to address the same needs that our products address. We believe that our ability to compete with Cisco and others depends upon our ability to demonstrate that our products are superior in meeting the needs of our current and potential customers.

For both product groups, we expect that, over time, large companies with significant resources, technical expertise, market experience, customer relationships, and broad product lines, such as Cisco, Alcatel-Lucent, and Huawei, will introduce new products, which are designed to compete more effectively in the market. There are also several other companies that claim to have products with greater capabilities than our products. Consolidation in this industry has begun, with one or more of these companies being acquired by large, established suppliers of network infrastructure products, and we believe it is likely to continue.

As a result, we expect to face increased competition in the future from larger companies with significantly more resources than we have. Although we believe that our technology and the purpose-built features of our

products make them unique and will enable us to compete effectively with these companies, we cannot guarantee that we will be successful.

Environment

We are subject to regulations that have been adopted with respect to environmental matters, such as the Waste Electrical and Electronic Equipment (“WEEE”), Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”), and Registration, Evaluation, Authorization, and Restriction of Chemicals (“Reach”) regulations adopted by the European Union. In addition, we participate in the Carbon Disclosure Project (“CDP”). CDP is a global standardized mechanism by which companies report their greenhouse gas emissions to institutional investors. It hosts one of the largest registries of corporate greenhouse gas data in the world at www.cdproject.net. We continue to invest in the infrastructure and systems required to be able to inventory and measure our carbon footprint on a global basis. We believe we have made significant strides in improving our energy efficiency around the world.

Compliance with federal, state, local, and foreign laws enacted for the protection of the environment has to date had no material effect on our capital expenditures, earnings, or competitive position.

In addition, we are committed to the environment by our effort in improving the energy efficiency of key elements of our high-performance network product offerings. For example, our T1600 router consumes substantially less energy than competitive products. The environment will remain a focus area across multiple aspects of our business.

Intellectual Property

Our success and ability to compete are substantially dependent upon our internally developed technology and expertise.

While we rely on patent, copyright, trade secret, and trademark law to protect our technology, we also believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements, and reliable product maintenance are essential to establishing and maintaining a technology leadership position. There can be no assurance that others will not develop technologies that are similar or superior to our technology.

In addition, we integrate licensed third-party technology into certain of our products. From time to time, we license additional technology from third parties to develop new products or product enhancements. There can be no assurance that third-party licenses will be available or continue to be available to us on commercially reasonable terms. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could harm our business, financial condition, and results of operations.

Our success will depend upon our ability to obtain necessary intellectual property rights and protect our intellectual property rights. We cannot be certain that patents will be issued on the patent applications that we have filed, or that we will be able to obtain the necessary intellectual property rights or that other parties will not contest our intellectual property rights.

Employees

As of December 31, 2009, we had 7,231 full-time employees. We have not experienced any work stoppages, and we consider our relations with our employees to be good. Competition for qualified personnel in our industry is intense. We believe that our future success depends in part on our continued ability to hire, motivate, and retain qualified personnel. We believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

Our future performance depends in significant part upon the continued service of our key technical, sales, and senior management personnel, none of whom is bound by an employment agreement requiring service for any

defined period of time. The loss of the services of one or more of our key employees could have a material adverse effect on our business, financial condition, and results of operations. Our future success also depends on our continuing ability to attract, train, and retain highly qualified technical, sales, and managerial personnel. Competition for such personnel is intense, and there can be no assurance that we can retain our key personnel in the future.

Executive Officers of the Registrant

The following sets forth certain information regarding our executive officers as of the filing of this Annual Report on Form 10-K.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kevin R. Johnson	49	Chief Executive Officer
Pradeep Sindhu	57	Chief Technical Officer and Vice Chairman of the Board
Mark Bauhaus	48	Executive Vice President and General Manager, Service Layer Technology Business Group
Robyn M. Denholm	46	Executive Vice President and Chief Financial Officer
Stefan Dyckerhoff	37	Executive Vice President and General Manager, Infrastructure Products Group
Mitchell Gaynor	50	Senior Vice President, General Counsel and Secretary
John Morris	49	Executive Vice President, Worldwide Sales and Services
Michael J. Rose	57	Executive Vice President of Service, Support and Operations
Gene Zamiska	48	Vice President, Finance and Corporate Controller

KEVIN R. JOHNSON joined Juniper Networks in September 2008 as Chief Executive Officer. Prior to Juniper Networks, Mr. Johnson was at Microsoft Corporation, a worldwide provider of software, services, and solutions, where he had served as President, Platforms and Services Division since January 2007. He had been Co-President of the Platforms and Services Division since September 2005. Prior to that role, he held the position of Microsoft’s Group Vice President, Worldwide Sales, Marketing and Services since March 2003. Before that position, Mr. Johnson had been Senior Vice President, Microsoft Americas since February 2002 and Senior Vice President, U.S. Sales, Marketing, and Services since August 2000. Before joining Microsoft in September 1992, Mr. Johnson worked in IBM’s systems integration and consulting business and started his career as a software developer. He earned a Bachelor’s degree in business administration from New Mexico State University and served as a founding member of the Board of Directors of NPower, a nonprofit organization whose mission is to help other nonprofits use technology to expand the reach and impact of their work. Mr. Johnson also served as a member of the Western Region Board of Advisors of Catalyst, a non-profit organization dedicated to women’s career advancement.

PRADEEP SINDHU founded Juniper Networks in February 1996 and served as Chief Executive Officer and Chairman of the Board of Directors until September 1996. Since then, Dr. Sindhu has served as Vice Chairman of the Board of Directors and Chief Technical Officer of Juniper Networks. From September 1984 to February 1991, Dr. Sindhu worked as a Member of the Research Staff, and from March 1987 to February 1996, as the Principal Scientist, and from February 1994 to February 1996, as Distinguished Engineer at the Computer Science Lab, Xerox Corporation, Palo Alto Research Center, a technology research center. Dr. Sindhu holds a B.S.E.E. from the Indian Institute of Technology in Kanpur, an M.S.E.E. from the University of Hawaii, and a Masters in Computer Science and Ph.D. in Computer Science from Carnegie-Mellon University.

MARK BAUHAUS joined Juniper Networks in September 2007 as Executive Vice President and General Manager, Service Layer Technology Business Group. From January 2007 to September 2007, Mr. Bauhaus served as founder and principal of Bauhaus Productions Consulting. From December 1986 to December 2006, Mr. Bauhaus served at Sun Microsystems in a range of executive level assignments, most recently in the position of Senior Vice

President, Service Oriented Architecture Software. Mr. Bauhaus holds a Bachelors degree in business management and environmental systems analysis from the University of California at Davis.

ROBYN M. DENHOLM joined Juniper Networks in August 2007 as Executive Vice President and Chief Financial Officer. From January 1996 to August 2007, Ms. Denholm was at Sun Microsystems where she served in executive assignments that included Senior Vice President, Corporate Strategic Planning; Senior Vice President, Finance; Vice President and Corporate Controller (Chief Accounting Officer); Vice President, Finance; Service Division; Director, Shared Financial Services APAC; and Controller, Australia/New Zealand. From May 1989 to January 1996, Ms. Denholm served at Toyota Motor Corporation Australia and from December 1984 to May 1989, Ms. Denholm served at Arthur Andersen and Company in various finance assignments. Ms. Denholm is a Fellow of the Institute of Chartered Accountants of Australia and holds a Bachelors Degree in Economics from the University of Sydney and a Masters of Commerce from the University of New South Wales.

STEFAN DYCKERHOFF joined Juniper Networks in October 2009 and serves as our Executive Vice President and General Manager, Infrastructure Products Group. From May 2004 to September 2009, Mr. Dyckerhoff was at Cisco Systems serving as Vice President and General Manager of the Edge Routing Business Unit. From January 1997 to May 2004, Mr. Dyckerhoff was at Juniper Networks serving in various roles in the engineering organization. Mr. Dyckerhoff holds a Bachelors degree in Electrical Engineering from Duke University and a Masters degree in Electrical Engineering from Stanford University.

MITCHELL GAYNOR is Senior Vice President, General Counsel, and Secretary and joined Juniper Networks in February 2004. Between April 1999 and February 2004, Mr. Gaynor was Vice President, General Counsel and Secretary of Portal Software, Inc. He also served as Vice President, General Counsel and Secretary of Sybase, Inc., from 1997 to 1999 and served in various other legal roles in Sybase between 1993 and 1997. Mr. Gaynor was Assistant General Counsel of ComputerLand Corporation, a computer equipment reseller, during 1989 and 1990. From 1984 to 1989 and from 1990 to 1993, Mr. Gaynor was an associate with the law firm of Brobeck, Phleger & Harrison. Mr. Gaynor holds a J.D. from U.C. Hastings College of the Law and a B.A. in History from the University of California, Berkeley.

JOHN MORRIS joined Juniper Networks in July 2008 as Executive Vice President, Worldwide Field Operations. From 2005 to 2008, Mr. Morris served as President and Chief Operating Officer of Pay By Touch, a biometric payment technology company. Prior to Pay By Touch, Mr. Morris spent 23 years at IBM Corporation, where he served in a range of executive assignments, most recently as Vice President and General Manager of the Distribution Sector in the Americas region. Mr. Morris also served on IBM's Global Marketing Council, as well as extensive experience in the Asian theater, including serving as Vice President and General Manager of the distribution sector for Asia Pacific, based in Tokyo, Japan. Mr. Morris holds a degree in Finance from Indiana University Bloomington.

MICHAEL J. ROSE joined Juniper Networks in November 2008 as Executive Vice President of Service, Support and Operations. From December 2005 to November 2008, Mr. Rose was an independent business consultant. From September 2001 to December 2005, Mr. Rose served as Executive Vice President and Chief Information Officer of Royal Dutch Shell plc. Prior to Royal Dutch Shell, Mr. Rose worked for 23 years in a wide range of positions at Hewlett Packard Company, including controller for various business groups. In 1997, he was named Hewlett Packard's Chief Information Officer, and in 2000, he was elected an officer by the Board of Directors of Hewlett Packard. He was named the company's Controller in 2001. Rose holds a Bachelor's degree in economics from the State University of New York at Geneseo, N.Y.

GENE ZAMISKA joined Juniper Networks in December 2007 as Vice President of Finance and Corporate Controller. In February 2009, Mr. Zamiska was appointed as Chief Accounting Officer of Juniper Networks. From February 1989 through November 2007, Mr. Zamiska served in various roles in the finance department of Hewlett Packard Company, a provider of technology hardware, software, and services, most recently serving as Senior Director of Finance for Hewlett Packard's consulting and integration division and Senior Director of Finance and Assistant Corporate Controller. Mr. Zamiska is a Certified Public Accountant and holds a BS in Business-Accounting from the University of Illinois, Champaign-Urbana.

Available Information

We file our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, with the U.S. Securities and Exchange Commission (the “SEC”) electronically. The public may read or copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of that website is <http://www.sec.gov>.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports on our website at <http://www.juniper.net>, by contacting the Investor Relations Department at our corporate offices by calling 1-888-586-4737, or by sending an e-mail message to investor-relations@juniper.net. Such reports and other information are available on our website when they are available on the SEC website. Our Corporate Governance Standards, the charters of our Audit Committee, Compensation Committee, Stock Committee and Nominating and Corporate Governance Committee, as well as our Worldwide Code of Business Conduct and Ethics are also available on our website. Information on our website is not a part of this Annual Report on Form 10-K.

ITEM 1A. Risk Factors

Factors That May Affect Future Results

Investments in equity securities of publicly-traded companies involve significant risks. The market price of our stock has historically reflected a higher multiple of expected future earnings than many other companies. Accordingly, even small changes in investor expectations for our future growth and earnings, whether as a result of actual or rumored financial or operating results, changes in the mix of the products and services sold, acquisitions, industry changes or other factors, could trigger, and have triggered, significant fluctuations in the market price of our common stock. Investors in our securities should carefully consider all of the relevant factors, including, but not limited to, the following factors, that could affect our stock price.

Our quarterly results are inherently unpredictable and subject to substantial fluctuations, and, as a result, we may fail to meet the expectations of securities analysts and investors, which could adversely affect the trading price of our common stock.

Our revenues and operating results may vary significantly from quarter-to-quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate.

The factors that may affect the unpredictability of our quarterly results include, but are not limited to: limited visibility into customer spending plans, changes in the mix of products sold, changes in geographies in which our products are sold, changing market conditions, including current and potential customer consolidation, competition, customer concentration, long sales and implementation cycles, regional economic and political conditions, and seasonality. For example, many companies in our industry experience adverse seasonal fluctuations in customer spending patterns, particularly in the first and third quarters.

As a result, we believe that quarter-to-quarter comparisons of operating results are not necessarily a good indication of what our future performance will be. It is likely that in some future quarters, our operating results may be below the expectations of securities analysts or investors, in which case the price of our common stock may decline. Such a decline could occur, and has occurred in the past, even when we have met our publicly stated revenues and/or earnings guidance.

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

Our revenues depend significantly on general economic conditions and the demand for products in the markets in which we compete. Economic weakness, customer financial difficulties, and constrained spending on network

expansion have recently resulted, and may in the future result, in decreased revenues and earnings and could negatively impact our ability to forecast and manage our contract manufacturer relationships. In addition, recent turmoil in the global financial markets and associated economic weakness, or recession, particularly in the United States and Europe, as well as turmoil in the geopolitical environment in many parts of the world, may continue to put pressure on global economic conditions, which could lead to continued reduced demand for our products and/or higher costs of production. The current economic weakness may also lead to longer collection cycles for payments due from our customers, an increase in customer bad debt, restructuring initiatives and associated expenses, and impairment of investments. Furthermore, the recent disruption in worldwide credit markets may adversely impact the ability of our customers to adequately fund their expected capital expenditures, which could lead to delays or cancellations of planned purchases of our products or services. In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses is, and will continue to be, fixed in the short-term. Uncertainty about future economic conditions makes it difficult to forecast operating results and to make decisions about future investments. Future or continued economic weakness, customer financial difficulties, increases in costs of production, and reductions in spending on network maintenance and expansion could have a material adverse effect on demand for our products and consequently on our business, financial condition, and results of operations.

A limited number of our customers comprise a significant portion of our revenues and any decrease in revenues from these customers could have an adverse effect on our net revenues and operating results.

A substantial majority of our net revenues depend on sales to a limited number of customers and distribution partners. For example, AT&T, Inc., accounted for greater than 10% of our net revenues in fiscal year 2009. This customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. Changes in the business requirements, vendor selection, or purchasing behavior of our key customers or potential new customers could significantly decrease sales to such customers. In addition, the recession's impact on worldwide credit markets may adversely impact the ability of our customers to adequately fund their expected capital expenditures, which could lead to delays or cancellations of planned purchases of our products or services. Any of these factors could adversely affect our business, financial condition, and results of operations.

In addition, in recent years, there has been consolidation in the telecommunications industry (for example, the acquisitions of AT&T, Inc., MCI, Inc., and BellSouth Corporation) and consolidation among the large vendors of telecommunications equipment and services (for example, the acquisition of Redback by Ericsson, the joint venture of NSN, and the acquisition of Foundry Networks by Brocade). Such consolidation may cause our customers who are involved in these transactions to suspend or indefinitely reduce their purchases of our products or have other unforeseen consequences that could harm our business, financial condition, and results of operations.

If we receive Infrastructure product orders late in a quarter, we may be unable to recognize revenue for these orders in the same period, which could adversely affect our quarterly revenues.

Generally, our Infrastructure products are not stocked by distributors or resellers due to their cost and complexity and configurations required by our customers, and we generally build such products as orders are received. If orders for these products are received late in any quarter, we may not be able to build, ship, and recognize revenue for these orders in the same period, which could adversely affect our ability to meet our expected revenues for such quarter.

We face intense competition that could reduce our revenues and adversely affect our financial results.

Competition is intense in the markets that we address. The infrastructure market has historically been dominated by Cisco with other companies such as Alcatel-Lucent, Brocade, Ericsson, Extreme Networks, Hewlett-Packard Company, and Huawei providing products to a smaller segment of the market. In addition, a number of other small public and private companies have products or have announced plans for new products to address the same challenges and markets that our products address.

In the SLT market, we face intense competition from a broader group of companies such as CheckPoint, Cisco, Fortinet, F5 Networks, and Riverbed. In addition, a number of other small public and private companies have

products or have announced plans for new products to address the same challenges and markets that our products address.

In addition, actual or speculated consolidation among competitors, or the acquisition of our partners and/or resellers by competitors, can increase the competitive pressures faced by us. In this regard, Ericsson acquired Redback in 2007 and Brocade acquired Foundry Networks in 2009. A number of our competitors have substantially greater resources and can offer a wider range of products and services for the overall network equipment market than we do. If we are unable to compete successfully against existing and future competitors on the basis of product offerings or price, we could experience a loss in market share and revenues and/or be required to reduce prices, which could reduce our gross margins, and which could materially and adversely affect our business, financial condition, and results of operations.

We rely on value-added resellers, distribution, and original equipment manufacturer partners to sell our products, and disruptions to, or our failure to effectively develop and manage our distribution channel and the processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added reseller and distribution partners, including our worldwide strategic partners such as Ericsson, IBM, and NSN. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell competitors' products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our value-added resellers or distributors could materially reduce our revenues. For example, in 2006, one of our largest resellers, Lucent, merged with Alcatel, a competitor of ours. As a result of becoming a competitor, their resales of our products declined subsequent to the merger, and we ultimately terminated our reseller agreement. Our competitors may in some cases be effective in providing incentives to current or potential resellers and distributors to favor their products or to prevent or reduce sales of our products. If we fail to maintain and develop relationships with our partners, fail to develop new relationships with value-added resellers and distributors in new markets, or expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, or if these partners are not successful in their sales efforts, sales of our products may decrease, and our business, financial condition, and results of operations would suffer.

In addition, we recognize a portion of our revenues based on a sell-through model using information provided by our distributors. If those distributors provide us with inaccurate or untimely information, the amount or timing of our revenues could be adversely impacted.

Further, in order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support it, and those processes and procedures may become increasingly complex and inherently difficult to manage. For example, we recently entered into an agreement to form a joint venture with NSN to develop and resell joint carrier Ethernet solutions and entered into OEM agreements with Dell and IBM where they will rebrand and resell our products as part of their product portfolios. These relationships are complex and require additional processes and procedures that may be challenging and costly to implement, maintain and manage. Our failure to successfully manage and develop our distribution channel and the processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

Our ability to process orders and ship products in a timely manner is dependent in part on our business systems and performance of the systems and processes of third parties such as our contract manufacturers, suppliers, or other partners, as well as interfaces with the systems of such third parties. If our systems, the systems and processes of those third parties, or the interfaces between them experience delays or fail, our business processes and our ability to build and ship products could be impacted, and our financial results could be harmed.

Some of our business processes depend upon our information technology systems, the systems and processes of third parties, and on interfaces with the systems of third parties. For example, our order entry system feeds information into the systems of our contract manufacturers, which enable them to build and ship our products. If

those systems fail or are interrupted, our processes may function at a diminished level or not at all. This could negatively impact our ability to ship products or otherwise operate our business, and our financial results could be harmed. For example, although it did not adversely affect our shipments, an earthquake in late December of 2006 disrupted communications with China, where a significant part of our manufacturing occurs.

We also rely upon the performance of the systems and processes of our contract manufacturers to build and ship our products. If those systems and processes experience interruption or delay, our ability to build and ship our products in a timely manner may be harmed. For example, as we have expanded our contract manufacturing base to China, we have experienced instances where our contract manufacturer was not able to ship products in the time periods expected by us. If we are not able to ship our products or if product shipments are delayed, our ability to recognize revenue in a timely manner for those products would be affected and our financial results could be harmed.

We are currently implementing upgrades to key internal systems and processes, and problems with the design or implementation of these systems and processes could interfere with our business and operations.

In 2007, we initiated a multi-year project to upgrade certain key internal systems and processes, including our company-wide human resources management system, our customer relationship management (“CRM”) system and enterprise resource planning (“ERP”) system. We have invested, and will continue to invest, significant capital and human resources in the design and implementation of these systems and processes, which may be disruptive to our underlying business. Any disruptions or delays in the design and implementation of the new systems or processes, particularly any disruptions or delays that impact our operations, could adversely affect our ability to process customer orders, ship products, provide service and support to our customers, bill and track our customers, fulfill contractual obligations, record and transfer information in a timely and accurate manner, file SEC reports in a timely manner, or otherwise run our business. Even if we do not encounter these adverse effects, the design and implementation of these new systems and processes may be much more costly than we anticipated. If we are unable to successfully design and implement these new systems and processes as planned, or if the implementation of these systems and processes is more costly than anticipated, our business, financial condition, and results of operations could be negatively impacted.

Telecommunications companies and other large companies generally require more onerous terms and conditions of their vendors. As we seek to sell more products to such customers, we may be required to agree to terms and conditions that may have an adverse effect on our business or ability to recognize revenues.

Telecommunications service provider companies and other large companies, because of their size, generally have greater purchasing power and, accordingly, have requested and received more favorable terms, which often translate into more onerous terms and conditions for their vendors. As we seek to sell more products to this class of customer, we may be required to agree to such terms and conditions, which may include terms that affect the timing of our ability to recognize revenue and have an adverse effect on our business, financial condition, and results of operations. Consolidation among such large customers can further increase their buying power and ability to require onerous terms.

For example, many customers in this class have purchased products from other vendors who promised but failed to deliver certain functionality and/or had products that caused problems or outages in the networks of these customers. As a result, this class of customers may request additional features from us and require substantial penalties for failure to deliver such features or may require substantial penalties for any network outages that may be caused by our products. These additional requests and penalties, if we are required to agree to them, may require us to defer revenue recognition from such sales, which may negatively affect our business, financial condition, and results of operations.

For arrangements with multiple elements, our accounting policies require vendor-specific objective evidence (“VSOE”) of fair value of the undelivered to separate the components and to account for elements of the arrangement separately. VSOE of fair value is based on the price charged when the element is sold separately. However, customers may require terms and conditions that make it more difficult or impossible for us to maintain VSOE of fair value for the undelivered elements to a similar group of customers, the result of which could cause us

to defer the entire arrangement fees for a similar group of customers (product, maintenance, professional services, etc.) and recognize revenue only when the last element is delivered, or if the only undelivered element is maintenance revenue, we would recognize revenue ratably over the contractual maintenance period, which is generally one year, but could be substantially longer.

We expect gross margin to vary over time, and our recent level of product gross margin may not be sustainable.

Our product gross margins will vary from quarter-to-quarter, and the recent level of gross margins may not be sustainable and may be adversely affected in the future by numerous factors, including product mix shifts, increased price competition in one or more of the markets in which we compete, increases in material or labor costs, excess product component or obsolescence charges from our contract manufacturers, increased costs due to changes in component pricing or charges incurred due to component holding periods if our forecasts do not accurately anticipate product demand, warranty related issues, or our introduction of new products or entry into new markets with different pricing and cost structures.

If we do not successfully anticipate market needs and opportunities, and develop products and product enhancements that meet those needs and opportunities, or if those products are not made available in a timely manner or do not gain market acceptance, we may not be able to compete effectively and our ability to generate revenues will suffer.

We cannot guarantee that we will be able to anticipate future market needs and opportunities or be able to develop new products or product enhancements to meet such needs or opportunities in a timely manner or at all. If we fail to anticipate market requirements or fail to develop and introduce new products or product enhancements to meet those needs in a timely manner, such failure could substantially decrease or delay market acceptance and sales of our present and future products, which would significantly harm our business, financial condition, and results of operations. Even if we are able to anticipate, develop, and commercially introduce new products and enhancements, there can be no assurance that new products or enhancements will achieve widespread market acceptance.

For example, in 2008, we announced new products designed to address the Ethernet switching market, a market in which we had not had a historical presence. In addition, in 2009 we announced plans to develop and introduce new data center products with our Project Stratus and mobility solutions with our Project Falcon. If these or other new products do not gain market acceptance at a sufficient rate of growth, our ability to meet future financial targets and aspirations may be adversely affected. In addition, if we fail to deliver new or announced products to the market in a timely manner, it could adversely affect the market acceptance of those products and harm our competitive position and business and financial results.

Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results.

Our future effective tax rates could be subject to volatility or adversely affected by: earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments related to certain acquisitions including the license of acquired intangibles under our intercompany R&D cost sharing arrangement; by tax effects of stock-based compensation; by costs related to intercompany restructurings; or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service (“IRS”) and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our business, financial condition, and results of operations.

For example, in 2009, we received a proposed adjustment from the IRS claiming that we owe additional taxes, plus interest and possible penalties, for the 2004 tax year based on a transfer pricing transaction related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. As a result of the proposed

adjustment, the incremental tax liability would be approximately \$807.0 million excluding interest and penalties. We strongly believe the IRS' position with regard to this matter is inconsistent with applicable tax laws and existing Treasury regulations, and that our previously reported income tax provision for the year in question is appropriate. However, there can be no assurance that this matter will be resolved in our favor. Regardless of whether this matter is resolved in our favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. While we believe we have provided adequately for this matter, there is still a possibility that an adverse outcome of the matter could have a material effect on our results of operations and financial condition.

Governmental regulations affecting the import or export of products could negatively affect our revenues.

The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export of some technologies, especially encryption technology. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring the escrow and governmental recovery of private encryption keys. Governmental regulation of encryption technology and regulation of imports or exports, or our failure to obtain required import or export approval for our products, could harm our international and domestic sales and adversely affect our revenues. In addition, failure to comply with such regulations could result in penalties, costs, and restrictions on export privileges.

If we fail to accurately predict our manufacturing requirements, we could incur additional costs or experience manufacturing delays, which would harm our business.

We provide demand forecasts to our contract manufacturers. If we overestimate our requirements, our contract manufacturers may assess charges, or we may have liabilities for excess inventory, each of which could negatively affect our gross margins. Conversely, because lead times for required materials and components vary significantly and depend on factors such as the specific supplier, contract terms, and the demand for each component at a given time, if we underestimate our requirements, our contract manufacturers may have inadequate time, materials, and/or components required to produce our products, which could increase costs or could delay or interrupt manufacturing of our products and result in delays in shipments and deferral or loss of revenues.

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

During periods of high demand for electronic products, component shortages are possible, and the predictability of the availability of such components may be limited. Any future growth in our business and the economy is likely to create greater pressures on us and our suppliers to accurately project overall component demand and to establish optimal component levels. If shortages or delays persist, the price of these components may increase, or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner, and our revenues and gross margins could suffer until other sources can be developed. For example, from time to time, including the first quarter of 2008, we have experienced component shortages that resulted in delays of product shipments. We currently purchase numerous key components, including ASICs, from single or limited sources. The development of alternate sources for those components is time-consuming, difficult, and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. In the event of a component shortage or supply interruption from these suppliers, we may not be able to develop alternate or second sources in a timely manner. If, as a result, we are unable to buy these components in quantities sufficient to meet our requirements on a timely basis, we will not be able to deliver product to our customers, which would seriously affect present and future sales, which would, in turn, adversely affect our business, financial condition, and results of operations.

In addition, the development, licensing, or acquisition of new products in the future may increase the complexity of supply chain management. Failure to effectively manage the supply of key components and products would adversely affect our business.

We are dependent on contract manufacturers with whom we do not have long-term supply contracts, and changes to those relationships, expected or unexpected, may result in delays or disruptions that could cause us to lose revenues and damage our customer relationships.

We depend on independent contract manufacturers (each of which is a third-party manufacturer for numerous companies) to manufacture our products. Although we have contracts with our contract manufacturers, those contracts do not require them to manufacture our products on a long-term basis in any specific quantity or at any specific price. In addition, it is time-consuming and costly to qualify and implement additional contract manufacturer relationships. Therefore, if we should fail to effectively manage our contract manufacturer relationships or if one or more of them should experience delays, disruptions, or quality control problems in our manufacturing operations, or if we had to change or add additional contract manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed. Also, the addition of manufacturing locations or contract manufacturers would increase the complexity of our supply chain management. Moreover, an increasing portion of our manufacturing is performed in China and other countries and is therefore subject to risks associated with doing business in other countries. Each of these factors could adversely affect our business, financial condition, and results of operations.

We are a party to lawsuits, which are costly to defend and, if determined adversely to us, could require us to pay damages or prevent us from taking certain actions, any or all of which could harm our business, financial condition, and results of operations.

We and certain of our current and former officers and current and former members of our Board of Directors are subject to various lawsuits. For example, we are a party to a number of patent infringement and other lawsuits. In addition, we have been served with lawsuits related to the alleged backdating of stock options and other related matters, a description of which can be found in Note 13, *Commitments and Contingencies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, under the heading “Legal Proceedings.” There can be no assurance that these or any actions that have been or may be brought against us will be resolved in our favor or that tentative settlements will become final. Regardless of whether they are resolved in our favor, these lawsuits are, and any future lawsuits to which we may become a party will likely be, expensive and time-consuming to defend, settle, and/or resolve. Such costs of defense, as well as any losses resulting from these claims or settlement of these claims, could significantly increase our expenses and could harm our business, financial condition, and results of operations.

Litigation or claims regarding intellectual property rights may be time-consuming, expensive and require a significant amount of resources to prosecute, defend, or make our products non-infringing.

Third parties have asserted and may in the future assert claims or initiate litigation related to patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to our products. The asserted claims and/or initiated litigation may include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our products. Regardless of the merit of these claims, they have been and can be time-consuming, result in costly litigation, and may require us to develop non-infringing technologies or enter into license agreements. Furthermore, because of the potential for high awards of damages or injunctive relief that are not necessarily predictable, even arguably unmeritorious claims may be settled for significant amounts of money. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to settle litigation for significant amounts of money, or if we fail to develop non-infringing technology or license required proprietary rights on commercially reasonable terms and conditions, our business, financial condition, and results of operations could be materially and adversely affected.

Our success depends upon our ability to effectively plan and manage our resources and restructure our business through rapidly fluctuating economic and market conditions.

Our ability to successfully offer our products and services in a rapidly evolving market requires an effective planning, forecasting, and management process to enable us to effectively scale our business and adjust our business in response to fluctuating market opportunities and conditions. In periods of market expansion, we have increased

investment in our business by, for example, increasing headcount and increasing our investment in R&D and other parts of our business. Conversely, during 2009, in response to downward trending industry and market conditions, we restructured our business, rebalanced our workforce, and reduced our real estate portfolio. Many of our expenses, such as real estate expenses, cannot be rapidly or easily adjusted because of fluctuations in our business or numbers of employees. Moreover, rapid changes in the size of our workforce could adversely affect the ability to develop and deliver products and services as planned or impair our ability to realize our current or future business objectives.

The long sales and implementation cycles for our products, as well as our expectation that some customers will sporadically place large orders with short lead times, may cause our revenues and operating results to vary significantly from quarter-to-quarter.

A customer's decision to purchase certain of our products involves a significant commitment of its resources and a lengthy evaluation and product qualification process. As a result, the sales cycle may be lengthy. In particular, customers making critical decisions regarding the design and implementation of large network deployments may engage in very lengthy procurement processes that may delay or impact expected future orders. Throughout the sales cycle, we may spend considerable time educating and providing information to prospective customers regarding the use and benefits of our products. Even after making the decision to purchase, customers may deploy our products slowly and deliberately. Timing of deployment can vary widely and depends on the skill set of the customer, the size of the network deployment, the complexity of the customer's network environment, and the degree of hardware and operating system configuration necessary to deploy the products. Customers with large networks usually expand their networks in large increments on a periodic basis. Accordingly, we may receive purchase orders for significant dollar amounts on an irregular basis. These long cycles, as well as our expectation that customers will tend to sporadically place large orders with short lead times, may cause revenues and operating results to vary significantly and unexpectedly from quarter-to-quarter.

We sell our products to customers that use those products to build networks and IP infrastructure, and if the demand for network and IP systems does not continue to grow, then our business, financial condition, and results of operations could be adversely affected.

A substantial portion of our business and revenues depends on the growth of secure IP infrastructure and on the deployment of our products by customers that depend on the continued growth of IP services. As a result of changes in the economy and capital spending or the building of network capacity in excess of demand, all of which have in the past particularly affected telecommunications service providers, spending on IP infrastructure can vary, which could have a material adverse effect on our business, financial condition, and results of operations. In addition, a number of our existing customers are evaluating the build out of their next generation networks. During the decision-making period when the customers are determining the design of those networks and the selection of the equipment they will use in those networks, such customers may greatly reduce or suspend their spending on secure IP infrastructure. Such pauses in purchases can make it more difficult to predict revenues from such customers, can cause fluctuations in the level of spending by these customers and, even where our products are ultimately selected, can have a material adverse effect on our business, financial condition, and results of operations.

A breach of network security could harm public perception of our security products, which could cause us to lose revenues.

If an actual or perceived breach of network security occurs in our network or in the network of a customer of our security products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. This could cause us to lose current and potential end-customers or cause us to lose current and potential value-added resellers and distributors. Because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques.

We are subject to risks arising from our international operations.

We derive a majority of our revenues from our international operations, and we plan to continue expanding our business in international markets in the future. We conduct significant sales and customer support operations directly and indirectly through our distributors and value-added resellers in countries throughout the world and depend on the operations of our contract manufacturers and suppliers that are located inside and outside of the United States. In addition, our R&D and our general and administrative (“G&A”) operations are conducted in the United States as well as other countries.

As a result of our international operations, we are affected by economic, regulatory, social, and political conditions in foreign countries, including changes in general IT spending, the imposition of government controls, changes or limitations in trade protection laws, other regulatory requirements, which may affect our ability to import or export our products from various countries, service provider and government spending patterns affected by political considerations, unfavorable changes in tax treaties or laws, natural disasters, epidemic disease, labor unrest, earnings expatriation restrictions, misappropriation of intellectual property, military actions, acts of terrorism, political or social unrest, and difficulties in staffing and managing international operations. In particular, in some countries, we may experience reduced intellectual property protection. Any or all of these factors could have a material adverse impact on our business, financial condition, and results of operations.

Moreover, local laws and customs in many countries differ significantly from those in the United States. In many foreign countries, particularly in those with developing economies, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or United States regulations applicable to us. Although we implement policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that none of our employees, contractors, and agents will take actions in violation of them. Violations of laws or key control policies by our employees, contractors, or agents could result in financial reporting problems, fines, penalties, or prohibition on the importation or exportation of our products and could have a material adverse effect on our business.

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

Because a majority of our business is conducted outside the United States, we face exposure to adverse movements in non-U.S. currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial condition and results of operations.

The majority of our revenues and expenses are transacted in U.S. Dollars. We also have some transactions that are denominated in foreign currencies, primarily the British Pound, the Euro, Indian Rupee, and Japanese Yen related to our sales and service operations outside of the United States. An increase in the value of the U.S. Dollar could increase the real cost to our customers of our products in those markets outside the United States in which we sell in U.S. Dollars, and a weakened U.S. Dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we must purchase components in foreign currencies.

Currently, we hedge only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and periodically will hedge anticipated foreign currency cash flows. The hedging activities undertaken by us are intended to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. However, no amount of hedging can be effective against all circumstances, including long-term declines in the value of the U.S. Dollar. If our attempts to hedge against these risks are not successful, or if long-term declines in the value of the U.S. Dollar persist, our financial condition and results of operations could be adversely impacted.

If we fail to adequately evolve our financial and managerial control and reporting systems and processes, our ability to manage and grow our business will be negatively affected.

Our ability to successfully offer our products and implement our business plan in a rapidly evolving market depends upon an effective planning and management process. We will need to continue to improve our financial and managerial control and our reporting systems and procedures in order to manage our business effectively in the

future. If we fail to continue to implement improved systems and processes, our ability to manage our business, financial condition, and results of operations may be negatively affected.

Our ability to develop, market, and sell products could be harmed if we are unable to retain or hire key personnel.

Our future success depends upon our ability to recruit and retain the services of executive, engineering, sales and marketing, and support personnel. The supply of highly qualified individuals, in particular engineers in very specialized technical areas, or sales people specializing in the service provider and enterprise markets, is limited and competition for such individuals is intense. None of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our key employees, the inability to attract or retain personnel in the future or delays in hiring required personnel, particularly engineers and sales people, and the complexity and time involved in replacing or training new employees, could delay the development and introduction of new products, and negatively impact our ability to market, sell, or support our products.

In addition, we rely upon equity compensation to help recruit, retain and motivate our employees. At our 2010 annual meeting of stockholders, we plan to ask our stockholders to authorize additional shares for grant under our 2006 Equity Incentive Plan (the “2006 Plan”), which is the only plan under which we currently grant stock options, restricted stock units and performance shares to our employees. If more shares, or not enough shares, are not authorized by our stockholders for grant under the 2006 Plan, we will be significantly limited in our ability to grant equity awards to recruit new employees or to compensate existing employees, which would put us at a significant disadvantage to other companies that compete for workers in high technology industries such as ours. Accordingly, our ability to hire, retain, and motivate current and prospective employees would be harmed, the result of which could negatively impact our business operations.

Our products are highly technical and if they contain undetected errors, our business could be adversely affected, and we may need to defend lawsuits or pay damages in connection with any alleged or actual failure of our products and services.

Our products are highly technical and complex, are critical to the operation of many networks, and, in the case of our security products, provide and monitor network security and may protect valuable information. Our products have contained and may contain one or more undetected errors, defects, or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by end-customers. Any errors, defects, or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers, loss of future business, and increased service and warranty cost, any of which could adversely affect our business, financial condition, and results of operations. In addition, in the event an error, defect, or vulnerability is attributable to a component supplied by a third-party vendor, we may not be able to recover from the vendor all of the costs of remediation that we may incur. In addition, we could face claims for product liability, tort, or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management’s attention. In addition, if our business liability insurance coverage is inadequate, or future coverage is unavailable on acceptable terms or at all, our financial condition and results of operations could be harmed.

If our products do not interoperate with our customers’ networks, installations will be delayed or cancelled and could harm our business.

Our products are designed to interface with our customers’ existing networks, each of which have different specifications and utilize multiple protocol standards and products from other vendors. Many of our customers’ networks contain multiple generations of products that have been added over time as these networks have grown and evolved. Our products will be required to interoperate with many or all of the products within these networks as well as future products in order to meet our customers’ requirements. If we find errors in the existing software or defects in the hardware used in our customers’ networks, we may need to modify our software or hardware to fix or overcome these errors so that our products will interoperate and scale with the existing software and hardware, which could be costly and negatively affect our business, financial condition, and results of operations. In addition, if our products do not interoperate with those of our customers’ networks, demand for our products could be

adversely affected or orders for our products could be cancelled. This could hurt our operating results, damage our reputation, and seriously harm our business and prospects.

Integration of future acquisitions could disrupt our business and harm our financial condition and stock price and may dilute the ownership of our stockholders.

We have made, and may continue to make, acquisitions in order to enhance our business. In 2005, we completed the acquisitions of five privately-held companies. Acquisitions involve numerous risks, including problems combining the purchased operations, technologies or products, unanticipated costs, diversion of management's attention from our core businesses, adverse effects on existing business relationships with suppliers and customers, risks associated with entering markets in which we have no or limited prior experience, and potential loss of key employees. There can be no assurance that we will be able to integrate successfully any businesses, products, technologies, or personnel that we might acquire. The integration of businesses that we may acquire is likely to be, a complex, time-consuming, and expensive process. Acquisitions may also require us to issue common stock that dilutes the ownership of our current stockholders, assume liabilities, record goodwill and amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets, and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our financial condition and results of operations.

In addition, if we fail in any acquisition integration efforts and are unable to efficiently operate as a combined organization utilizing common information and communication systems, operating procedures, financial controls, and human resources practices, our business, financial condition, and results of operations may be adversely affected.

Our products incorporate and rely upon licensed third-party technology, and if licenses of third-party technology do not continue to be available to us or become very expensive, our revenues and ability to develop and introduce new products could be adversely affected.

We integrate licensed third-party technology into certain of our products. From time to time, we may be required to license additional technology from third-parties to develop new products or product enhancements. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements, could require us to obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could harm our business, financial condition, and results of operations.

Matters related to the investigation into our historical stock option granting practices and the restatement of our financial statements have resulted in litigation and regulatory proceedings, and may result in additional litigation or other possible government actions.

Our historical stock option granting practices and the restatement of our consolidated financial statements have exposed us to risks such as litigation, regulatory proceedings, and government enforcement actions. For more information regarding our current litigation and related inquiries, please see Note 13, *Commitments and Contingencies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, under the heading "Legal Proceedings" as well as the other risk factors related to litigation set forth in this section. We have provided the results of our internal review and independent investigation to the SEC and the United States Attorney's Office for the Northern District of California, and in that regard, we have responded to formal and informal requests for documents and additional information. In August 2007, we announced that we entered into a settlement agreement with the SEC in connection with our historical stock option granting practices in which we consented to a permanent injunction against any future violations of the antifraud, reporting, books-and-records and internal control provisions of the federal securities laws. This settlement concluded the SEC's formal investigation of the Company with respect to this matter. In addition, while we believe that we have made appropriate judgments in determining the correct measurement dates for our stock option grants, the SEC may disagree with the manner in which we accounted for and reported, or did not report, the corresponding financial impact. We are also subject to

civil litigation related to the stock option matters. In February 2009, we entered into an agreement in principle to settle the class action litigations claims related to our historical stock option granting practices. Under the proposed settlement, which is subject to the approval of the board of trustees of the lead plaintiffs and the court, the claims against us and our officers and directors will be dismissed with prejudice and released in exchange for a \$169 million cash payment by us. No assurance can be given regarding the outcomes from litigation or other possible government actions. The resolution of these matters will be time-consuming, expensive, and may distract management from the conduct of our business and the related costs of defense, as well as any losses resulting from these claims or final settlement of these claims, could significantly increase our expenses and could harm our business, financial condition, and results of operations.

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

We are required to test annually and review on an interim basis, our goodwill and intangible assets with indefinite lives, including the goodwill associated with past acquisitions and any future acquisitions, to determine if impairment has occurred. If such assets are deemed impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized. This would result in incremental expenses for that quarter, which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred. For example, such impairment could occur if the market value of our common stock falls below certain levels for a sustained period, or if the portions of our business related to companies we have acquired fail to grow at expected rates or decline. In the second quarter of 2006, our impairment evaluation resulted in a reduction of \$1,280.0 million to the carrying value of goodwill on our balance sheet for the SLT operating segment, primarily due to the decline in our market capitalization that occurred over a period of approximately nine months prior to the impairment review and, to a lesser extent, a decrease in the forecasted future cash flows used in the income approach. Recently, the turmoil in credit markets and the broader economy has contributed to extreme price and volume fluctuations in global stock markets that have reduced the market price of many technology company stocks, including ours. Future declines in our stock price, as well as any marked decline in our level of revenues or gross margins, increase the risk that goodwill and intangible assets may become impaired in future periods. We cannot accurately predict the amount and timing of any impairment of assets.

While we believe that we currently have adequate internal control over financial reporting, we are exposed to risks from legislation requiring companies to evaluate those internal controls.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent auditors to attest to, the effectiveness of our internal control over financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We have and will continue to incur significant expenses and devote management resources to Section 404 compliance on an ongoing basis. In the event that our chief executive officer (“CEO”), chief financial officer (“CFO”), or independent registered public accounting firm determine in the future that, our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions may be adversely affected and could cause a decline in the market price of our stock.

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

The telecommunications industry is highly regulated, and our business and financial condition could be adversely affected by changes in the regulations relating to the telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or commerce on IP networks. We could be adversely affected by regulation of IP networks and commerce in any country where we operate. Such regulations could address matters such as voice over the Internet or using IP, encryption technology, and access charges for service providers. In addition, regulations have been adopted with respect to environmental matters, such as the WEEE and RoHS regulations adopted by the European Union, as well as regulations prohibiting government entities from purchasing security products that do not meet specified local certification criteria. Compliance with such regulations may be costly and time-consuming for us and our suppliers and partners. The adoption and implementation of such regulations could decrease demand for our products, and at the same time could increase the cost of building and

selling our products as well as impact our ability to ship products into affected areas and recognize revenue in a timely manner, which could have a material adverse effect on our business, financial condition, and results of operations.

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

At December 31, 2009, we had \$1,604.7 million in cash and cash equivalents and \$1,054.0 million in short- and long-term investments. We have invested these amounts primarily in U.S. government securities, government-sponsored enterprise obligations, foreign government debt securities, corporate notes and bonds, commercial paper, and money market funds meeting certain criteria. Certain of these investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by U.S. sub-prime mortgage defaults that have affected various sectors of the financial markets and caused credit and liquidity issues. These market risks associated with our investment portfolio may have a negative adverse effect on our liquidity, financial condition, and results of operations.

Uninsured losses could harm our operating results.

We self-insure against many business risks and expenses, such as intellectual property litigation and our medical benefit programs, where we believe we can adequately self-insure against the anticipated exposure and risk or where insurance is either not deemed cost-effective or is not available. We also maintain a program of insurance coverage for various types of property, casualty, and other risks. We place our insurance coverage with various carriers in numerous jurisdictions. The types and amounts of insurance that we obtain vary from time to time and from location to location, depending on availability, cost, and our decisions with respect to risk retention. The policies are subject to deductibles, policy limits, and exclusions that result in our retention of a level of risk on a self-insurance basis. Losses not covered by insurance could be substantial and unpredictable and could adversely affect our financial condition and results of operations.

ITEM 1B. *Unresolved Staff Comments*

None.

ITEM 2. *Properties*

We lease approximately 2.0 million square feet worldwide, with nearly 70 percent being in North America. Our corporate headquarters is located in Sunnyvale, California, and consists of buildings totaling approximately 0.9 million square feet. Each building is subject to an individual lease or sublease, which provides various option, expansion, and extension provisions. The leases for our primary corporate headquarters buildings expire between June 2020 and November 2022. We also own approximately 80 acres of land adjacent to our leased corporate headquarters location. Additionally, we lease an approximately 0.2 million square foot facility in Westford, Massachusetts, under leases that expire between January and March 2011.

In addition to our offices in Sunnyvale and Westford, we also lease offices in various locations throughout the United States, Canada, South America, EMEA, and APAC regions, including offices in Australia, China, Hong Kong, India, Ireland, Israel, Japan, the Netherlands, Russia, United Arab Emirates, and the United Kingdom.

Our longest lease expires in November 2022. Our current offices are in good condition and appropriately support our business needs.

For additional information regarding obligations under our operating leases, see Note 13, *Commitments and Contingencies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, which is incorporated by reference herein. For additional information regarding properties by operating segment, see Note 11, *Segment Information*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, which is incorporated by reference herein.

ITEM 3. Legal Proceedings

The information set forth under the heading “Legal Proceedings” in Note 13, *Commitments and Contingencies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, is incorporated herein by reference.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Effective October 29, 2009, we transferred our listing from the NASDAQ Global Select Market (“NASDAQ”) to the New York Stock Exchange LLC (“NYSE”) and continue to list under the symbol “JNPR.” On December 31, 2009, the last trading day of our fiscal year, the closing price of our common stock on the NYSE was \$26.67 per share.

Price Range of Common Stock

The following table sets forth the high and low bid prices for our common stock of the two most recently completed years as reported on NASDAQ for each quarterly period through October 28, 2009, and the high and low sales price for our common stock as reported on the NYSE from October 29, 2009 through December 31, 2009:

<u>NASDAQ</u>	<u>2009</u>		<u>2008</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First quarter	\$18.84	\$12.43	\$33.30	\$23.43
Second quarter	\$25.44	\$14.75	\$29.49	\$21.92
Third quarter	\$28.05	\$22.45	\$27.65	\$20.58
Fourth quarter	\$28.74	\$25.05	\$20.80	\$13.29
<u>NYSE</u>				
Fourth quarter	\$27.90	\$24.04	N/A	N/A

Holders

At January 29, 2010, there were approximately 1,200 stockholders of record of our common stock, and we believe a substantially greater number of beneficial owners.

Dividends

We have never paid cash dividends on our common stock and have no present plans to do so.

Equity Compensation Plan Information

The equity compensation plan information called for by Item 201(d) of Regulation S-K is set forth in Item 12 of Part III of this Annual Report on Form 10-K under the heading “Equity Compensation Plan Information.”

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information with respect to the shares of common stock we repurchased during the three months ended December 31, 2009.

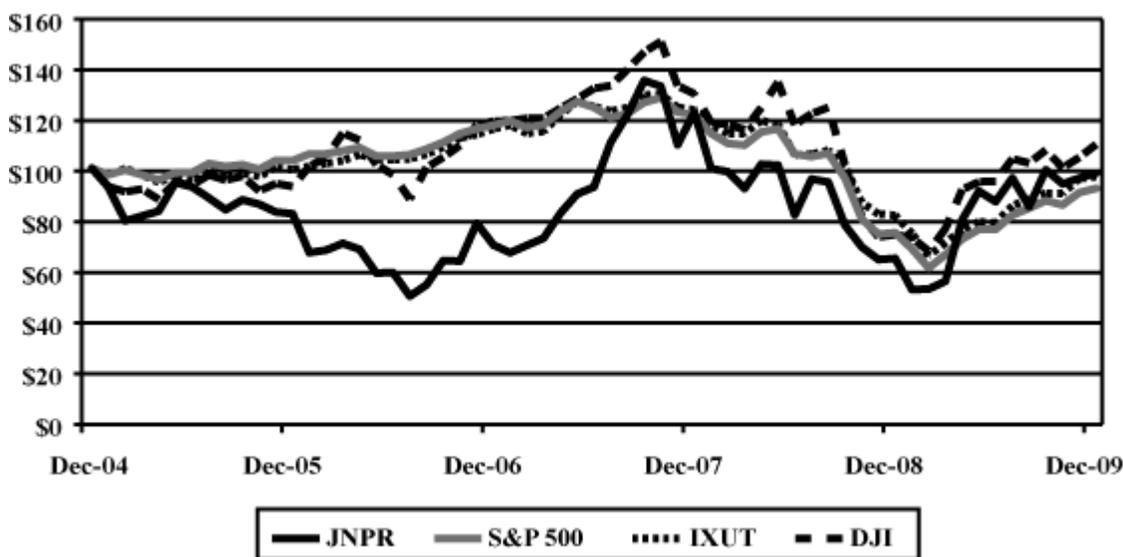
<u>Period</u>	<u>Total Number of Shares Purchased(1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)</u>
October 1 — October 31, 2009	1,141,271	\$ 27.05	1,141,271	\$ 500,138,399
November 1 — November 30, 2009	4,542,379	25.67	4,542,379	383,533,943
December 1 — December 31, 2009	2,443,613	26.57	2,443,613	318,598,578
Total	<u>8,127,263</u>	\$ 26.14	<u>8,127,263</u>	

(1) In March 2008, the Board approved a stock repurchase program (the “2008 Stock Repurchase Program”) which authorized us to purchase up to \$1.0 billion of our common stock. During the three and twelve months ended December 31, 2009, we repurchased and retired 8,127,263 shares and 20,696,771 shares of common stock at an average price of \$26.14 and \$21.91 per share, respectively, under the 2008 Stock Repurchase Program. All shares of common stock purchased under the 2008 Stock Repurchase Program have been retired. Future share repurchases under our stock repurchase programs will be subject to a review of the circumstances in place at the 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. This program may be discontinued at any time.

Company Stock Performance

The graph below shows the cumulative total stockholder return over a five-year period assuming the investment of \$100 on December 31, 2004, in each of Juniper Networks’ common stock, the Standard & Poor’s 500 Stock Index (“S&P 500”), the NASDAQ Telecommunications Index (“IXUT”), and the NYSE Dow Jones Industrial Average (“DJI”). The graph shall not be deemed to be incorporated by reference into other SEC filings; nor deemed to be soliciting material or filed with the Commission or subject to Regulation 14A or 14C or subject to Section 18 of the Exchange Act. The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock.

Stock Performance Graph



	As of December 31,					
	2004	2005	2006	2007	2008	2009
JNPR	\$100.00	\$ 82.02	\$ 69.66	\$122.10	\$64.40	\$ 98.09
S&P 500	100.00	103.00	117.03	121.16	74.53	92.01
IXUT	100.00	92.79	118.55	129.42	73.79	109.39
DJI	100.00	99.39	115.58	123.02	81.39	96.71

ITEM 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the Consolidated Financial Statements and the notes thereto in Item 8, “Consolidated Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K, which are incorporated herein by reference.

The information presented below reflects the impact of certain significant transactions and the adoption of certain accounting pronouncements, which makes a direct comparison difficult between each of the last five fiscal years. For a complete description of matters affecting the results in the tables below during the three years ended December 31, 2009, see “Notes to Consolidated Financial Statements” in Item 8 of Part II of this Annual Report on Form 10-K.

Consolidated Statements of Operations Data

	Years Ended December 31,				
	2009(a)	2008(b)	2007(c)	2006(d)	2005(e)
	(In millions, except per share data)				
Net revenues	\$3,315.9	\$3,572.4	\$2,836.1	\$ 2,303.6	\$2,064.0
Cost of revenues	1,157.8	1,166.0	927.6	754.3	653.5
Gross margin	2,158.1	2,406.4	1,908.5	1,549.3	1,410.5
Operating expenses	1,847.4	1,711.4	1,501.4	2,547.1	969.5
Operating income (loss)	310.7	695.0	407.1	(997.8)	441.0
Other income and expense, net	1.4	33.9	103.5	100.7	56.5
Income (loss) before income taxes and noncontrolling interest	312.1	728.9	510.6	(897.0)	497.5
Provision for income taxes	(196.8)	(217.2)	(149.8)	(104.4)	(146.8)
Consolidated net income (loss)	115.2	511.7	360.8	(1,001.4)	350.7
Net loss attributable to noncontrolling interest	1.8	—	—	—	—
Net income (loss) attributable to Juniper Networks	117.0	511.7	360.8	(1,001.4)	350.7
Net income (loss) per share attributable to Juniper Networks common stockholders:					
Basic	\$ 0.22	\$ 0.96	\$ 0.67	\$ (1.76)	\$ 0.63
Diluted	\$ 0.22	\$ 0.93	\$ 0.62	\$ (1.76)	\$ 0.58
Shares used in computing net income (loss) per share:					
Basic	523.6	530.3	537.8	567.5	554.2
Diluted	534.0	551.4	579.1	567.5	600.2

(a) Includes the following significant pre-tax items: stock-based compensation of \$139.7 million, litigation settlement charges of \$182.3 million, write-down of privately-held equity investments of \$5.5 million, and restructuring charges of \$19.5 million. In addition, includes the following significant tax items: \$61.8 million related to the write-off of certain net deferred tax assets resulting from a change in California income tax law, \$52.1 million related to a change in the tax treatment of stock-based compensation expense in transfer pricing

arrangements for certain U.S. multinational companies due to a recent federal appellate court ruling and \$4.6 million related to an investigation by the India tax authorities.

- (b) Includes the following significant pre-tax items: stock-based compensation of \$108.1 million, write-down of privately-held equity investments of \$11.3 million, other-than-temporary decline in publicly-traded equity investment of \$3.5 million, and litigation settlement charge of \$9.0 million.
- (c) Includes the following significant pre-tax items: stock-based compensation of \$88.0 million, stock option tender offer and tax-related charges of \$8.0 million, stock option investigation costs of \$6.0 million, a gain from a privately-held equity investment of \$6.7 million, and a net litigation settlement gain of \$5.3 million. We recognized in accumulated deficit a non-cash charge for the cumulative effect of accounting charge of \$19.2 million relating to the adoption of ASC Topic 740 (formerly, Statement of Financial Accounting Standards (“SFAS”) No. 109 *Accounting for Income Taxes* (“SFAS 109”) and Financial Interpretation No. (“FIN”) 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (“FIN 48”)).
- (d) Includes the following significant pre-tax items: goodwill and intangible assets impairment charges of \$1,283.4 million, stock-based compensation of \$87.6 million, stock option investigation costs of \$20.5 million, other tax-related charges of \$10.1 million, and restructuring and acquisition-related charges of \$5.9 million.
- (e) Includes the following significant pre-tax items: stock-based compensation expense of \$22.3 million, in-process R&D charges of \$11.0 million, a gain from the sale of equity investment of \$1.7 million, a patent-related charge of \$10.0 million, a charge of \$5.9 million from the impairment of certain purchased intangible assets, and a reversal of acquisition-related liabilities of \$6.6 million.

Consolidated Balance Sheet Data

	As of December 31,				
	2009	2008	2007	2006	2005
	(In millions)				
Cash, cash equivalents, and marketable securities	\$2,658.7	\$2,293.4	\$2,015.8	\$2,614.3	\$2,047.1
Working capital	1,503.2	1,759.6	1,175.3	1,759.2	1,261.4
Goodwill	3,658.6	3,658.6	3,658.6	3,624.7	4,879.7
Total assets	7,590.3	7,187.3	6,885.4	7,368.4	8,183.6
Total long-term liabilities	389.7	229.3	151.7	490.7	468.0
Total stockholders’ equity attributable to Juniper Networks	5,822.1	5,901.4	5,353.9	6,115.1	7,088.2

ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

This Annual Report on Form 10-K ("Report"), including the "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. (the "Company") that are based on current expectations, estimates, forecasts, and projections about the industry in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "would," "could," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. 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 I and elsewhere, and in other reports we file with the SEC, specifically the most recent reports on Form 10-Q. 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.

The following discussion is based upon our Consolidated Financial Statements included elsewhere in this report, which have been prepared in accordance with U.S. generally accepted accounting principles ("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. Each of these decisions has some impact on the financial results for any given period. 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. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingencies. On an ongoing basis, we evaluate our estimates, including those related to sales returns, pricing credits, warranty costs, allowance for doubtful accounts, impairment of long-term assets, especially goodwill and intangible assets, contract manufacturer exposures for carrying and obsolete material charges, assumptions used in the valuation of stock-based compensation, and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

To aid in understanding our operating results for the periods covered by this report, we have provided an executive overview and a summary of the significant events that affected the most recent fiscal year and a discussion of the nature of our operating expenses. These sections should be read in conjunction with the more detailed discussion and analysis of our consolidated financial condition and results of operations in this Item 7, our "Risk Factors" section included in Item 1A of Part I, and our audited consolidated financial statements and notes included in Item 8 of Part II of this report.

Changes to Previously Announced Fiscal 2009 Fourth Quarter and U.S. GAAP Annual Results

Subsequent to the January 28, 2010 announcement of our preliminary fourth quarter and full fiscal year results for 2009, we recorded additional litigation settlement charges of \$169.3 million in our reported results. On February 5, 2010, we entered into a proposed agreement in principle to the federal securities class action litigation pending against us and certain of our current and former officers and directors relating to our historical stock option granting practices. This litigation settlement charge resulted in an increase in total operating expense and a reduction in operating income, income before income taxes and noncontrolling interest, provision for income taxes, consolidated net income, net income attributable to Juniper Networks, and net income per share attributable to Juniper Networks. See further discussion in Note 13, *Commitments and Contingencies*, under "Legal Proceedings" in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Table of Contents

Set forth below is a reconciliation of the January 28, 2010 announcement of our preliminary results press release to amounts reported in this Annual Report on Form 10-K which reflects the above mentioned adjustment (in millions, except per share amounts):

	Three Months Ended December 31, 2009			Year Ended December 31, 2009		
	Previously Announced	Net Change	Reported in Annual Report on Form 10-K	Previously Announced	Net Change	Reported in Annual Report on Form 10-K
Litigation settlement charges	\$ 12.0	\$ 169.3	\$ 181.3	\$ 13.0	\$ 169.3	\$ 182.3
Total operating expenses	\$ 449.7	\$ 169.3	\$ 619.0	\$ 1,678.1	\$ 169.3	\$ 1,847.4
Operating income	\$ 175.1	\$(169.3)	\$ 5.8	\$ 480.0	\$(169.3)	\$ 310.7
Income before income taxes and noncontrolling interest	\$ 173.2	\$(169.3)	\$ 3.9	\$ 481.4	\$(169.3)	\$ 312.1
Provision for income taxes	\$ 44.1	\$ (61.3)	\$ (17.2)	\$ 258.1	\$ (61.3)	\$ 196.8
Consolidated net income	\$ 129.2	\$(108.1)	\$ 21.1	\$ 223.3	\$(108.1)	\$ 115.2
Net income attributable to Juniper Networks	\$ 131.0	\$(108.1)	\$ 22.9	\$ 225.1	\$(108.1)	\$ 117.0
Net income per share attributable to Juniper Networks:						
Basic	\$ 0.25	\$ (0.21)	\$ 0.04	\$ 0.43	\$ (0.21)	\$ 0.22
Diluted	\$ 0.24	\$ (0.20)	\$ 0.04	\$ 0.42	\$ (0.20)	\$ 0.22

Executive Overview

Our performance for the fiscal year 2009 reflects the weakness in market demand for networking and security products, compared to the fiscal year 2008, primarily due to our customers' reaction to the weakened global economy. The decrease in revenues was primarily due to the slowdown in the Europe, Middle East, and Africa ("EMEA"); and Asia Pacific ("APAC") service provider market. While the global economy continues to challenge the marketplace, our portfolio-selling strategy enabled us to expand our depth and breadth in the enterprise and service provider markets during the second half of 2009. As a result, the fourth quarter of 2009 was our strongest quarter in the enterprise market as well as in the service provider market in the U.S. In addition, we were able to navigate through challenging economic conditions by controlling operating costs while continuing to invest in innovation and customer satisfaction.

The following table provides an overview of our key financial metrics for the years ended December 31, 2009, and 2008 (in millions, except per share amounts and percentages):

	2009	2008	\$ Change	% Change
Net revenues	\$3,315.9	\$3,572.4	\$(256.5)	(7)%
Operating income	\$ 310.7	\$ 695.0	\$(384.3)	(55)%
<i>Percentage of net revenues</i>	<i>9.4 %</i>	<i>19.5 %</i>		
Net income attributable to Juniper Networks	\$ 117.0	\$ 511.7	\$(394.7)	(77)%
<i>Percentage of net revenues</i>	<i>3.5 %</i>	<i>14.3 %</i>		
Net income per share attributable to Juniper Networks common stock holders:				
Basic	\$ 0.22	\$ 0.96	\$ (0.74)	(77)%
Diluted	\$ 0.22	\$ 0.93	\$ (0.71)	(76)%

- *Net Revenues:* Our net revenues decreased in 2009 compared to 2008, primarily due to reduced demand for our products particularly in the Infrastructure segment, which is consistent with the overall decline in the global economy, partially offset by an increase in service revenue from both the Infrastructure and SLT segments. Net revenues from enterprise customers increased 11% while net revenues from service providers decreased 14% in 2009, compared to 2008. Net revenues decreased in all regions in 2009 compared to 2008.
- *Operating Income:* Our operating income as well as operating margin as a percentage of net revenues decreased in 2009 compared to 2008. These decreases were, in large part, due to the decrease in revenues and an increase in litigation settlement charges, partially offset by our efforts to control expenses and improve operational efficiencies in 2009 compared to 2008.
- *Net Income Attributable to Juniper Networks and Net Income Per Share Attributable to Juniper Networks Common Stock Holders:* The decrease in net income attributable to Juniper Networks (“net income”) and net income per share attributable to Juniper Networks common stock holders (“net income per share”) in 2009 compared to 2008, is primarily due to a decrease in revenue, an increase in litigation settlement charges, and total non-recurring income tax charges of \$118.5 million incurred during 2009. Of the \$118.5 million, \$61.8 million related to the write-off of certain net deferred tax assets resulting from a change in California income tax law, \$52.1 million related to a change in the tax treatment of stock-based compensation expense in transfer pricing arrangements for certain U.S. multinational companies due to a recent federal appellate court ruling and \$4.6 million related to an investigation by the India tax authorities.
- *Other Financial Highlights:* Total deferred revenue increased \$163.3 million in 2009, primarily due to the growth in our installed equipment base for maintenance and customer support contracts and an increase in channel inventory. In 2009, we repurchased approximately 20.7 million shares of our common stock under our 2008 Stock Repurchase Program, at an average price of \$21.91 per share for a total purchase price of \$453.5 million.

Business and Market Environment

We design, develop, and sell products and services that together provide our customers with high-performance network infrastructure that creates responsive and trusted environments for accelerating the deployment of services and applications over a single network. We serve the high-performance networking requirements of global service providers, enterprises, and research and public sector organizations that view the network as critical to their success. High-performance networking is designed to provide fast, reliable, and secure access to applications and services at scale. We offer a high-performance network infrastructure that includes IP routing, Ethernet switching, security, and application acceleration solutions, as well as partnerships designed to extend the value of the network and worldwide services and support designed to optimize customer investments.

In 2009, we continued to deliver new and innovative, high-performance network infrastructure solutions. We extended our Junos software platform to include Junos Space network application platform and Junos Pulse integrated, multi-service network client. The launch of our next generation silicon, Trio, enables 3-D scaling and positions our MX-series routers as a “universal” edge platform for the networking market. We announced the TX Matrix Plus, a multi-chassis system for the T1600 core router, which in conjunction with the JCS12000 Control Plane System brings virtualization to the core of the Internet. Additionally, we announced a significant technological advance with 100 Gigabit Ethernet interface cards for our T1600 core router. We also delivered our Adaptive Threat Management solution, designed to help customers identify and respond to security incidents to help reduce overall risk. We introduced a new solution for the Intelligent Services Edge with the StreamScope eRM integrated video monitoring and analysis product, which is designed to enable customers to extend the capabilities of our M- and MX-series routers to enhance the quality of video services over cable, wireless, and Internet Protocol Television networks.

Our Ethernet switching portfolio added the EX2200 switch platform, the EX8208, a modular switching platform, and the EX8216, a high-capacity modular switching platform designed for deployment in large enterprise data centers. In addition, our next-generation network infrastructure includes four new models of our SRX family of dynamic services gateways. We expanded our SRX family of dynamic services gateways with the introduction of

the SRX3000, and extended the infrastructure for enterprises and started shipping the SRX100 dynamic service gateway platforms. Our SRX services gateways are sold into service provider and mobile packet core security markets as well as the enterprise market.

On the partnership front, we announced entry into OEM agreements with Dell to offer our networking solutions under Dell's PowerConnect brand, and with IBM to resell our Ethernet networking products and support to IBM's data center customers. In addition we entered in to a joint venture with Nokia Siemens Networks B.V. ("NSN") to develop and resell joint carrier Ethernet solutions.

The recent weakness in the global economy has affected the purchasing behavior of our customers, particularly among service providers, and caused delays or reductions in purchase decisions, which led to lower revenues in 2009 compared to 2008, as well as limited visibility regarding future business. If economic growth in the U.S. and other countries' economies declines and/or fails to recover, our customers may further delay or reduce their purchases, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, and increased price competition. We continue to plan to both invest in key R&D projects that we believe will lead to future growth and remain focused on continuing our efforts to contain other costs and allocate resources effectively.

Nature of Expenses

Most of our manufacturing, repair, and supply chain operations are outsourced to independent contract manufacturers. Accordingly, most of our cost of revenues consists of payments to our independent contract manufacturers for standard product costs. The independent contract manufacturers produce our products using design specifications, quality assurance programs, and standards that we establish. Our independent contract manufacturers manufacture our products primarily in China, Malaysia, Mexico, and the United States. We have employees in our manufacturing and operations organization who manage relationships with our contract manufacturers, manage our supply chain, and monitor product testing and quality. As of December 31, 2009, and 2008, we had 244 and 230 employees, respectively, in our manufacturing and operations organization that primarily manage relationships with our contract manufacturers, manage our supply chain, and monitor and manage product testing and quality. We generally do not own the components and title to products transfers from the contract manufacturers to us and immediately to our customers upon shipment.

The contract manufacturers procure components based on our build forecasts, and if actual component usage is lower than our forecasts, we may be, and have been in the past, liable for carrying or obsolete material charges.

In recent years, an increasing amount of our products has been manufactured in Asia, and we anticipate that a larger percentage of our products will be produced outside the U.S in the future. Our contracts generally provide for passage of title and risk of loss at the designated point of shipment to our customer. The manufacturing of products in Asia for shipment to customers in EMEA and the Americas resulted in additional shipment logistics, freight, and timing issues for us as well as those customers. In an ongoing effort to balance our and our customers' needs, we have made changes on occasion to the payment of freight and the point of shipment with respect to products shipped from Asia. These changes affect shipping costs and the timing of revenue recognition of those shipments.

Our operating expenses include R&D, sales and marketing, and G&A expenses. R&D expenses include costs of developing our products from components to prototypes to finished products, costs for outside services such as certifications of new products, and expenditures associated with equipment used for testing. Several components of our R&D effort require significant expenditures, such as the development of new components and the purchase of prototype equipment, the timing of which can cause quarterly variability in our expenses. We expense our R&D costs as they are incurred. Sales and marketing expenses include costs for selling and promoting our products and services, demonstration equipment, and advertisements. These costs vary quarter-to-quarter depending on revenues, product launches, and marketing initiatives. We have an extensive distribution channel in place that we use to target new customers and increase sales. We have made substantial investments in our distribution channel during 2009, 2008, and 2007. G&A expenses include professional fees, bad debt provisions, and other corporate expenses. Professional fees include legal, audit, tax, accounting, and certain corporate strategic services.

Employee-related costs have historically been the primary driver of our cost of service revenue and operating expenses, and we expect this trend to continue. Employee-related costs include items such as wages, commissions, bonuses, vacation, benefits, stock-based compensation, and travel. We had 7,231, 7,014, and 5,879 employees as of December 31, 2009, 2008, and 2007, respectively. The year-over-year increases were primarily attributable to increases in our R&D and customer service organizations. Our headcount is expected to increase in 2010 as we continue to expand these functions.

Facility and information technology (“IT”) departmental costs are allocated to other departments based on usage and headcount, respectively. Despite an increase in headcount in 2009, these costs decreased due to our cost reduction initiatives. Facilities and IT departmental costs increased in 2008 and 2007, due to increases in headcount and new facility leases added to support our growth. Facility and IT related headcount was 294, 267, and 224 as of December 31, 2009, 2008, and 2007, respectively. In 2010, we expect to continue to invest in our company-wide IT infrastructure as we implement our operational excellence initiatives.

Our cost of service revenues and operating expenses are denominated in U.S. Dollars as well as other foreign currencies including the British Pound, the Euro, Indian Rupee, and Japanese Yen. Changes in related currency exchange rates may affect our operating results. Periodically, we use foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to cost of service revenues and operating expenses. The effective portion of the derivative’s gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and, upon occurrence of the forecasted transaction, is subsequently reclassified into the appropriate line item of the consolidated statement of operations to which the hedged transaction relates. Any ineffectiveness of the hedging instruments is reported in other income (expense) on our consolidated statements of operations. The decrease in cost of service revenues and operating expenses including R&D, sales and marketing, as well as G&A expenses, due to foreign currency fluctuations was approximately 2% in 2009. The increase in cost of service revenues and operating expenses including R&D, sales and marketing, as well as G&A expenses, due to foreign currency fluctuations was approximately 1% and 2% in 2008 and 2007, respectively.

Other Event — Listing on the New York Stock Exchange

On October 6, 2009, we submitted an application to transfer the listing of our Company’s common stock to the NYSE from NASDAQ. Effective October 29, 2009, we transferred our listing from NASDAQ to the NYSE under the symbol “JNPR.”

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. We base our estimates and assumptions on current facts, historical experience, and various other factors that we believe are reasonable under the circumstances, to determine the carrying values of assets and liabilities that are not readily apparent from other sources. Note 1, *Summary of Significant Accounting Policies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The critical accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements and actual results could differ materially from the amounts reported based on these policies. To the extent there are material differences between our estimates and the actual results, our future consolidated results of operations may be affected.

- *Revenue Recognition.* Our products are generally integrated with software that is essential to the functionality of our equipment. Additionally, we provide unspecified upgrades and enhancements related to our integrated software through our maintenance contracts for most of our products. Accordingly, we account for revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 985-605, *Software — Revenue Recognition* (formerly, Statement of Position No. 97-2, *Software Revenue Recognition*).

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

- *Persuasive evidence of an arrangement exists.* We generally rely upon sales contracts, or agreements and customer purchase orders, to determine the existence of an arrangement.
- *Delivery has occurred.* We use shipping terms and related documents or written evidence of customer acceptance, when applicable, to verify delivery or performance. In instances where we have 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.* We assess 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.* We assess collectability based on the creditworthiness of the customer as determined by our credit checks and the customer's payment history. We record accounts receivable net of allowance for doubtful accounts, estimated customer returns, and pricing credits.

For arrangements with multiple elements, such as sales of products that include services, we allocate revenue to each element using the residual method based on the vendor-specific objective evidence ("VSOE") of fair value of the undelivered items. 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. VSOE of fair value is based on the price charged when the element is sold separately. We then recognize revenue on each deliverable in accordance with our policies for product and service revenue recognition. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. If VSOE of fair value of one or more undelivered items does not exist, revenue 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. We account 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. Our ability to recognize revenue in the future may be affected if actual selling prices are significantly less than fair value. In addition, our ability to recognize revenue in the future could be impacted by conditions imposed by our customers.

For sales to direct end-users, value-added resellers, and OEM partners, we recognize product revenue upon transfer of title and risk of loss, which is generally upon shipment. It is our practice to identify an end-user prior to shipment to a value-added reseller or to an OEM partner. For our end-users and value-added resellers, there are no significant obligations for future performance such as rights of return or pricing credits. Our agreements with our OEM partners may allow future rights of returns or pricing credits. A portion of our sales is made through distributors under agreements allowing for pricing credits or rights of return. We recognize product revenue on sales made through these distributors upon sell-through as reported to us by the distributors. 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.

We record 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 included in rebate agreements, and other factors known at the time. Should actual product returns or pricing adjustments differ from our estimates, additional reductions to revenue may be required. In addition, we report 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 is recognized ratably over the contractual support period, which is generally one to three years. Revenue from training and professional services is recognized as the services are completed or ratably over the contractual period, which is generally one year or less.

We sell certain interests in accounts receivable on a non-recourse basis as part of a customer financing arrangement primarily with one major financing company. We record cash received under this arrangement in advance of revenue recognition as short-term debt.

- *Contract Manufacturer Liabilities.* We outsource most of our manufacturing, repair, and supply chain management operations to our independent contract manufacturers and a significant portion of our cost of revenues consists of payments to them. Our independent contract manufacturers procure components and manufacture our products based on our demand forecasts. These forecasts are based on our estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and marketing organizations, adjusted for overall market conditions. We establish a provision for inventory, carrying costs, and obsolete material exposures for excess components purchased based on historical trends. If the actual component usage and product demand are significantly lower than forecasted, which may be caused by factors outside of our control, it could have an adverse impact on our gross margins and profitability. Supply chain management remains an area of focus as we balance the risk of material obsolescence and supply chain flexibility in order to reduce lead times.
- *Warranty Costs.* We generally offer a one-year warranty on all of our hardware products and a 90-day warranty on the media that contains the software embedded in the products. We accrue for warranty costs as part of our cost of sales based on associated material costs, labor costs for customer support, and overhead at the time revenue is recognized. Material cost is estimated primarily based upon the historical costs to repair or replace product returns within the warranty period. Technical support labor and overhead cost are estimated primarily based upon historical trends in the cost to support the customer cases within the warranty period. Although we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, use of materials, technical labor costs, and associated overhead incurred. Should actual product failure rates, use of materials, or service delivery costs differ from our estimates, we may incur additional warranty costs, which could reduce gross margin.
- *Goodwill and Purchased Intangible Assets.* We make significant estimates and assumptions when evaluating impairment of goodwill and other intangible assets on an ongoing basis, as well as when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity. The amounts and useful lives assigned to identified intangible assets impacts the amount and timing of future amortization expense. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) future declines in our operating results, (ii) a sustained decline in our market capitalization, (iii) significant slowdown in the worldwide economy or the networking industry, or (iv) failure to meet our forecasted operating results. We evaluate these assets on an annual basis as of November 1 or more frequently if we believe indicators of impairment exist. The process of evaluating the potential impairment of goodwill and intangible assets is subjective and requires significant judgment at many points during the analysis. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income approach and the market approach. Under the market approach, we estimate fair value of our reporting units based on market multiples of revenue or earnings for comparable companies. Under the income approach, we calculate fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. We performed impairment test for our goodwill as of November 1, 2009, 2008 and 2007, and concluded that there was no goodwill impairment, or reporting units at risk of failing the first step of the impairment test. Intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds its fair value.

We assess the recoverability of our intangible assets by determining whether the unamortized balances are greater than the sum of undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows. The estimates we have used are consistent with the plans and estimates that we use to manage our business. If our actual results or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

- *Stock-Based Compensation.* We recognize stock-based compensation expense for all share-based payment awards including employee stock options, restricted stock units (“RSUs”), performance share awards, and purchases under our Employee Stock Purchase Plan in accordance with FASB ASC Topic 718 (formerly, Statement of Financial Accounting Standards (“SFAS”) No. 123(R), *Share-Based Payment* (“SFAS 123 (R)”). Stock-based compensation expense for expected-to-vest stock-based awards is valued under the single-option approach and amortized on a straight-line basis, net of estimated forfeitures.

We utilize the Black-Scholes-Merton (“BSM”) option-pricing model in order to determine the fair value of stock-based awards. The BSM model requires various highly subjective assumptions including volatility, expected option life, and risk-free interest rate. The expected volatility is based on the implied volatility of market traded options on our common stock, adjusted for other relevant factors including historical volatility of our common stock over the most recent period commensurate with the estimated expected life of our stock options. The expected life of an award is based on historical experience, the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that have not been exercised at the time.

The assumptions used in calculating the fair value of share-based payment awards represent management’s best estimates. These estimates involve inherent uncertainties and the application of management’s judgment. If factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those expected-to-vest shares. If our actual forfeiture rate is materially different from our estimate, our recorded stock-based compensation expense could be different.

- *Income Taxes.* Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences and carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred tax assets will be realized from recoverable income taxes or recovered from future taxable income based on the realization criteria set forth in FASB ASC Topic — *Income Taxes* (“FASB ASC Topic 740”) (formerly, SFAS No. 109, *Accounting for Income Taxes* and Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*). To the extent that we believe any amounts are not more likely than not to be realized, we record a valuation allowance to reduce our deferred tax assets. We believe it is more likely than not that future income from the reversal of the deferred tax liabilities and forecasted income will be sufficient to fully recover the remaining deferred tax assets. In the event we determine that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if we subsequently realize deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in an adjustment to earnings in the period such determination is made. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize and measure potential liabilities based upon criteria set forth in FASB ASC Topic 740. Based upon these criteria, we estimate whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities may result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities is less than the amount ultimately assessed, a further charge to expense would result.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our

determination as to the amount of deferred tax assets that can be realized, as occurred in connection with the California tax law change in the first quarter of 2009, we will adjust our valuation allowance with a corresponding effect to the provision for income taxes in the period in which such determination is made. For further discussion of the California tax law change refer to Note 12, *Income Taxes*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Significant judgment is also required in evaluating our uncertain tax positions under FASB ASC Topic 740 and determining our provision for income taxes. Although we believe our reserves under FASB ASC Topic 740 are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made as it was during the second quarter of 2009, when we recorded a non-recurring income tax charge as a result of a federal appellate court ruling in *Xilinx, Inc. v. Commissioner*. The provision for income taxes includes the effect of reserves under FASB ASC Topic 740 and any changes to the reserves that are considered appropriate, as well as the related net interest and penalties, if applicable.

- *Loss Contingencies.* We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset, or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We record a charge equal to the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of our consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

From time to time, we are involved in disputes, litigation, and other legal actions. We are aggressively defending our current litigation matters. However, there are many uncertainties associated with any litigation, and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any future intellectual property litigation may require us to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, our 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 our estimates, which could result in the need to adjust our liability and record additional expenses.

Recent Accounting Pronouncements

See Note 1, *Summary of Significant Accounting Policies*, in Notes to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations, which is incorporated herein by reference.

Results of Operations

The following table presents product and service net revenues (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	% Change	2008	2007	\$ Change	% Change
Net revenues:								
Product	\$2,568.0	\$2,911.0	\$(343.0)	(12)%	\$2,911.0	\$2,327.0	\$584.0	25%
<i>Percentage of net revenues</i>	<i>77.4 %</i>	<i>81.5 %</i>			<i>81.5 %</i>	<i>82.0 %</i>		
Service	747.9	661.4	86.5	13%	661.4	509.1	152.3	30%
<i>Percentage of net revenues</i>	<i>22.6 %</i>	<i>18.5 %</i>			<i>18.5 %</i>	<i>18.0 %</i>		
Total net revenues	<u>\$3,315.9</u>	<u>\$3,572.4</u>	<u>\$(256.5)</u>	(7)%	<u>\$3,572.4</u>	<u>\$2,836.1</u>	<u>\$736.3</u>	26%

Our net product revenues decreased in 2009 compared to 2008 primarily due to decreased revenue from our routing products to service provider customers whose spending patterns were affected by the weakened global economy, partially offset by increased revenues from our EX-series switching products. Our net service revenues increased in 2009 compared to 2008, primarily due to the increase in professional services and maintenance revenue from our expanding installed base of equipment under service contracts.

Our net product revenues increased in 2008 compared to 2007 primarily due to increased sales of products from both our Infrastructure and SLT solutions to the service provider and enterprise markets. In particular, we had success in selling our Infrastructure products to service providers who are adopting next generation IP networks, which are designed for higher capacity and efficiency to help reduce total operating costs and to be able to offer multiple services over a single network. In 2008, our new product releases and further expansion into emerging markets contributed to the increase in total net product revenues. Our net service revenues increased in 2008, compared to 2007, primarily due to the increase in maintenance revenue from our expanding installed base of equipment under service contracts.

Infrastructure Segment Revenues

Our Infrastructure segment consists primarily of products and services related to the E-, M-, MX-, and T-series router product families, EX-series switching products, as well as circuit-to-packet products. The following table presents net Infrastructure segment revenues and net Infrastructure segment revenues as a percentage of total net revenues by product and service categories (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	%Change	2008	2007	\$ Change	%Change
Net Infrastructure segment revenues:								
Infrastructure product revenues	\$1,959.2	\$2,301.9	\$(342.7)	(15)%	\$2,301.9	\$1,753.2	\$ 548.7	31%
<i>Percentage of net revenues</i>	<i>59.1 %</i>	<i>64.4 %</i>			<i>64.4 %</i>	<i>61.8 %</i>		
Infrastructure service revenues	482.4	424.0	58.4	14%	424.0	320.1	103.9	32%
<i>Percentage of net revenues</i>	<i>14.5 %</i>	<i>11.9 %</i>			<i>11.9 %</i>	<i>11.3 %</i>		
Total Infrastructure segment revenues	<u>\$2,441.6</u>	<u>\$2,725.9</u>	<u>\$(284.3)</u>	(10)%	<u>\$2,725.9</u>	<u>\$2,073.3</u>	<u>\$ 652.6</u>	31%
<i>Percentage of net revenues</i>	<i>73.6 %</i>	<i>76.3 %</i>			<i>76.3 %</i>	<i>73.1 %</i>		

Infrastructure — Product

Infrastructure product revenues decreased in 2009 compared to 2008, primarily due to decreased revenue in M-, T-, and E-series product families attributable to our customers' reduced demand due to the global economic environment, partially offset by revenue growth from our EX-series switching products and MX-series products. In 2009, we experienced a 23% decrease in product revenue from the service provider market and a 40% increase in product revenue from the enterprise market compared to the same period in 2008. The decrease in the service provider market was primarily due to decreased capital spending in that market, and the increase in the enterprise market was primarily due to the growth in our EX-series switching business and our continued focus on selling Infrastructure products into the enterprise market, which resulted in growth of enterprise revenues in Americas and APAC. Geographically, Infrastructure product revenue decreased in all three regions in 2009.

Infrastructure product revenues increased in 2008 compared to 2007, primarily attributable to revenue growth from our M- MX- and T-series product families, from sales to both the service provider and enterprise markets due to our customers' increased demand for network infrastructure solutions. To a lesser extent, our EX-series products, which were introduced in the first quarter of 2008, and our E-series products also contributed to the revenue growth in 2008. In 2008, we experienced a 28% increase in product revenue from the service provider market and a 59% increase in product revenue from the enterprise market compared to the same period in 2007. From a geographical perspective, in 2008, we experienced revenue growth in all three regions, with particular strength in the Americas region.

We track Infrastructure chassis revenue units and ports shipped to analyze customer trends and indicate areas of potential network growth. Most of our Infrastructure product platforms are modular, with the chassis serving as the base of the platform. Each modular chassis has a certain number of slots that are available to be populated with components we refer to as modules or interfaces. The modules are the components through which the platform receives incoming packets of data from a variety of transmission media. The physical connection between a transmission medium and a module is referred to as a port. The number of ports on a module varies widely depending on the functionality and throughput offered by the module. Chassis revenue units represent the number of chassis on which revenue was recognized during the period. The following table presents Infrastructure revenue units and ports shipped:

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	Unit Change	% Change	2008	2007	Unit Change	% Change
Infrastructure chassis revenue units(1)	12,578	13,745	(1,167)	(8)%	13,745	11,195	2,550	23%
Infrastructure ports shipped (1)	437,278	397,907	39,371	10%	397,907	225,452	172,455	76%

(1) Excludes modular and fixed configuration EX-series switching products and circuit to packet products.

Infrastructure chassis revenue units decreased in 2009 compared to 2008, primarily due to reduced customer demand because of the weakened global economy. The port shipments increased in 2009 compared to 2008, primarily due to an increase in the MX-series products, which generally contain a higher number of ports per chassis.

Infrastructure chassis revenue units increased in 2008 compared to 2007, primarily due to the product mix that favored higher capacity chassis revenue units, which was driven by bandwidth demand as our customers sought to expand capabilities in their networks and to offer differentiating, feature-rich, multi-play services that allow them to generate new sources of revenues. The port shipments also increased in 2008 compared to 2007 primarily due to the increase in the overall number of chassis revenue units from richly configured T- and M-series router chassis revenue units shipped during the 2008 period.

Infrastructure — Service

Infrastructure service revenues increased in 2009 compared to 2008, primarily due to an increase in our installed base of equipment being serviced and service renewals. In 2009, we experienced a 12% increase in service revenue from the service provider market and a 30% increase in service revenue from the enterprise market

compared to the same period in 2008. Geographically, Infrastructure service revenue increased in all regions in 2009. A majority of our service revenues is earned from customers that purchase our products and enter into service contracts for support service.

Infrastructure service revenues increased in 2008 compared to 2007, primarily due to an increase in our installed base of equipment being serviced. Installed base is calculated based on the number of systems that our customers have under maintenance. In 2008, we experienced a 37% increase in service revenue from the service provider market and a 3% increase in service revenue from the enterprise market compared to the same period in 2007. We also experienced increased professional service revenues due to consulting projects. From a geographical perspective, in 2008, we experienced revenue growth in all three regions, with particular strength in the Americas region.

SLT Segment Revenues

Our SLT segment consists primarily of products and services related to our Firewall/VPN (“Firewall”) systems and appliances, SRX Series services gateways, SSL VPN appliances, IDP appliances, the J-series router product family, and WAN optimization platforms. The following table presents net SLT segment revenues and net SLT segment revenues as a percentage of total net revenues by product and service categories (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	%Change	2008	2007	\$ Change	%Change
Net SLT segment revenues:								
SLT product revenues	\$608.8	\$609.1	\$ (0.3)	—	\$609.1	\$573.8	\$ 35.3	6%
<i>Percentage of net revenues</i>	<i>18.4 %</i>	<i>17.1 %</i>			<i>17.1 %</i>	<i>20.2 %</i>		
SLT service revenues	265.5	237.4	28.1	12%	237.4	189.0	48.4	26%
<i>Percentage of net revenues</i>	<i>8.0%</i>	<i>6.6%</i>			<i>6.6%</i>	<i>6.7 %</i>		
Total SLT segment revenues	<u>\$874.3</u>	<u>\$846.5</u>	<u>\$ 27.8</u>	3%	<u>\$846.5</u>	<u>\$762.8</u>	<u>\$ 83.7</u>	11%
<i>Percentage of net revenues</i>	<i>26.4 %</i>	<i>23.7 %</i>			<i>23.7 %</i>	<i>26.9 %</i>		

SLT — Product

SLT product revenues was relatively flat in 2009 compared to 2008, primarily due to an increase in revenue from our SRX services gateways offset by a decrease in revenue from our high-end and branch firewall products. In 2009, we experienced a 26% increase in revenue from the service provider market and a 8% decrease in revenue from the enterprise market compared to 2008. Geographically, SLT product revenue decreased in the EMEA and APAC regions and increased in the Americas region.

SLT product revenues increased in 2008 compared to 2007, primarily due to an increase in revenues from Firewall and J-series products. These increases were partially offset by a decline in revenues from DX and WX products. The integrated systems introduced prior to 2007, such as the SSG products, gained further traction in the market place with revenues from these product lines growing in 2008 compared to 2007. In 2008, we experienced a 1% increase in revenue from the service provider market and a 8% increase in revenue from the enterprise market compared to 2007. Geographically, revenues increased in the EMEA and APAC regions and decreased in the Americas region.

The following table presents SLT revenue units recognized:

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	Unit Change	% Change	2008	2007	Unit Change	% Change
SLT revenue units	208,907	241,504	(32,597)	(13)%	241,504	239,021	2,483	1%

SLT revenue units decreased in 2009 compared to 2008. The percentage decrease in revenue units was greater than the percentage decrease in SLT product revenues, primarily due to the product mix that favored products with higher average selling prices. SLT revenue units increased slightly in 2008 compared to 2007. The percentage increase in SLT revenue units was lower than the percentage increase in product revenues, primarily due to the product mix that favored products with higher average selling prices.

SLT — Service

SLT service revenues increased in 2009 compared to 2008, primarily due to an increase in our installed base of equipment being serviced and service renewals. In 2009, we experienced a 20% increase in service revenue from the service provider market and a 10% increase in service revenue from the enterprise market compared to 2008. Geographically, SLT service revenue increased in all regions in 2009. A majority of our service revenues is earned from customers that purchase our products and enter into support service contracts.

SLT service revenues increased in 2008 compared to 2007, primarily due to an increase in our installed base of equipment being serviced. In 2008, we experienced a 33% increase in service revenue from the service provider market and a 24% increase in service revenue from the enterprise market compared to 2007. Geographically, SLT service revenue increased in all regions in 2008.

Total Net Revenues by Geographic Region

The following table presents the total net revenues by geographic region (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	% Change	2008	2007	\$ Change	% Change
Americas:								
United States	\$1,515.1	\$1,537.5	\$ (22.4)	(1)%	\$1,537.5	\$1,215.8	\$321.7	26%
Other	172.8	228.7	(55.9)	(24)%	228.7	124.7	104.0	83%
Total Americas	1,687.9	1,766.2	(78.3)	(4)%	1,766.2	1,340.5	425.7	32%
<i>Percentage of net revenues</i>								
	50.9 %	49.4 %			49.4 %	47.3 %		
EMEA								
	953.2	1,077.7	(124.5)	(12)%	1,077.7	918.0	159.7	17%
<i>Percentage of net revenue</i>								
	28.7 %	30.2 %			30.2 %	32.4 %		
APAC								
	674.8	728.5	(53.7)	(7)%	728.5	577.6	150.9	26%
<i>Percentage of net revenues :</i>								
	20.4 %	20.4 %			20.4 %	20.3 %		
Total	<u>\$3,315.9</u>	<u>\$3,572.4</u>	<u>\$(256.5)</u>	(7)%	<u>\$3,572.4</u>	<u>\$2,836.1</u>	<u>\$736.3</u>	26%

Net revenues in the Americas region decreased in absolute dollars, but increased as a percentage of total net revenues in 2009 compared to 2008, primarily due to a revenue decrease from the service provider market, partially offset by an increase in net revenues from the enterprise market. In particular, the United States, Mexico, and Brazil accounted for more than half of the decline in net revenue in the Americas region. Net revenues in the Americas region increased in absolute dollars and as a percentage of total net revenues in 2008 compared to 2007, primarily due to growth in Infrastructure revenues from both the service provider and enterprise markets, as our customers continued to focus on increasing network performance, reliability, and scale. In the United States, net revenues decreased in absolute dollars and increased as a percentage of total net revenues, in 2009 compared to 2008, primarily due to the relative strength of sales in the United States compared to EMEA and APAC. In the United States, net revenues increased in absolute dollars and as a percentage of total net revenues, in 2008 compared to 2007, primarily due to growth in revenues from both the service provider and enterprise markets.

Net revenues in EMEA decreased in absolute dollars and as a percentage of total net revenues in 2009 compared to 2008, primarily due to reduced demand in the service provider market, partially offset by a slight

increase in revenue from the enterprise market. In particular Sweden, Germany, Belgium, and United Kingdom attributed more than half of the decline in net revenues in EMEA. Net revenues in EMEA increased in absolute dollars in 2008 compared to 2007, primarily due to revenue growth in emerging markets in the Middle East and Eastern Europe, which was driven by service provider network build-outs as a result of bandwidth demand as well as growth in demand in the enterprise market. Net revenues in EMEA as a percentage of total net revenues decreased in 2008 compared to 2007, primarily due to the relative strength of the Americas region.

Net revenues in APAC decreased in absolute dollars in 2009 compared to 2008, primarily due to reduced demand in the service provider, partially offset by a slight increase in revenue from the enterprise market. In particular, over half of the decline in APAC net revenues was attributable to Japan. Net revenues in APAC as a percentage of total net revenues decreased slightly, primarily due to the relative strength of the enterprise market in the United States. Net revenues in APAC increased in absolute dollars in 2008 compared to 2007, primarily due to strength in Japan, China, and the Association of Southeast Asian Nations (“ASEAN”) countries, which was mainly driven by bandwidth demand as well as our customers’ deployment of routing platforms for their next generation networks, partially offset by a decrease in revenues from Australia.

Net Revenues by Markets and Customers

We sell our high-performance network products and service offerings from both the Infrastructure and SLT segments to two primary markets — service provider and enterprise. The service provider market includes wireline, wireless, and cable operators, as well as major internet content and application providers. The enterprise market represents businesses; federal, state and local governments; and research and education institutions. The following table presents the total net revenues by markets (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	% Change	2008	2007	\$ Change	% Change
Service Provider	\$2,197.1	\$2,568.2	\$(371.1)	(14)%	\$2,568.2	\$2,014.7	\$553.5	27%
<i>Percentage of net revenues</i>	<i>66.3 %</i>	<i>71.9 %</i>			<i>71.9 %</i>	<i>71.0 %</i>		
Enterprise	1,118.8	1,004.2	114.6	11%	1,004.2	821.4	182.8	22%
<i>Percentage of net revenues</i>	<i>33.7 %</i>	<i>28.1 %</i>			<i>28.1 %</i>	<i>29.0 %</i>		
Total	<u>\$3,315.9</u>	<u>\$3,572.4</u>	<u>\$(256.5)</u>	(7)%	<u>\$3,572.4</u>	<u>\$2,836.1</u>	<u>\$736.3</u>	26%

Net revenues from the service provider market decreased in absolute dollars and as a percentage of total net revenues in 2009 compared to 2008, primarily due to our customers’ delayed investment in new network build-outs and purchases of additional networking capacity in reaction to the weak global macroeconomic environment. The decline in service provider revenue as a percentage of net revenues was also attributable to the relative strength of our revenue from the enterprise market. Net revenues from the service provider market increased in absolute dollars and as a percentage of total net revenues in 2008 compared to 2007, primarily due to service provider network build-outs as a result of bandwidth demand.

Net revenues from the enterprise market increased in absolute dollars and as a percentage of total net revenues in 2009 compared to 2008, primarily due to revenue growth from our EX-series switching products. Net revenues from the enterprise market increased in absolute dollars and as a percentage of total net revenues in 2008 compared to 2007, primarily due to our strategy of cross-selling to the enterprise market and the introduction of our SRX service gateways and our EX-series switching products.

AT&T, Inc., accounted for 10.4% of our net revenues for the year ended December 31, 2009. No single customer accounted for 10% or more of our net revenues for the year ended December 31, 2008. NSN accounted for 12.8% of our net revenues in 2007.

Cost of Revenues and Gross Margin

The following table presents cost of product and service revenues and the related gross margins (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	% Change	2008	2007	\$ Change	% Change
Cost of revenues:								
Product	\$ 841.7	\$ 867.6	\$ (25.9)	(3)%	\$ 867.6	\$ 676.2	\$ 191.4	28%
<i>Percentage of net revenues</i>	25.4 %	24.3 %			24.3 %	23.8 %		
Service	316.1	298.4	17.7	6%	298.4	251.4	47.0	19%
<i>Percentage of net revenues</i>	9.5 %	8.3 %			8.3 %	8.9 %		
Total cost of revenues	<u>\$1,157.8</u>	<u>\$1,166.0</u>	<u>\$ (8.2)</u>	(1)%	<u>\$1,166.0</u>	<u>\$ 927.6</u>	<u>\$ 238.4</u>	26%
<i>Percentage of net revenues</i>	34.9 %	32.6 %			32.6 %	32.7 %		
Gross margin:								
Product gross margin	\$1,726.3	\$2,043.4	\$ (317.1)	(16)%	\$2,043.4	\$1,650.7	\$ 392.7	24%
<i>Percentage of product revenues</i>	67.2 %	70.2 %			70.2 %	70.9 %		
Service gross margin	431.8	363.0	68.8	19%	363.0	257.7	105.3	41%
<i>Percentage of service revenues</i>	57.7 %	54.9 %			54.9 %	50.6 %		
Total gross margin	<u>\$2,158.1</u>	<u>\$2,406.4</u>	<u>\$ (248.3)</u>	(10)%	<u>\$2,406.4</u>	<u>\$1,908.4</u>	<u>\$ 498.0</u>	26%
<i>Percentage of net revenues</i>	65.1 %	67.4 %			67.4 %	67.3 %		

The cost of product revenues and product gross margin decreased in absolute dollars in 2009 compared to 2008, primarily due to lower revenue level. The decrease in product gross margin as a percentage of revenues in 2009 compared to 2008, is primarily attributable to product mix that favored products with lower gross margin, such as our switching and MX-series products, geographical mix, and pricing. The cost of product revenues increased in absolute dollars in 2008 compared to 2007, primarily due to our increase in product revenues, which resulted in higher product costs. The slight decrease in product gross margin as a percentage of product revenues in 2008 compared to 2007, is primarily attributable to changes in the product mix, partially offset by growth in our higher-margin T- and M-series product families within our Infrastructure segment and increased sales of our higher-margin Firewall and J-series products within our SLT segment.

The cost of service revenues and service gross margin increased in 2009 compared to 2008. The increase in cost of service revenues was attributable to increased headcount and increased spending on service-related spares. Service gross margin increased primarily due to our continued efforts to manage costs. The cost of service revenues and service gross margin increased in 2008 compared to 2007. The increase corresponded with the growth in revenues in absolute dollars attributable to the growth in our installed equipment base. Service-related headcount increased by 108 employees, or 14%, to 891 employees in 2009, compared to 783 in 2008. Total personnel-related charges as a percentage of service revenues were approximately 18% for 2009 and 20% for 2008. The decrease in personnel-related charges in 2009 as a percentage of service revenues is primarily due to the overall increase in service revenues. Our outside service expense also increased in 2009, primarily to support the expanding installed equipment base. Additionally, facilities and IT expenses related to cost of service revenues increased in connection with the growth of service business as a portion of our overall operations.

Operating Expenses

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

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	% Change	2008	2007	\$ Change	% Change
Research and development	\$ 741.7	\$ 731.2	\$ 10.5	1%	\$ 731.2	\$ 623.0	\$ 108.2	17%
Sales and marketing	734.0	782.9	(48.9)	(6)%	782.9	666.7	116.2	17%
General and administrative	159.5	144.8	14.7	10%	144.8	116.4	28.4	24%
Amortization of purchased intangible assets	10.4	43.5	(33.1)	(76)%	43.5	85.9	(42.4)	(49)%
Litigation settlement charges (gain)	182.3	9.0	173.3	N/M	9.0	(5.3)	14.3	270%
Restructuring charges	19.5	—	19.5	N/M	—	0.7	(0.7)	(100)%
Other charges	—	—	—	—	—	14.0	(14.0)	(100)%
Total operating expenses	<u>\$1,847.4</u>	<u>\$1,711.4</u>	<u>\$ 136.0</u>	8%	<u>\$1,711.4</u>	<u>\$1,501.4</u>	<u>\$ 210.0</u>	14%
Operating income	<u>\$ 310.7</u>	<u>\$ 695.0</u>	<u>\$ (384.3)</u>	(55)%	<u>\$ 695.0</u>	<u>\$ 407.1</u>	<u>\$ 287.9</u>	71%

The following table highlights our operating expenses and operating income as a percentage of net revenues:

	Years Ended December 31,		
	2009	2008	2007
Research and development	22.4%	20.5%	22.0%
Sales and marketing	22.1%	21.9%	23.5%
General and administrative	4.8%	4.0%	4.1%
Amortization of purchased intangible assets	0.3%	1.2%	3.0%
Litigation settlement charges (gain)	5.5%	0.3%	(0.2)%
Restructuring charges	0.6%	—	—
Other charges	—	—	0.5%
Total operating expenses	<u>55.7%</u>	<u>47.9%</u>	<u>52.9%</u>
Operating income	<u>9.4%</u>	<u>19.5%</u>	<u>14.4%</u>

R&D expenses increased in 2009 compared to 2008, primarily due to additional headcount and strategic initiatives to expand our product portfolio and maintain our technological advantage over competitors. In particular, in 2009, we continued to expand our EX-series switching product portfolio and increased our investments in Project Stratus, which is our initiative to deliver the next-generation data center fabric, and Project Falcon, which is our effort to develop mobility solutions for service provider customers. Personnel-related charges, consisting of salaries, bonus, fringe benefits expenses, and stock-based compensation expenses, increased \$25.6 million, or 6%, to \$453.3 million in 2009 primarily due to a 4% increase in headcount in our engineering organization, from 3,194 to 3,308 employees, to support product innovation intended to capture anticipated future network infrastructure growth and opportunities. Outside consulting and other development expense also increased to support our product innovation initiatives. Additionally, facilities and IT expenses related to R&D expenses increased to support these engineering efforts.

R&D expenses increased in 2008 compared to 2007, primarily due to strategic initiatives to expand our product portfolio and maintain our technological advantage over our competitors. In particular, in 2008, we continued to invest in our EX-series switching products, our SRX dynamic services gateways, and our intelligent services edge offering that advances the M- and MX-series platforms. R&D expenses primarily consist of personnel-related expenses and new product development costs. Personnel-related charges, consisting of salaries, bonus, fringe benefits expenses, and stock-based compensation expenses, increased \$59.3 million, or 16%, to \$435.2 million in

2008 primarily due to a 25% increase in headcount in our engineering organization, from 2,563 to 3,194 employees, to support product innovation intended to capture anticipated future network infrastructure growth and opportunities. Outside consulting and other development expense also increased to support our product innovation initiatives. Additionally, facilities and IT expenses related to R&D expenses increased to support these engineering efforts.

Sales and marketing expenses decreased in 2009 compared to 2008, primarily due to a decrease in personnel-related expenses and travel expenses. As a percentage of net revenues, sales and marketing expenses increased slightly in 2009 due to the increased spending related to the corporate re-branding and channel marketing campaigns, partially offset by our focus on managing expenses and creating efficiency in our sales activities. Personnel-related charges, consisting of salaries, commissions, bonus, fringe benefits, and stock-based compensation expenses, decreased \$15.8 million, or 3%, to \$474.0 million in 2009, primarily due to a 4% decrease in headcount from 2,190 employees at the end of 2008 to 2,101 employees at the end of 2009. In addition, commission expense decreased by \$12.0 million, or 10%, due to lower net revenues in 2009 compared to 2008. As our sales force decreased, we also decreased facilities and IT expenses related to the sales and marketing organizations in 2009 compared to 2008.

Sales and marketing expenses increased in 2008 compared to 2007, primarily due to increases in personnel-related expenses and marketing expenses. As a percentage of net revenues, sales and marketing expenses decreased in 2008 due to our focus on managing expenses and creating efficiency in our sales activities. Personnel-related charges, consisting of salaries, commissions, bonus, fringe benefits, and stock-based compensation expenses, increased \$70.8 million, or 17%, to \$497.2 million in 2008, primarily due to an 18% increase in headcount in our worldwide sales and marketing organizations, from 1,863 to 2,190 employees. Included in personnel-related charges was an increase in commission expense of \$5.3 million in 2008 compared to 2007, due to our higher net revenues. We also increased our investment in corporate and channel marketing efforts from the prior year. As our sales force grew, we also increased facilities and IT expenses related to the sales and marketing organizations in 2008 compared to 2007.

G&A expenses increased in 2009 compared to 2008, primarily due to an increase in personnel-related expenses and outside professional services. As a percentage of net revenues, G&A expenses decreased slightly in 2009 due to our focus on managing expenses. Personnel-related charges, consisting of salaries, bonus, fringe benefits, and stock-based compensation expenses, increased \$7.2 million, or 10%, to \$78.4 million in 2009 compared to 2008, primarily due to a 12% increase in headcount, from 350 to 393 employees, in our worldwide G&A functions to support expected future growth of the business. Outside professional service fees increased in 2009 compared to 2008 as a result of increased legal fees. Additionally, facilities and IT expenses related to our G&A infrastructure increased to support our growing business.

G&A expenses also increased in 2008 compared to 2007, primarily due to an increase in personnel-related expenses and outside professional services. As a percentage of net revenues, G&A expenses decreased slightly in 2008 due to our focus on managing expenses and growing revenues. Personnel-related charges, consisting of salaries, bonus, fringe benefits, and stock-based compensation expenses, increased \$12.4 million, or 21%, to \$71.2 million in 2008 compared to 2007, primarily due to a 20% increase in headcount in our worldwide G&A functions, from 291 to 350 employees, to support the overall growth of the business. Outside professional service fees increased in 2008 compared to 2007, as a result of increased legal fees and business process re-engineering costs. Additionally, facilities and IT expenses related to our G&A infrastructure increased to support our growing business.

Amortization of purchased intangible assets decreased in 2009 compared to 2008, primarily due to certain purchased intangible assets reaching the end of their amortization period during the second quarter of 2009. Amortization of purchased intangible assets decreased in 2008 compared to 2007, primarily due to a decrease in amortization expense as certain purchased intangible assets became fully amortized during the second quarter of 2008. We had no impairment against our goodwill or our purchased intangible assets in 2009. In 2008, we had no impairment against our goodwill and recognized an impairment charge of \$5.0 million against our purchased intangible assets, as a result of the phase-out of our DX products. We had no impairment against our goodwill or our purchased intangible assets in 2007.

In 2009, we recorded litigation settlement charges of \$182.3 million, which included \$169.0 million related to our agreement in principle reached in February 2010, to settle the securities class action litigation pending against us and certain of our current and former officers and directors, \$13.0 million related to the resolution of a dispute in connection with certain real estate in Sunnyvale California purchased in 2000 and \$0.3 million related to another settlement recorded in the fourth quarter of 2009. Of these amounts, \$181.3 million was recorded in the fourth quarter of 2009. In 2008, we recorded a litigation settlement loss of \$9.0 million related to our shareholder derivative lawsuit. In 2007, we recognized a net litigation settlement gain of \$5.3 million, which consisted of cash settlement proceeds of \$6.2 million, net of the \$0.9 million legal expense related to direct transaction costs incurred. See Note 13, *Commitments and Contingencies*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for more information.

In 2009, we recorded restructuring charges of \$19.5 million as a result of a restructuring plan to reduce our real estate portfolio and workforce in targeted areas of the Company. We expect to incur additional charges of approximately \$8 million to \$10 million relating to additional facilities and employee restructuring under the 2009 Restructuring Plan in 2010. There were no restructuring charges in 2008. In 2007, we recorded restructuring charges of \$0.7 million, of which \$1.1 million pertained to bonus accruals associated with past acquisitions, partially offset by a benefit of \$0.4 million pertaining to net restructuring adjustments. See Note 6, *Other Financial Information*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for more information regarding our restructuring liabilities.

Other charges are summarized as follows:

- *Stock Option Investigation Costs.* There were no stock option investigation costs recorded in 2009 and 2008. We recorded expenses of \$6.0 million in 2007 related to professional fees and other costs in connection with our investigation into historical stock option granting practices.
- *Stock Option Amendment and Tax-Related Charges.* There were no stock option amendment and tax-related charges recorded in 2009 and 2008. We recorded \$8.0 million in operating expense during 2007 in relation to the amendment of stock options and to the payment of certain taxes and penalties associated with employee stock option exercises.

Interest and Other Income, net, (Loss) Gain on Equity Investments, and Income Tax Provision

The following table presents interest and other income, net, (loss) gain on equity investments, and income tax provision (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	% Change	2008	2007	\$ Change	% Change
Interest and other income, net	\$ 6.9	\$ 48.7	\$ (41.8)	(86)%	\$ 48.7	\$ 96.8	\$ (48.1)	(50)%
<i>Percentage of net revenues</i>	<i>0.2 %</i>	<i>1.4 %</i>			<i>1.4 %</i>	<i>3.4 %</i>		
(Loss) gain on equity investments	(5.5)	(14.8)	9.3	63%	(14.8)	6.7	(21.5)	(321)%
<i>Percentage of net revenues</i>	<i>(0.2)%</i>	<i>(0.4)%</i>			<i>(0.4)%</i>	<i>0.2 %</i>		
Income tax provision	196.8	217.2	(20.4)	(9)%	217.2	149.8	67.4	45%
<i>Percentage of net revenues</i>	<i>5.9 %</i>	<i>6.1 %</i>			<i>6.1 %</i>	<i>5.3 %</i>		

Net interest and other income decreased in 2009 compared to 2008, primarily due to lower interest rates and an increase in customer financing charges during 2009. Net interest and other income decreased in 2008 compared to 2007, primarily due to lower interest rates during 2008.

During 2009 and 2008, we recognized impairment losses of \$5.5 million and \$14.8 million, respectively, on our investments in privately-held companies for changes in fair value that we believed were other-than-temporary. In 2007, one of the companies in which we had a privately-held equity investment completed an initial public

offering (“IPO”). As a result, we realized a gain of \$6.7 million during 2007 based upon the difference between the market value of our investment at the time of the IPO and our cost basis.

Our effective tax rates were 63.1%, 29.8%, and 29.3% in 2009, 2008, and 2007, respectively. The increase in the overall rate in 2009 compared to 2008 and the federal statutory rate of 35%, was primarily due to the following income tax charges: (i) a \$61.8 million discrete and other related charge that resulted from changes in California income tax laws that were enacted during 2009; (ii) a \$52.1 million charge that resulted from a change in our unrecognized tax benefits related to share-based compensation due to the uncertainty regarding the status of a decision reached by the U.S. Court of Appeals for the Ninth Circuit in *Xilinx Inc. v. Commissioner*; and (iii) a \$4.6 million charge which related to an investigation by the India tax authorities. The effective rate impact from these charges was partially offset by the federal R&D credit and the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates. The increase in the overall rate in 2008 compared to 2007, was primarily due to the differences in the geographic mix of our taxable income and the level of R&D credits in the U.S. The 2008 and 2007 effective tax rates differ from the federal statutory rate of 35% primarily due to the federal R&D credit and the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates.

For a complete reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and further explanation of our income tax provision, see Note 12, *Income Taxes*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Segment Information

For a description of the products and services for each segment, see Item 1 of Part I of this Annual Report on Form 10-K. A description of the measures included in management operating income can also be found in Note 11, *Segment Information*, in Notes to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K. We have included segment financial data for each of the three years in the period ended December 31, 2009, for comparative purposes.

Table of Contents

Financial information for each segment used by management to make financial decisions and allocate resources is as follows (in millions, except percentages):

	Years Ended December 31,				Years Ended December 31,			
	2009	2008	\$ Change	% Change	2008	2007	\$ Change	% Change
Net revenues:								
Infrastructure:								
Product	\$1,959.2	\$2,301.9	\$ (342.7)	(15)%	\$2,301.9	\$1,753.2	\$ 548.7	31%
Service	482.4	424.0	58.4	14%	424.0	320.1	103.9	32%
Total Infrastructure revenues	2,441.6	2,725.9	(284.3)	(10)%	2,725.9	2,073.3	652.6	31%
Service Layer Technologies:								
Product	608.8	609.1	(0.3)	N/M	609.1	573.8	35.3	6%
Service	265.5	237.4	28.1	12%	237.4	189.0	48.4	26%
Total Service Layer Technologies revenues	874.3	846.5	27.8	3%	846.5	762.8	83.7	11%
Total net revenues	3,315.9	3,572.4	(256.5)	(7)%	3,572.4	2,836.1	736.3	26%
Operating income:								
Infrastructure	541.4	806.0	(264.6)	(33)%	806.0	597.8	208.2	35%
Service Layer Technologies	127.0	65.8	61.2	93%	65.8	5.8	60.0	N/M
Total segment operating income	668.4	871.8	(203.4)	(23)%	871.8	603.6	268.2	44%
Other corporate(1)	—	(7.9)	7.9	N/M	(7.9)	—	(7.9)	N/M
Total management operating income	668.4	863.9	(195.5)	(23)%	863.9	603.6	260.3	43%
Amortization of purchased intangible assets	(15.4)	(49.0)	33.6	(69)%	(49.0)	(91.4)	42.4	(46)%
Stock-based compensation expense	(139.7)	(108.1)	(31.6)	29%	(108.1)	(88.0)	(20.1)	23%
Stock-based payroll tax expense	(0.8)	(2.8)	2.0	(71)%	(2.8)	(7.7)	4.9	(64)%
Litigation settlement charges (gain)	(182.3)	(9.0)	(173.3)	N/M	(9.0)	5.3	(14.3)	270%
Restructuring charges	(19.5)	—	(19.5)	N/M	—	(0.7)	0.7	(100)%
Other charges(2)	—	—	—	—	—	(14.0)	14.0	(100)%
Total operating income	310.7	695.0	(384.3)	(55)%	695.0	407.1	287.9	71%
Interest and other income, net	6.9	48.7	(41.8)	(86)%	48.7	96.8	(48.1)	(50)%
(Loss) gain on equity investments	(5.5)	(14.8)	9.3	(63)%	(14.8)	6.7	(21.5)	321%
Income before income taxes and noncontrolling interest	\$ 312.1	\$ 728.9	\$ (416.8)	(57)%	\$ 728.9	\$ 510.6	\$ 218.3	43%

N/M Not meaningful.

- (1) Other corporate charges included severance and related costs associated with workforce-rebalancing activities, which are not included in our business segment results.
- (2) Other charges for 2007 includes stock option investigation costs, as well as stock amendment and tax-related charges.

The following table shows financial information for each segment as a percentage of total net revenues:

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net revenues:			
Infrastructure:			
Product	59.1%	64.4%	61.8%
Service	14.5%	11.9%	11.3%
Total Infrastructure revenues	73.6%	76.3%	73.1%
Service Layer Technologies:			
Product	18.4%	17.1%	20.2%
Service	8.0%	6.6%	6.7%
Total Service Layer Technologies revenues	26.4%	23.7%	26.9%
Total net revenues	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Operating income:			
Infrastructure	16.4%	22.6%	21.1%
Service Layer Technologies	3.8%	1.8%	0.2%
Total segment operating income	20.2%	24.4%	21.3%
Other corporate(1)	—	(0.2)%	—
Total management operating income	20.2%	24.2%	21.3%
Amortization of purchased intangible assets	(0.5)%	(1.3)%	(3.2)%
Stock-based compensation expense	(4.2)%	(3.0)%	(3.1)%
Stock-based payroll tax expense	—	(0.1)%	(0.3)%
Litigation settlement charges (gain)	(5.5)%	(0.3)%	0.2%
Restructuring charges	(0.6)%	—	—
Other charges(2)	—%	—%	(0.5)%
Total operating income	9.4%	19.5%	14.4%
Interest and other income, net	0.2%	1.3%	3.4%
(Loss) gain on equity investments	(0.2)%	(0.4)%	0.2%
Income before income taxes and noncontrolling interest	<u>9.4%</u>	<u>20.4%</u>	<u>18.0%</u>

(1) Other corporate charges included severance and related costs associated with workforce-rebalancing activities, which are not included in our business segment results.

(2) Other charges for 2007 includes stock option investigation costs, as well as stock amendment and tax-related charges.

Infrastructure Segment

An analysis of the change in revenues for the Infrastructure segment, and the change in revenue units, can be found above in the section titled “Net Revenues.”

Infrastructure segment operating income decreased in 2009 compared to 2008, primarily due to a decrease in revenues in M-, T- and E-series product families due to reduced demand in the service provider market in reaction to the weak global economic environment, partially offset by revenue growth from EX-series switching products as well as MX-series products. Infrastructure product gross margin in absolute dollars and as a percentage Infrastructure revenue decreased in 2009, compared to 2008, primarily due to product mix and pricing.

In 2009, we continued to invest in R&D efforts to expand our Infrastructure product portfolio and to continue our innovation of products. We will continue to make investments to expand our product features and functionality based upon the trends in the marketplace. R&D expense as a percentage of Infrastructure net revenues increased in 2009 compared to 2008, primarily due to lower net revenues relative to expenses. Additionally, our sales and marketing expenses increased slightly as a percentage of Infrastructure net revenues in 2009 compared to 2008, as we increased our efforts to reach enterprise and service provider customers. We allocate sales and marketing, G&A, as well as facility and IT expenses to the Infrastructure segment generally based upon revenue, usage, and headcount.

Infrastructure segment operating income increased in 2008 compared to 2007, primarily due to revenue growth from our router product families and, to a lesser extent, our new Ethernet switching product family, which outpaced expense growth. Infrastructure product gross margin increased in absolute dollars in 2008 compared to 2007, primarily due to revenues from richly configured high-end T- and M-series router products as well as high-margin port shipments. The Infrastructure gross margin percentage decreased slightly in 2008 compared to 2007, primarily due to product mix, particularly from an increase in the mix of lower-margin E-series products in 2008.

SLT Segment

An analysis of the change in revenues for the SLT segment, and the change in units, can be found above in the section titled “Net Revenues.”

SLT segment operating income increased in 2009 compared to 2008, primarily due to the 3% growth in SLT revenues driven by product and service revenue increases, while lowering expenses through cost control initiatives and engineering effectiveness measures. SLT gross margin in absolute dollars and as a percentage of SLT revenue increased in 2009 compared to 2008, primarily due to an increase in service margin.

R&D related costs as a percentage of SLT net revenues decreased in 2009 compared to 2008, primarily due to our cost control initiatives and the growth in net revenues relative to expenses. Additionally, sales and marketing expenses also decreased as a percentage of SLT net revenues in 2009 compared to 2008, primarily due to the growth in SLT net revenues and reductions in discretionary spending. We allocate sales and marketing, general and administrative, as well as facility and information technology expenses to the SLT segment generally based on revenue, usage, and headcount. In the past, we have generally experienced quarterly seasonality and fluctuations in the demand for our SLT products, particularly in the fourth quarter, which may result in greater variations in our quarterly operating results.

SLT segment operating income increased in 2008 compared to 2007, primarily due to revenue growth in our Firewall and J-series products and the growth in our installed equipment base for service contracts, which outpaced the increase in SLT expenses. SLT product gross margin and gross margin percentage increased in 2008 compared to 2007, primarily due to product mix, particularly from an increase in the mix of higher-margin Firewall and J-series products in 2008.

Stock-Based Compensation and Related Payroll Taxes

Stock-based compensation expense increased in 2009 compared to 2008, primarily attributable to new stock option and RSU grants during 2009 and an increase in performance-based RSU grants as a result of the strong operating results in the fourth quarter of 2009. Stock-based compensation related payroll tax expense, which represents employment taxes we incurred in connection with our employee stock programs, decreased in 2009 compared to 2008. The decrease in payroll tax expense was primarily attributable to the timing and lower volume of stock options exercises by our employees in 2009 due to the lower share price during the year. Stock-based compensation expense increased in 2008 compared to 2007, primarily due to new stock options and RSU grants during 2008 and the timing of the recognition of stock-based compensation expense for RSUs granted in the last month of the fourth quarter of 2007. Stock-based compensation related payroll tax expense decreased in 2008 compared to 2007, as a result of the decrease in our share price during 2008.

For discussion of amortization of purchased intangible assets, litigation settlement charges (gain), restructuring charges, other charges, interest and other income, net, and (loss) gain on equity investments, refer to

Operating Expenses and Interest and Other Income, net, (Loss) Gain on Equity Investments and Income Tax Provision sections above.

Key Performance Measures

In addition to the financial metrics included in the consolidated financial statements, we use the following key performance measures to assess operating results:

	Years Ended December 31,		
	2009	2008	2007
Days sales outstanding (“DSO”)(1)	44	42	42
Book-to-bill ratio(2)	>1	>1	>1

(1) DSO is calculated as the ratio of ending accounts receivable, net of allowances, divided by average daily net sales for the preceding 90 days.

(2) Book-to-bill ratio represents the ratio of product orders booked divided by product revenues during the respective period.

Liquidity and Capital Resources

The following sections discuss the effects of changes in our consolidated balance sheets and statements of cash flows, contractual obligations, and our stock repurchase program on our liquidity and capital resources.

Overview

Historically, we have funded our business primarily through our operating activities and, to a lesser extent, the issuance of our common stock. The following table shows our capital resources (in millions, except percentages):

	As of December 31,		\$ Change	% Change
	2009	2008		
Working capital	\$1,503.2	\$1,759.6	\$(256.4)	(15)%
Cash and cash equivalents	\$1,604.7	\$2,019.1	\$(414.4)	(21)%
Short-term investments	570.5	172.9	397.6	230%
Long-term investments	483.5	101.4	382.1	377%
Total cash, cash equivalents, and investments	\$2,658.7	\$2,293.4	\$ 365.3	16%

The significant components of our working capital are cash and cash equivalents, short-term investments, and accounts receivable, reduced by accounts payable, accrued liabilities, and deferred revenue. The decrease in working capital from December 31, 2008, to December 31, 2009, is primarily due to the increase in short term deferred revenue, partially offset by the increase in short-term investments. Total cash, cash equivalents, and investments increased in 2009, primarily due to net cash generated from operations, partially offset by cash used in our common stock repurchases and fixed asset investments.

Stock Repurchase Activities

In March 2008, the Board approved the 2008 Stock Repurchase Program under which we are authorized to repurchase up to \$1.0 billion of our Company’s common stock. Under this program, we repurchased 20.7 million shares of our common stock at an average price of \$21.91 per share for a total purchase price of \$453.5 million in 2009. As of December 31, 2009, the 2008 Stock Repurchase Program had remaining authorized funds of \$318.6 million.

In 2008, we repurchased \$604.7 million or 25.1 million shares of common stock at an average price of \$24.10 per share under the 2008 Stock Repurchase Program and the \$2.0 billion stock repurchase program approved

in 2006 and 2007 (the “2006 Stock Repurchase Program”). As of December 31, 2008, the 2006 Stock Repurchase Program had no remaining authorized funds available for future stock repurchases.

All shares of common stock purchased under the 2006 and 2008 Stock Repurchase Programs have been retired.

In addition, in February 2010, our Board approved a new stock repurchase program (the “2010 Stock Repurchase Program”) under which we are authorized to repurchase up to \$1.0 billion of our Company’s common stock. Future share repurchases under our stock repurchase programs will be subject to a review of the circumstances in place at the 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. These programs may be discontinued at any time. See Note 16, *Subsequent Events*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for discussion of our stock repurchase activity in 2010.

Summary of Cash Flows

In the year ended December 31, 2009, cash and cash equivalents decreased by \$414.4 million. This decrease was the result of cash used in our investing and financing activities of \$948.3 million and \$262.2 million, respectively, partially offset by cash that was generated from our operating activities of \$796.1 million.

Operating Activities

Net cash provided by operating activities was \$796.1 million, \$875.2 million, and \$786.5 million for 2009, 2008, and 2007, respectively. The cash provided by operating activities for each period was due to our consolidated net income adjusted by:

- Non-cash charges of \$299.5 million, \$255.8 million, and \$257.5 million for 2009, 2008, and 2007, respectively. These non-cash charges primarily related to depreciation and amortization expenses, stock-based compensation, deferred income taxes, gain/loss on equity investments, and excess tax benefits from employee stock-based compensation.
- Net changes in operating assets and liabilities of \$381.3 million, \$107.6 million, and \$168.2 million for 2009, 2008, and 2007, respectively, were generated in the normal course of business. These changes were primarily due to increases in deferred revenue, income tax payable, accrued compensation and other accrued liabilities, partially offset by an increase in accounts receivable. The increase in deferred revenue was due to the increase in product revenue yet to be recognized and the growing installed base which resulted in additional support contracts. The increase in income taxes payable was due to the increase in the tax provision and the timing of payments. The increase in accrued compensation was due to our variable compensation and bonus program. The increase in other accrued liabilities was primarily due to the increase in the accrual for litigation settlements. In 2009, the Company accrued \$169.0 million for a proposed settlement of our securities class action lawsuit reached in February 2010, which was paid prior to the filing of this report. These increases in cash flows from operations were partially offset by a negative cash flow due to an increase in net accounts receivable, which was primarily due to the growth in our business and net revenues. In 2008 and 2007, positive cash flows from operating assets and liabilities were due to increases in deferred revenue and income taxes payable.

Investing Activities

Net cash used in investing activities was \$948.3 million for 2009 as compared to net cash generated by investing activities of \$149.8 million in 2008. In 2007, cash generated by investing activities was \$571.8 million. The changes between periods were primarily due to the movement of cash from short- and long-term investments to cash and cash equivalents as the result of the Company’s investment strategy.

Financing Activities

Net cash used in financing activities was \$262.2 million, \$422.4 million, and \$1,238.5 million for 2009, 2008, and 2007, respectively. In 2009, we used \$453.9 million to repurchase our common stock through our 2008 Stock Repurchase Program and, to a lesser extent, from our employees in connection with net issuance of shares to satisfy our tax withholding obligations for vesting of certain RSU and performance share awards, partially offset by cash proceeds of \$164.2 million from common stock issued to employees and proceeds of \$4.4 million from non-

controlling interest. In 2008, we used \$604.7 million for common stock repurchases, partially offset by cash proceeds of \$119.5 million from common stock issued to employees. In 2007, we used \$1,623.2 million to repurchase our common stock, partially offset by cash proceeds of \$355.0 million from common stock issued to employees.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2009, and 2008.

Contractual Obligations

Our principal commitments primarily consist of obligations outstanding under operating leases, purchase commitments, tax liabilities, and other contractual obligations. The following table summarizes our principal contractual obligations as of December 31, 2009, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in millions):

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>	<u>Other</u>
Operating leases, net of committed subleases(1)	\$303.3	\$ 51.0	\$ 106.6	\$ 60.2	\$ 85.5	\$ —
Purchase commitments(2)	139.5	139.5	—	—	—	—
Tax liabilities(3)	177.0	1.5	—	—	—	175.5
Other contractual obligations(4)	39.3	18.3	21.0	—	—	—
Total	<u>\$659.1</u>	<u>\$ 210.3</u>	<u>\$ 127.6</u>	<u>\$ 60.2</u>	<u>\$ 85.5</u>	<u>\$175.5</u>

- (1) Our contractual obligations under operating leases primarily relate to our leased facilities under our non-cancelable operating leases. Rent payments are allocated to costs and operating expenses in our consolidated statements of operations. We occupy approximately 2.0 million square feet worldwide under operating leases. The majority of our office space is in North America, including our corporate headquarters in Sunnyvale, California. Our longest lease expires in November 2022.
- (2) In order to reduce manufacturing lead times and ensure adequate component supply, our contract manufacturers place non-cancelable, non-returnable (“NCNR”) orders for components based on our build forecasts. The contract manufacturers use the components to build products based on our forecasts and on purchase orders we have received from our customers. Generally, we do not own the components and title to the product transfers from the contract manufacturers to us and immediately to our customers upon delivery at a designated shipment location. If the components go unused or the products go unsold for specified periods of time, we may incur carrying charges or obsolete materials charges for components that our contract manufacturers purchased to build products to meet our forecast or customer orders. As of December 31, 2009, we had accrued \$27.8 million based on our estimate of such charges. Total purchase commitments as of December 31, 2009, consisted of \$139.5 million NCNR orders.
- (3) Tax liabilities include the current and long-term liabilities in the consolidated balance sheet for unrecognized tax positions. It is reasonably possible that we may reach agreement with certain tax authorities and, as a result, the amount of the liability for unrecognized tax benefits may decrease by approximately \$1.5 million within the next 12 months. At this time, we are unable to make a reasonably reliable estimate of the timing of payments related to the additional \$175.5 million in liabilities due to uncertainties in the timing of tax audit outcomes.
- (4) Other contractual obligations consists of an indemnity-related escrow amount of \$1.3 million, \$19.1 million that remains unpaid under the data center hosting agreement with the remaining commitment expected to be paid through the end of April 2013, and \$15.4 million that remains unpaid under the software subscription agreement with the remaining commitment expected to be paid through the end of January 2011, and \$3.5 million that remains under the joint development agreement.

Guarantees

We have entered into agreements with some of our customers that contain indemnification provisions relating to potential situations where claims could be alleged that our products infringe on the intellectual property rights of a third party. Other guarantees or indemnification arrangements include guarantees of product and service performance, guarantees related to third-party customer financing arrangements and standby letters of credit for certain lease facilities. As of December 31, 2009, we had \$34.0 million in guarantees and standby letters of credit and recorded a liability of \$21.9 million related to a third-party customer-financing guarantee. As of December 31, 2008, we had not recorded a liability related to our guarantees and indemnification arrangements.

Liquidity and Capital Resource Requirements

Liquidity and capital resources may be impacted by our operating activities as well as acquisitions and investments in strategic relationships we may make in the future. Additionally, if we were to repurchase additional shares of our common stock under our stock repurchase programs, our liquidity may be impacted. As of December 31, 2009, we have over 50% of our cash and investment balances held outside of the U.S., which may be subject to U.S. taxes if repatriated.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term and long-term investments, together with cash generated from operations and cash generated from the exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to fund our operations and anticipated growth for at least the next 12 months. We believe our working capital is sufficient to meet our liquidity requirements for capital expenditures, commitments, and other liquidity requirements associated with our existing operations during the same period. However, our future liquidity and capital requirements may vary materially from those now planned depending on many factors, including:

- the overall levels of sales of our products, the mix of product sales, and gross profit margins;
- our business, product, capital expenditures, and R&D plans;
- repurchases of our common stock;
- incurrence and repayment of debt;
- litigation expenses, settlements, and judgments, or similar items related to resolution of tax audits;
- volume price discounts and customer rebates;
- the levels of accounts receivable that we maintain;
- acquisitions of other businesses, assets, products, or technologies;
- changes in our compensation policies;
- capital improvements for new and existing facilities;
- our competitors' responses to our products;
- our relationships with suppliers, partners, and customers;
- possible future investments in raw material and finished goods inventories;
- expenses related to our future restructuring plans, if any;
- tax expense associated with stock-based awards;
- issuance of stock-based awards and the related payment in cash for withholding taxes in the current year and possibly during future years;
- the level of exercises of stock options and stock purchases under our equity incentive plans; and
- general economic conditions and specific conditions in our industry and markets, including the effects of disruptions in global credit and financial markets, international conflicts, and related uncertainties.

ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk**Interest Rate Risk**

We maintain an investment portfolio of various holdings, types, and maturities. The value of our investments are subject to market price volatility. In addition, as of December 31, 2009, over 50% of our cash and marketable securities are held in non-U.S. domiciled countries. Our marketable securities are generally classified as available-for-sale and, consequently, are recorded on our consolidated balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss).

At any time, a rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, a decline in interest rates could have a material impact on interest income from our investment portfolio. We do not currently hedge these interest rate exposures. We recognized immaterial gains and losses during the years ended December 31, 2009, 2008, and 2007, related to the sales of our investments.

The following tables present hypothetical changes in fair value of the financial instruments held at December 31, 2009, and 2008, that are sensitive to changes in interest rates (in millions):

	Valuation of Securities Given an Interest Rate Decrease of X BPS			Fair Value as of December 31, 2009	Valuation of Securities Given an Interest Rate Increase of X BPS		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
	Government treasury and agencies	\$ 461.3	\$ 460.0		\$ 458.7	\$ 457.3	\$ 456.1
Corporate bonds and notes	495.4	493.5	491.6	489.8	487.9	486.0	484.2
Foreign government debt securities	98.2	97.7	97.2	96.7	96.2	95.7	95.2
Other	1,099.7	1,099.7	1,099.7	1,099.7	1,099.6	1,099.6	1,099.6
Total	\$2,154.6	\$2,150.9	\$2,147.2	\$ 2,143.5	\$2,139.8	\$2,136.1	\$2,132.4

	Valuation of Securities Given an Interest Rate Decrease of X BPS			Fair Value as of December 31, 2008	Valuation of Securities Given an Interest Rate Increase of X BPS		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
	Government treasury and agencies	\$ 160.1	\$ 159.6		\$ 159.1	\$ 158.7	\$ 158.2
Corporate bonds and notes	111.7	111.2	110.8	110.3	109.8	109.3	108.8
Other	1,651.2	1,651.0	1,650.8	1,650.6	1,650.4	1,650.3	1,650.1
Total	\$1,923.0	\$1,921.8	\$1,920.7	\$ 1,919.6	\$1,918.4	\$1,917.3	\$1,916.2

These instruments are not leveraged and are held for purposes other than trading. The modeling technique used measures the changes in fair value arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS, which are representative of the historical movements in the Federal Funds Rate.

Foreign Currency Risk and Foreign Exchange Forward Contracts

Periodically, we use derivatives to hedge against fluctuations in foreign exchange rates. We do not enter into derivatives for speculative or trading purposes.

We use foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in non-functional currencies. These derivatives are carried at fair value with changes recorded in other income (expense) in the same period as the changes in the

fair value from the re-measurement of the underlying assets and liabilities. These foreign exchange contracts have maturities of approximately two months.

Our sales and costs of product revenues are primarily denominated in U.S. Dollars. Our cost of service revenue and operating expenses are denominated in U.S. Dollars as well as other foreign currencies including the British Pound, the Euro, Indian Rupee, and Japanese Yen. Periodically, we use foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to cost of service revenue and operating expenses. These derivatives are designated as cash flow hedges and have maturities of less than one year. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and, upon occurrence of the forecasted transaction, is subsequently reclassified into the line item in the consolidated statements of operations to which the hedged transaction relates. We record the ineffectiveness of the hedging instruments, which was immaterial during the years ended December 31, 2009, 2008, and 2007, respectively, in other income (expense) on our consolidated statements of operations. The decrease in operating expenses including cost of service revenue, R&D, sales and marketing, and G&A expenses, due to foreign currency fluctuations was approximately 2% in 2009. In 2008 and 2007, the increase in cost of service revenue, operating expenses including R&D, sales and marketing, and G&A, due to foreign currency fluctuations was approximately 1% and 2%, respectively.

Equity Price Risk

Our portfolio of publicly-traded equity securities is inherently exposed to equity price risk as the stock market fluctuates. We monitor our publicly-traded equity investments for impairment on a periodic basis. In the event that the carrying value of a public-traded equity investment exceeds its fair value, and we determine the decline in value to be other than temporary, we reduce the carrying value to its current fair value. In 2008, we realized an impairment charge of \$3.5 million on a publicly-traded equity security due to a sustained decline, in excess of six months, in the fair value of the investment below its cost basis that we judged to be other than temporary. There was no such charge in 2009. We do not purchase our publicly-traded equity securities with the intent to use them for trading or speculative purposes. They are classified as available-for-sale securities on our consolidated balance sheets. The aggregate fair value of our marketable equity securities was \$5.4 million and \$4.4 million as of December 31, 2009, and 2008, respectively. Additionally, our non-qualified deferred compensation ("NQDC") plan may also hold publicly traded securities. Investments under the NQDC plan are considered trading securities and are reported at fair value on our consolidated balance sheet. As of December 31, 2009, and 2008, the total investments under the NQDC plan was \$4.7 million and \$1.0 million, respectively. A hypothetical 30% adverse change in the stock prices of our portfolio of publicly-traded equity securities would result in an immaterial loss.

Our investments in privately-held companies are carried at cost. In 2009 and 2008, we realized an impairment charge of \$5.5 million and \$11.3 million, respectively, on minority equity investments in privately-held companies that we judged to be other than temporary as discussed in Note 4, *Fair Value Measurements*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K. The aggregate cost of our investments in privately-held companies was \$13.9 million and \$14.2 million as of December 31, 2009, and 2008, respectively.

ITEM 8. *Financial Statements and Supplementary Data*

Index of Consolidated Financial Statements for the years ended December 31, 2009, 2008, and 2007.

CONTENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	61
Report of Independent Registered Public Accounting Firm	62
Management's Report on Internal Control Over Financial Reporting	63
Consolidated Statements of Operations	64
Consolidated Balance Sheets	65
Consolidated Statements of Cash Flows	66
Consolidated Statements of Stockholders' Equity	67
Notes to Consolidated Financial Statements	68

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Juniper Networks, Inc.

We have audited the accompanying consolidated balance sheets of Juniper Networks, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Juniper Networks, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Juniper Networks, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 26, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Juniper Networks, Inc.

We have audited Juniper Networks, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Juniper Networks, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Juniper Networks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Juniper Networks, Inc. as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 of Juniper Networks, Inc. and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 26, 2010

Management's Report on Internal Control Over Financial Reporting

The management of Juniper Networks, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control — Integrated Framework*. Based on that assessment, management concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2009, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audits the Company's consolidated financial statements, as stated in their report preceding this report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009.

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

	Years Ended December 31,		
	2009	2008	2007
Net revenues:			
Product	\$2,567,992	\$2,910,960	\$2,326,983
Service	747,920	661,416	509,105
Total net revenues	<u>3,315,912</u>	<u>3,572,376</u>	<u>2,836,088</u>
Cost of revenues:			
Product	841,722	867,595	676,258
Service	316,080	298,371	251,380
Total cost of revenues	<u>1,157,802</u>	<u>1,165,966</u>	<u>927,638</u>
Gross margin	2,158,110	2,406,410	1,908,450
Operating expenses:			
Research and development	741,708	731,151	622,961
Sales and marketing	734,038	782,940	666,688
General and administrative	159,459	144,837	116,489
Amortization of purchased intangible assets	10,416	43,508	85,896
Litigation settlement charges (gain)	182,331	9,000	(5,278)
Restructuring charges	19,463	—	691
Other charges	—	—	13,941
Total operating expenses	<u>1,847,415</u>	<u>1,711,436</u>	<u>1,501,388</u>
Operating income	310,695	694,974	407,062
Interest and other income, net	6,928	48,749	96,776
(Loss) gain on equity investments	(5,562)	(14,832)	6,745
Income before income taxes and noncontrolling interest	312,061	728,891	510,583
Provision for income taxes	196,833	217,142	149,753
Consolidated net income	115,228	511,749	360,830
Plus: Net loss attributable to noncontrolling interest	1,771	—	—
Net income attributable to Juniper Networks	<u>\$ 116,999</u>	<u>\$ 511,749</u>	<u>\$ 360,830</u>
Net income per share attributable to Juniper Networks common stockholders:			
Basic	<u>\$ 0.22</u>	<u>\$ 0.96</u>	<u>\$ 0.67</u>
Diluted	<u>\$ 0.22</u>	<u>\$ 0.93</u>	<u>\$ 0.62</u>
Shares used in computing net income per share:			
Basic	<u>523,603</u>	<u>530,337</u>	<u>537,767</u>
Diluted	<u>534,015</u>	<u>551,433</u>	<u>579,145</u>

See accompanying Notes to Consolidated Financial Statements

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

	December 31,	
	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,604,723	\$ 2,019,084
Short-term investments	570,522	172,896
Accounts receivable, net of allowance for doubtful accounts of \$9,116 for 2009 and \$9,738 for 2008	458,652	429,970
Deferred tax assets, net	196,318	145,230
Prepaid expenses and other current assets	48,744	49,026
Total current assets	2,878,959	2,816,206
Property and equipment, net	455,651	436,433
Long-term investments	483,505	101,415
Restricted cash	53,732	43,442
Purchased intangible assets, net	13,834	28,861
Goodwill	3,658,602	3,658,602
Long-term deferred tax assets, net	10,555	71,079
Other long-term assets	35,425	31,303
Total assets	<u>\$ 7,590,263</u>	<u>\$ 7,187,341</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 242,591	\$ 249,854
Accrued compensation	176,551	160,471
Accrued warranty	38,199	40,090
Deferred revenue	571,652	459,749
Income taxes payable	34,936	33,047
Accrued litigation settlements	169,330	—
Other accrued liabilities	142,526	113,399
Total current liabilities	1,375,785	1,056,610
Long-term deferred revenue	181,937	130,514
Long-term income tax payable	170,245	78,164
Other long-term liabilities	37,531	20,648
Commitments and contingencies (Note 13)		
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; 519,341 and 526,752 shares issued and outstanding at December 31, 2009, and 2008, respectively	5	5
Additional paid-in capital	9,060,089	8,811,497
Accumulated other comprehensive loss	(1,433)	(4,245)
Accumulated deficit	(3,236,525)	(2,905,852)
Total Juniper Networks stockholders' equity	5,822,136	5,901,405
Noncontrolling interest	2,629	—
Total equity	<u>5,824,765</u>	<u>5,901,405</u>
Total liabilities and stockholders' equity	<u>\$ 7,590,263</u>	<u>\$ 7,187,341</u>

See accompanying Notes to Consolidated Financial Statements

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

	Years Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Consolidated net income	\$ 115,228	\$ 511,749	\$ 360,830
Adjustments to reconcile consolidated net income to net cash from operating activities:			
Depreciation and amortization	148,373	172,453	193,166
Stock-based compensation	139,659	108,133	87,990
Loss (gain) on equity investments	5,562	14,832	(6,745)
Excess tax benefits from share-based compensation	(3,510)	(40,182)	(19,686)
Deferred income taxes	9,436	14,314	865
Other non-cash charges	—	613	2,765
Changes in operating assets and liabilities:			
Accounts receivable, net	(28,682)	(50,211)	(120,904)
Prepaid expenses and other assets	(8,520)	(539)	(3,934)
Accounts payable	(2,422)	19,770	34,938
Accrued compensation	16,079	1,761	48,259
Accrued warranty	(1,891)	2,640	2,622
Income taxes payable	43,672	49,554	85,191
Accrued litigation settlements	169,330	—	—
Other accrued liabilities	30,457	(6,702)	(6,524)
Deferred revenue	163,326	76,994	127,690
Net cash provided by operating activities	796,097	875,179	786,523
Cash flows from investing activities:			
Purchases of property and equipment	(153,101)	(164,604)	(146,858)
Purchases of available-for-sale investments	(1,461,532)	(474,007)	(298,615)
Proceeds from sales of available-for-sale investments	285,379	130,237	684,666
Proceeds from maturities of available-for-sale investments	398,435	369,114	344,415
Changes in restricted cash	(11,276)	(8,094)	(7,407)
Purchases of privately-held equity investments, net	(6,205)	(2,458)	(4,075)
Payments made in connection with business acquisitions, net	—	—	(375)
Net cash (used in) provided by investing activities	(948,300)	(149,812)	571,751
Cash flows from financing activities:			
Proceeds from issuance of common stock	164,207	119,450	355,007
Purchases and retirement of common stock	(453,888)	(604,700)	(1,623,190)
Net proceeds from customer financing arrangements	19,613	22,963	10,000
Redemption of convertible debt	—	(288)	—
Excess tax benefits from share-based compensation	3,510	40,182	19,686
Proceeds from noncontrolling interest	4,400	—	—
Net cash used in financing activities	(262,158)	(422,393)	(1,238,497)
Net (decrease) increase in cash and cash equivalents	(414,361)	302,974	119,777
Cash and cash equivalents at beginning of period	2,019,084	1,716,110	1,596,333
Cash and cash equivalents at end of period	<u>\$ 1,604,723</u>	<u>\$ 2,019,084</u>	<u>\$ 1,716,110</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 5,417	\$ 5,224	\$ 1,495
Cash paid for taxes	139,969	147,999	57,856
Supplemental disclosure of non-cash financing activities:			
Common stock issued in connection with conversion of the senior notes	\$ —	\$ 399,208	\$ 448

See accompanying Notes to Consolidated Financial Statements

Juniper Networks, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Juniper Networks						Total Stockholders' Equity
	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Noncontrolling Interest	
Balance at December 31, 2006	569,234	\$ 6	\$ 7,646,047	\$ 1,266	\$(1,532,235)	\$ —	\$ 6,115,084
Cumulative effect from the adoption of ASC Topic 740-10 (formerly FIN 48)	—	—	—	—	(19,195)	—	(19,195)
Issuance of shares in connection with Employee Stock Purchase Plan	615	—	10,502	—	—	—	10,502
Exercise of stock options by employees, net of repurchases	22,399	—	345,585	—	—	—	345,585
Release of escrow related to an acquisition, net of cancelled escrow shares	(15)	—	14,840	—	—	—	14,840
Issuance of shares in connection with vesting of restricted share units	3	—	—	—	—	—	—
Issuance of shares in connection with conversion of the convertible senior notes	22	—	448	—	—	—	448
Repurchase and retirement of common stock	(69,443)	(1)	(461)	—	(1,622,728)	—	(1,623,190)
Stock-based compensation expense	—	—	94,453	—	—	—	94,453
Adjustment related to tax benefit from employee stock option plans	—	—	43,518	—	—	—	43,518
Net income	—	—	—	—	360,830	—	360,830
Other comprehensive income:							
Change in unrealized gain on investments, net tax of nil	—	—	—	3,169	—	—	3,169
Foreign currency translation gains, net tax of nil	—	—	—	7,816	—	—	7,816
Comprehensive income							371,815
Balance at December 31, 2007	522,815	5	8,154,932	12,251	(2,813,328)	—	5,353,860
Issuance of shares in connection with Employee Stock Purchase Plan	1,590	—	35,879	—	—	—	35,879
Exercise of stock options by employees, net of repurchases	5,701	—	82,608	—	—	—	82,608
Exercise of warrants in connection with acquisitions	8	—	—	—	—	—	—
Issuance of shares in connection with vesting of restricted share units	1,904	—	—	—	—	—	—
Issuance of shares in connection with conversion of the convertible senior notes	19,822	—	399,208	—	—	—	399,208
Repurchase and retirement of common stock	(25,088)	—	(427)	—	(604,273)	—	(604,700)
Stock-based compensation expense	—	—	108,133	—	—	—	108,133
Adjustment related to tax benefit from employee stock option plans	—	—	31,164	—	—	—	31,164
Net income	—	—	—	—	511,749	—	511,749
Other comprehensive loss:							
Change in unrealized gain on investments, net tax of nil	—	—	—	2,547	—	—	2,547
Foreign currency translation loss, net tax of nil	—	—	—	(19,043)	—	—	(19,043)
Comprehensive income							495,253
Balance at December 31, 2008	526,752	5	8,811,497	(4,245)	(2,905,852)	—	5,901,405
Issuance of shares in connection with Employee Stock Purchase Plan	3,221	—	39,164	—	—	—	39,164
Exercise of stock options by employees, net of repurchases	8,651	—	126,284	—	—	—	126,284
Issuance of shares in connection with vesting of restricted share units	1,432	—	—	—	—	—	—
Purchase of subsidiary shares by noncontrolling interest	—	—	—	—	—	4,400	4,400
Repurchase and retirement of common stock	(20,715)	—	(6,216)	—	(447,672)	—	(453,888)
Stock-based compensation expense	—	—	139,659	—	—	—	139,659
Adjustment related to tax benefit from employee stock option plans	—	—	(50,299)	—	—	—	(50,299)
Net income (loss)	—	—	—	—	116,999	(1,771)	115,228
Other comprehensive income:							
Change in unrealized loss on investments, net tax of nil	—	—	—	(2,757)	—	—	(2,757)
Foreign currency translation gain, net tax of nil	—	—	—	5,569	—	—	5,569
Consolidated comprehensive income							118,040
Adjust for comprehensive loss attributable to noncontrolling interest							1,771
Comprehensive income attributable to Juniper Networks							119,811
Balance at December 31, 2009	519,341	\$ 5	\$ 9,060,089	\$ (1,433)	\$(3,236,525)	\$ 2,629	\$ 5,824,765

See accompanying Notes to Consolidated Financial Statements

Juniper Networks, Inc.
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Description of Business

Juniper Networks, Inc. (“Juniper Networks” or the “Company”) designs, develops, and sells innovative products and services that together provide its customers with high-performance network infrastructure that creates responsive and trusted environments for accelerating the deployment of services and applications over a single network. The Company has the following two segments: Infrastructure and Service Layer Technologies (“SLT”). The Infrastructure segment primarily offers scalable Internet Protocol (“IP”)-router and Ethernet switching products that are used to control and direct network traffic. The SLT segment offers networking solutions that meet a broad array of its customers’ priorities, from securing the network and the data on the network, to maximizing existing bandwidth and acceleration of applications across a distributed network. Both segments offer worldwide services, including technical support and professional services, as well as educational and training programs to their customers.

Basis of Presentation

The consolidated financial statements, which include the Company and its wholly-owned subsidiaries are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). All inter-company balances and transactions have been eliminated. The information included in this Annual Report on Form 10-K should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Risk Factors,” and “Quantitative and Qualitative Disclosures About Market Risk.”

In 2009, the Company held a majority interest in a joint venture with Nokia Siemens Networks B.V. (“NSN”). As of December 31, 2009, the Company owned a 60 percent interest in the joint venture. 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.

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with U.S. GAAP requires the Company to make judgments, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and the accompanying notes. The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes are reasonable under the circumstances, to determine the carrying values of assets and liabilities that are not readily apparent from other sources. The critical accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the consolidated financial statements and actual results could differ materially from the amounts reported based on these policies. To the extent there are material differences between our estimates and the actual results, our future consolidated results of operations may be affected.

Cash and Cash Equivalents

All highly liquid investments purchased with an original maturity of three months or less are classified as cash and cash equivalents. Cash and cash equivalents consist of cash on hand, demand deposits with banks, highly liquid investments in money market funds, commercial paper, government securities, certificates of deposit, and corporate debt securities, which are readily convertible into cash.

Investments in Available-for-Sale and Trading Securities

Management determines the appropriate classification of securities at the time of purchase and re-evaluates such classification as of each balance sheet date. The Company’s investments in publicly-traded debt and equity

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

securities are classified as available-for-sale. Available-for-sale investments are initially recorded at cost and periodically adjusted to fair value in the consolidated balance sheets. Unrealized gains and losses on these investments are reported as a separate component of accumulated other comprehensive income (loss). Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in the consolidated statements of operations.

The Company recognizes an impairment charge for available-for-sale investments when a decline in the fair value of its investments below the cost basis is determined to be other than temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time the investment has been in a loss position, the extent to which the fair value has been less than the Company's cost basis, the investment's financial condition, and near-term prospects of the investee. If the Company determines that the decline in an investment's fair value is other than temporary, the difference is recognized as an impairment loss in its consolidated statements of operations.

The Company's non-qualified compensation plan, which invests in mutual funds are classified as trading securities and reported at fair value in the consolidated balance sheets. The realized and unrealized holding gains and losses, as well as the offsetting compensation expense, are reported in the consolidated statements of operations.

Privately-Held Equity Investments

The Company has minority equity investments in privately-held companies. These investments are included in other long-term assets in the consolidated balance sheets and are carried at cost, adjusted for any impairment, as the Company does not have a controlling interest and does not have the ability to exercise significant influence over these companies. These investments are inherently high risk as the market for technologies or products manufactured by these companies are usually early stage at the time of the investment by the Company and such markets may never be significant. The Company monitors these investments for impairment by considering financial, operational, and economic data and makes appropriate reductions in carrying values when necessary. Realized gains and losses, if any, are reported in the consolidated statements of operations.

Fair Value Measurement

The Company records its financial instruments and derivative contracts at fair value. The fair value assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The carrying value of the Company's financial instruments including cash and cash equivalents, accounts receivable, accrued compensation, and other accrued liabilities, approximates fair market value due to the relatively short period of time to maturity. The fair value of investments is determined using quoted market prices for those securities or similar financial instruments.

Concentrations

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable. The Company invests only in high-quality credit instruments and maintains its cash, cash equivalents, and available-for-sale investments in fixed income securities, and money market funds with high-quality institutions. Deposits held with banks, including those held in foreign branches of global banks, may exceed the amount of insurance provided on such deposits. These deposits may be redeemed upon demand and, therefore, bear minimal risk.

Generally, credit risk with respect to accounts receivable is diversified due to the number of entities comprising the Company's customer base and their dispersion across different geographic locations throughout the world. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

receivable. The Company maintains reserves for potential bad debt and historically such losses have been within management's expectations. AT&T, Inc., accounted for 10.4% of the Company's total net revenues for 2009. No single customer accounted for more than 10% of the Company's total net revenues for 2008, and NSN accounted for 12.8% of total net revenues during 2007.

The Company relies on sole suppliers for certain of its components such as ASICs and custom sheet metal. Additionally, the Company relies primarily on a limited number of significant independent contract manufacturers for the production of all of its products. The inability of any supplier or manufacturer to fulfill supply requirements of the Company could negatively impact future operating results.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful life, generally one and a half to five years, or the lease term of the respective assets. The Company depreciates leasehold improvements over the lesser of the expected life of the lease or the assets, up to a maximum of ten years. Land is not subject to depreciation.

Goodwill and Purchased Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. Identifiable intangible assets are comprised of purchased trademarks, developed technologies, customer relationships, maintenance contracts, and other intangible assets. Goodwill is not subject to amortization but is subject to annual assessment, at a minimum, for impairment by applying fair-value based tests. Future goodwill impairment tests could result in a charge to earnings. Purchased intangible assets with finite lives are amortized on a straight-line basis over their respective estimated useful lives ranging from two to nineteen years.

Impairment

The Company evaluates long-lived assets held for use for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds its fair value. The Company assesses the recoverability of its long-lived and intangible assets by determining whether the unamortized balances are greater than the sum of undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows.

The Company evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income approach and the market approach. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second step is performed to measure the amount of the impairment loss, if any. The Company conducted its annual impairment test as of November 1, 2009, 2008, and 2007, and determined that the carrying value of its remaining goodwill was not impaired. Future impairment indicators, including sustained declines in the Company's market capitalization or a decrease in revenue or profitability levels, could require additional impairment charges to be recorded.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Revenue Recognition

The Company's products are generally integrated with software that is essential to the functionality of the equipment. Additionally, the Company provides unspecified upgrades and enhancements related to the integrated software through maintenance contracts for most of its products. 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 and 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 the creditworthiness of the customer as determined by our credit checks and the customer's payment history. The Company records accounts receivable net of allowance for doubtful accounts, estimated customer returns and pricing credits.

For arrangements with multiple elements, such as sales of products that include services, the Company allocates revenue to each element using the residual method based on the vendor-specific objective evidence ("VSOE") of fair value of the undelivered items. 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. VSOE of fair value is based on the price charged when the element is sold separately. The Company then recognizes revenue on each deliverable in accordance with our policies for product and service revenue recognition. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. If VSOE of fair value of one or more undelivered items does not exist, revenue 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 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 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 or to an OEM partner. 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 returns or pricing credits. A portion of the Company's sales are 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

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

is based on historical sales returns and price protection credits, specific criteria included in rebate agreements, and other factors known at the time. Should actual product returns or pricing adjustments differ from estimates, additional reductions to revenue may be required. In addition, the Company reports revenues 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 is recognized ratably over the contractual support period, which is generally one to three years. Revenue from training and professional services is recognized as the 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 a customer financing arrangement primarily with one major financing company. Cash received under this arrangement in advance of revenue recognition is recorded as short-term debt.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews its receivables that remain outstanding past their applicable payment terms and establishes allowance and potential write-offs by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

Warranty Costs

Juniper Networks generally offers a one-year warranty on all of its hardware products and a 90-day warranty on the media that contains the software embedded in the products. The Company accrues for warranty costs as part of its cost of sales based on associated material costs, labor costs for customer support, and overhead at the time revenue is recognized. Material cost is estimated primarily based upon the historical costs to repair or replace product returns within the warranty period. Technical support labor and overhead cost are estimated primarily based upon historical trends in the cost to support the customer cases within the warranty period. Although we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, use of materials, technical labor costs, and associated overhead incurred. Should actual product failure rates, use of materials, or service delivery costs differ from our estimates, we may incur additional warranty costs, which could reduce gross margin.

Contract Manufacturer Liabilities

The Company outsources most of its manufacturing, repair, and supply chain management operations to its independent contract manufacturers, and a significant portion of its cost of revenues consists of payments to them. The independent contract manufacturers procure components and manufacture the Company's products based on the Company's demand forecasts. These forecasts are based on the Company's estimates of future demand for the Company products, which are in turn based on historical trends and an analysis from the Company's sales and marketing organizations, adjusted for overall market conditions. The Company establishes a provision for inventory carrying costs and obsolete material exposures for excess components purchased based on historical trends. If the actual component usage and product demand are significantly lower than forecasted, which may be caused by factors outside of the Company's control, it could have an adverse impact on the Company's gross margins and profitability. Supply chain management remains an area of focus as the Company balances the risk of material obsolescence and supply chain flexibility in order to reduce lead times.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Research and Development

Costs to research, design, and develop the Company's products are expensed as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Generally, the Company's products are released soon after technological feasibility has been established. As a result, costs subsequent to achieving technological feasibility have not been significant, and all software development costs have been expensed as incurred.

Advertising

Advertising costs are charged to sales and marketing expense as incurred. Advertising expense was \$11.4 million, \$5.0 million, and \$4.8 million, for 2009, 2008, and 2007, respectively.

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. Management considers the likelihood of loss related to an asset, or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company records a charge equal to the minimum estimated liability or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. The Company regularly evaluates current information available to determine whether such accruals should be adjusted and whether new accruals are required.

From time to time, the Company is involved in disputes, litigation, and other legal actions. The Company is aggressively defending its current litigation matters. However, there are many uncertainties associated with any litigation, and these actions 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 future 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, which could result in the need to adjust the liability and record additional expenses.

Stock-Based Compensation

The Company recognizes stock-based compensation expense for all share-based payment awards including employee stock options, restricted stock units ("RSUs"), performance share awards, and purchases under the Company's Employee Stock Purchase Plan in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 ("ASC Topic 718") (formerly SFAS No. 123(R), *Share-Based Payment*). Stock-based compensation expense for expected-to-vest stock-based awards is valued under the single-option approach and amortized on a straight-line basis, net of estimated forfeitures. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statements of operations for the years ended December 31, 2009, 2008, and 2007.

We utilize the Black-Scholes-Merton ("BSM") option-pricing model in determining the fair value of stock-based awards. The BSM model requires various highly subjective assumptions including volatility, expected option life, and risk-free interest rate. The expected volatility is based on the implied volatility of market traded options on our common stock, adjusted for other relevant factors including historical volatility of our common stock over the most recent period commensurate with the estimated expected life of our stock options. The expected life of an

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

award is based on historical experience, the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that have not been exercised at the time.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those expected-to-vest shares. If our actual forfeiture rate is materially different from our estimate, our recorded stock-based compensation expense could be different.

Derivatives

The Company uses derivatives to partially offset its market exposure to fluctuations in certain foreign currencies. The Company does not enter into derivatives for speculative or trading purposes.

The Company uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in non-functional currencies. These derivatives are carried at fair value with changes recorded in interest and other income, net. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. These foreign exchange forward contracts have maturities of approximately two months.

The Company also uses foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. These derivatives are designated as cash flow hedges and have maturities of less than one year. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during 2009, 2008, and 2007, in interest and other income, net, on its consolidated statements of operations. Cash flows from such hedges are classified as operating activities.

Provision for Income Taxes

Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences and carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company regularly assesses the likelihood that its deferred tax assets will be realized from recoverable income taxes or recovered from future taxable income based on the realization criteria set forth in FASB ASC Topic — *Income Taxes* ("FASB ASC Topic 740") (formerly, SFAS No. 109, *Accounting for Income Taxes* and Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*). To the extent that the Company believes any amounts are not more likely than not to be realized, the Company records a valuation allowance to reduce its deferred tax assets. The Company believes it is more likely than not that future income from the reversal of the deferred tax liabilities and forecasted income will be sufficient to fully recover the remaining deferred tax assets. In the event the Company determines that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if the Company subsequently realizes deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in an adjustment to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes potential liabilities based on its estimate of whether, and the extent to which, additional taxes will be due.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company has presented its comprehensive income (loss) as part of its consolidated statements of stockholders' equity. Other comprehensive income (loss) includes net unrealized gains (losses) on available-for-sale securities and net foreign currency translation gains (losses) that are excluded from net income, and unrealized gains (losses) on derivatives designated as cash flow hedges.

Foreign Currency Translation

Assets and liabilities of foreign operations with non-U.S. Dollar functional currency are translated to U.S. Dollars using exchange rates in effect at the end of the period. Revenue and expenses are translated to U.S. Dollars using weighted-average exchange rates for the period. Foreign currency translation gains and losses were not material for the years ended December 31, 2009, 2008, and 2007. The effect of exchange rate changes on cash balances held in foreign currencies was immaterial in the years presented.

Recent Accounting Pronouncements

In June 2009, the FASB issued ASU No. 2009-01, Topic 105 — *Generally Accepted Accounting Principles amendments based upon Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement 162* ("ASU 2009-01"). ASU 2009-1 establishes the FASB ASC as the single source of authoritative accounting principles to be applied to financial statements of nongovernmental entities in conformity with U.S. GAAP. ASU 2009-1 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company's adoption of ASU 2009-01 did not affect its consolidated results of operations or financial condition.

In December 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-17, Topic 810 — *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"), which incorporated the revised accounting guidance of variable interest entities, initially issued by the FASB in June 2009, into the FASB ASC Topic 810, *Consolidation*. The revised guidance eliminates the qualifying special-purpose entities ("QSPE") concept, amends the provisions on determining whether an entity is a variable interest entity and would require consolidation, and requires additional disclosures. This guidance is effective for each entity's first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. Accordingly, the Company will adopt this guidance on January 1, 2010. The impact of adoption on the Company's consolidated results of operations or financial condition will depend upon its involvement with variable interest entities as of and subsequent to the adoption date.

In December 2009, the FASB issued ASU No. 2009-16, *Accounting for Transfers of Financial Assets* ("ASU 2009-16"), which incorporated the revised accounting guidance for the transfers of financial assets, initially issued by the FASB in June 2009, into FASB ASC Topic 860, *Transfers and Servicing*. The revised guidance eliminates the concept of QSPE, removes the scope exception for QSPE when applying the accounting guidance related to variable interest entities, changes the requirements for derecognizing financial assets, and requires additional disclosures. This accounting guidance was effective for each entity's first annual and interim reporting periods that begin after November 15, 2009. This accounting guidance is applied to transfers of financial assets occurring on or after the effective date. Earlier application is prohibited. The impact of adoption on the Company's consolidated results of operations or financial condition will depend upon the level of activity of financial asset transfers that the Company may consummate after the effective date.

In October 2009, the FASB issued ASU No. 2009-14, *Software (Topic 985) Certain Arrangements That Contain Software Elements — a consensus of the FASB Emerging Issues Task Force* ("EITF") ("ASU 2009-14").

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

ASU 2009-14 amends the scope of software revenue guidance in FASB ASC Subtopic 985-605, *Software-Revenue Recognition*, to exclude tangible products containing software and non-software components that function together to deliver the product's essential functionality and ASU No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements — a consensus of the FASB EITF* ("ASU 2009-13"). ASU 2009-13 eliminates the residual method of allocation and requires the relative selling price method when allocating deliverables of a multiple-deliverable revenue arrangement. ASU 2009-13 specifies the best estimate of a selling price is consistent with that used to determine the price to sell the deliverable on a standalone basis. ASU 2009-14 and ASU 2009-13 are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and must be adopted in the same period using the same transition method. If adoption is elected in a period other than the beginning of a fiscal year, the amendments in these standards must be applied retrospectively to the beginning of the fiscal year. Full retrospective application of these amendments to prior fiscal years is optional. Companies may elect early adoption of these standards. The Company is currently assessing the timing of adoption and evaluating the impact ASU 2009-14 and ASU 2009-13 will have on its consolidated results of operations and financial condition.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) — Measuring Liabilities at Fair Value* ("ASU 2009-05"), which amends the fair value measurements of liabilities within FASB ASC Topic 820. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for an identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: (1) a valuation technique that uses: quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets, or (2) another valuation technique that is consistent with the principles of FASB ASC Topic 820. The guidance in ASU 2009-05 was effective for the interim and annual reporting periods beginning after issuance. The adoption of ASU 2009-05 has no material impact on the Company's consolidated results of operations or financial condition.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP FAS 115-2 and FAS 124-2"), which was subsequently incorporated into FASB ASC Topic 320, *Investments — Debt and Equity Securities*. ASC 320 amended other-than-temporary accounting of debt securities to make it more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. These provisions were effective for interim and annual reporting periods ending after June 15, 2009. The Company's adoption of ASC 320 did not affect its consolidated results of operations or financial condition.

Note 2. 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 common shares that were outstanding during the period on a weighted average basis. Dilutive potential common shares consist of shares issuable upon conversion of senior notes, if any, and various employee stock awards, including common shares issuable upon exercise of stock options, vesting of RSUs, and vesting of performance shares.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

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

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Numerator:			
Net income attributable to Juniper Networks:	<u>\$117.0</u>	<u>\$511.7</u>	<u>\$360.8</u>
Denominator:			
Weighted-average shares used to compute basic net income per share	523.6	530.3	537.8
Effect of dilutive securities:			
Shares issuable upon conversion of the Senior Notes	—	8.8	19.8
Employee stock awards	<u>10.4</u>	<u>12.3</u>	<u>21.5</u>
Weighted-average shares used to compute diluted net income per share	<u>534.0</u>	<u>551.4</u>	<u>579.1</u>
Net income per share attributable to Juniper Networks common stockholders:			
Basic	\$ 0.22	\$ 0.96	\$ 0.67
Diluted	\$ 0.22	\$ 0.93	\$ 0.62

Employee stock awards of approximately 38.9 million shares and 33.0 million shares of the Company's common stock were not included in the computation of diluted earnings per share for the years ended December 31, 2009, and December 31, 2008, respectively, because their effect would have been anti-dilutive.

Note 3. Cash, Cash Equivalents, and Investments*Cash and Cash Equivalents*

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

	<u>As of December 31,</u>	
	<u>2009</u>	<u>2008</u>
Cash:		
Demand deposits	\$ 427.2	\$ 285.9
Time deposits	<u>127.9</u>	<u>125.1</u>
Total cash	555.1	411.0
Cash equivalents:		
U.S. government securities	—	141.8
Government-sponsored enterprise obligations	—	94.8
Commercial paper	17.0	90.4
Money market funds	<u>1,032.6</u>	<u>1,281.1</u>
Total cash equivalents	<u>1,049.6</u>	<u>1,608.1</u>
Total cash and cash equivalents	<u>\$1,604.7</u>	<u>\$2,019.1</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Investments in Available-for-Sale and Trading Securities

The following table summarizes the Company's unrealized gains and losses, and fair value of investments designated as trading or available-for-sale, as of December 31, 2009, and 2008 (in millions):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2009:				
Fixed income securities:				
U.S. government securities	\$ 245.0	\$ 0.1	\$ —	\$ 245.1
Government-sponsored enterprise obligations	212.0	0.6	(0.3)	212.3
Foreign government debt securities	96.4	0.3	(0.1)	96.6
Corporate debt securities	488.2	2.0	(0.3)	489.9
Total fixed income securities	1,041.6	3.0	(0.7)	1,043.9
Publicly-traded equity securities	10.1	—	—	10.1
Total	<u>\$ 1,051.7</u>	<u>\$ 3.0</u>	<u>\$ (0.7)</u>	<u>\$ 1,054.0</u>
Reported as:				
Short-term investments	\$ 569.5	\$ 1.0	\$ —	\$ 570.5
Long-term investments	482.2	2.0	(0.7)	483.5
Total	<u>\$ 1,051.7</u>	<u>\$ 3.0</u>	<u>\$ (0.7)</u>	<u>\$ 1,054.0</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2008:				
Fixed income securities:				
U.S. government securities	\$ 86.6	\$ 0.1	\$ —	\$ 86.7
Government-sponsored enterprise obligations	70.4	1.6	(0.1)	71.9
Corporate debt securities	110.4	0.4	(0.5)	110.3
Total fixed income securities	267.4	2.1	(0.6)	268.9
Publicly-traded equity securities	5.4	—	—	5.4
Total	<u>\$ 272.8</u>	<u>\$ 2.1</u>	<u>\$ (0.6)</u>	<u>\$ 274.3</u>
Reported as:				
Short-term investments	\$ 172.5	\$ 0.6	\$ (0.2)	\$ 172.9
Long-term investments	100.3	1.5	(0.4)	101.4
Total	<u>\$ 272.8</u>	<u>\$ 2.1</u>	<u>\$ (0.6)</u>	<u>\$ 274.3</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The following table presents the Company's maturities of its available-for-sale investments and trading securities, as of December 31, 2009, and 2008 (in millions):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2009:				
Fixed income securities:				
Due within one year	\$ 559.4	\$ 1.0	\$ —	\$ 560.4
Due between one and five years	482.2	2.0	(0.7)	483.5
Total fixed income securities	1,041.6	3.0	(0.7)	1,043.9
Publicly-traded equity securities	10.1	—	—	10.1
Total investments	<u>\$ 1,051.7</u>	<u>\$ 3.0</u>	<u>\$ (0.7)</u>	<u>\$ 1,054.0</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2008:				
Fixed income securities:				
Due within one year	\$ 167.1	\$ 0.6	\$ (0.2)	\$ 167.5
Due between one and five years	100.3	1.5	(0.4)	101.4
Total fixed income securities	267.4	2.1	(0.6)	268.9
Publicly-traded equity securities	5.4	—	—	5.4
Total investments	<u>\$ 272.8</u>	<u>\$ 2.1</u>	<u>\$ (0.6)</u>	<u>\$ 274.3</u>

The following table presents the Company's trading and available-for-sale investments that are in an unrealized loss position as of December 31, 2009 (in millions):

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Government-sponsored enterprise obligations	\$ 38.9	\$ (0.3)	\$ —	\$ —	\$ 38.9	\$ (0.3)
Corporate debt securities	157.7	(0.3)	—	—	157.7	(0.3)
Other investments(1)	126.2	(0.1)	—	—	126.2	(0.1)
Total	<u>\$ 322.8</u>	<u>\$ (0.7)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 322.8</u>	<u>\$ (0.7)</u>

(1) Other investments consist of U.S. and foreign government securities.

The Company had no impairment charges to its publicly-traded equity investments in 2009. In 2008, the Company realized an impairment charge of \$3.5 million on a publicly-traded equity security due to a sustained decline in the fair value of the investment below its cost basis that the Company judged to be other than temporary. No such charges were incurred in 2007. There were no material realized gains or losses from the sale of available-for-sale securities in 2009, 2008, and 2007. The Company generated cash proceeds of \$683.8 million, \$499.4 million, and \$1,029.1 million from maturities and sales of our available-for-sale investments during 2009, 2008, and 2007, respectively.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The Company had 52 and 26 investments that were in an unrealized loss position as of December 31, 2009, and December 31, 2008, respectively. The gross unrealized losses related to these investments were due to changes in interest rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. For fixed income securities that have unrealized losses, the Company has determined that (i) it does not have the intent to sell any of these investments, and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. The Company did not consider these investments to be other-than-temporarily impaired as of December 31, 2009, and December 31, 2008, respectively. The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. The Company aggregates its investments by category and length of time the securities have been in a continuous unrealized loss position to facilitate its evaluation.

Restricted Cash

Restricted cash as of December 31, 2009, consisted of escrow accounts required by certain acquisitions completed in 2005, the D&O indemnification trust, and the India Gratuity Trust. The India Gratuity Trust was established in 2008 to cover statutory severance obligations in the event of termination of its India employees who have provided five or more years of continuous service. The D&O trust was established to secure the Company's indemnification obligations to certain directors, officers, and other specified employees, arising from their activities as such, in the event that the Company does not provide or is financially incapable of providing indemnification. In 2009, the Company distributed \$1.0 million of its restricted cash in connection with the escrow fund associated with the acquisition of Funk Software. The Company also increased its restricted cash by an aggregate of \$11.3 million to fund both its India Gratuity and D&O Trusts due to overall growth of the Company. In 2008, the Company made no distributions from restricted cash and increased its restricted cash by an aggregate of \$8.1 million to fund both the India Gratuity and D&O Trusts due to overall growth of the Company.

The following table summarizes the Company's restricted cash as reported in the consolidated balance sheets (in millions):

	As of December 31,	
	2009	2008
Restricted cash:		
Demand deposits	\$ 3.8	\$ 0.8
Time deposits	—	—
Total restricted cash	3.8	0.8
Restricted investments:		
U.S. government securities	19.8	1.6
Government-sponsored enterprise obligations	—	20.0
Corporate debt securities	—	6.0
Money market funds	30.1	15.0
Total restricted investments	49.9	42.6
Total restricted cash and investments	<u>\$53.7</u>	<u>\$43.4</u>

As of December 31, 2009, and 2008, the unrealized gain and losses related to restricted investments were immaterial.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Privately-Held Equity Investments

The Company's minority equity investments in privately-held companies are carried at cost as the Company does not have a controlling interest and does not have the ability to exercise significant influence over these companies. The Company adjusts its privately-held equity investments for any impairment if the fair value exceeds the carrying value of the respective assets.

As of December 31, 2009, and 2008, the carrying values of the Company's minority equity investments in privately-held companies of \$13.9 million and \$14.2 million, respectively, were included in other long-term assets in the consolidated balance sheets. In 2009, 2008, and 2007, the Company invested a total of \$7.2 million, \$4.6 million, and \$4.1 million, respectively, in privately-held companies.

Due to events and circumstances that significantly affected the fair value of three of its privately-held equity investments in 2009, which are normally carried at cost, the Company measured the fair value of these privately-held equity investments using an analysis of the financial condition and near-term prospects of the investees, including recent financing activities and their capital structure. As a result, during the year ended December 31, 2009, the Company recognized a loss of \$5.5 million due to the impairment of its minority equity investments in privately-held companies that the Company judged to be other than temporary. In addition, during year ended December 31, 2009, the Company had a minority equity investment of \$2.0 million in a privately-held company that was acquired by a publicly-traded company for which the Company received \$1.0 million in cash and \$1.0 million in common stock of the acquiring company. In 2008, the Company recognized losses of \$11.3 million due to the impairment of minority equity investments in privately-held companies that the Company judged to be other than temporary. In addition, the Company had a minority equity investment of \$2.4 million in a privately-held company that was acquired by a third party for which the Company received a payment of \$2.1 million in 2008 and \$0.3 million in 2009.

Note 4. Fair Value Measurements

Fair Value Hierarchy

The Company determines the fair values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value assumes that the transaction to sell the asset or transfer the liability occurs in the principal or most advantageous market for the asset or liability and establishes that the fair value of an asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 — Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 — Inputs are unobservable inputs based on the Company's assumptions.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables provide a summary of the assets and liabilities measured at fair value on a recurring basis (in millions):

	Fair Value Measurements at December 31, 2009, Using			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)	
Assets measured at fair value:				
U.S. government securities(1)	\$ 72.6	\$ 192.3	\$ —	\$ 264.9
Government-sponsored enterprise obligations	193.3	19.0	—	212.3
Foreign government debt securities	26.3	70.3	—	96.6
Corporate debt securities	—	489.9	—	489.9
Commercial paper	—	17.0	—	17.0
Money market funds(2)	1,062.7	—	—	1,062.7
Publicly-traded securities	10.1	—	—	10.1
Total assets	1,365.0	788.5	—	2,153.5
Liabilities measured at fair value:				
Derivative liability	—	(1.3)	—	(1.3)
Total liabilities				
Total	\$ 1,365.0	\$ 787.2	\$ —	\$2,152.2

(1) Balance includes \$19.8 million of restricted investments measured at fair market value, related to the Company's Directors and Officers ("D&O") indemnification trust. For additional information regarding the D&O trust, see Note 3, *Cash, Cash Equivalents, and Investments*, under the heading "Restricted Cash." Restricted investments are included in the restricted cash balance in the consolidated balance sheet.

(2) Balance includes \$30.1 million of restricted investments measured at fair market value, related to the Company's D&O trust.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

	Fair Value Measurements at December 31, 2008, Using			Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Remaining Inputs	Significant Other Unobservable Remaining Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Assets measured at fair value:				
U.S. government securities(1)	\$ 26.3	\$ 203.8	\$ —	\$ 230.1
Government-sponsored enterprise obligations(2)	71.9	114.8	—	186.7
Corporate debt securities(3)	—	116.3	—	116.3
Commercial paper	—	90.4	—	90.4
Money market funds(4)	1,296.1	—	—	1,296.1
Publicly-traded securities	5.4	—	—	5.4
Derivative asset	—	2.6	—	2.6
Total	<u>\$ 1,399.7</u>	<u>\$ 527.9</u>	<u>\$ —</u>	<u>\$1,927.6</u>

- (1) Balance includes \$1.6 million of restricted investments measured at fair market value, related to an acquisition completed in 2005.
- (2) Balance includes \$20.0 million of restricted investments measured at fair market value, related to the Company's D&O trust.
- (3) Balance includes \$6.0 million of restricted investments measured at fair market value, related to the Company's D&O trust.
- (4) Balance includes \$15.0 million of restricted investments measured at fair market value, related to the Company's D&O trust.

Assets and liabilities measured at fair value on a recurring basis are presented on the Company's consolidated balance sheets as follows (in millions):

	Fair Value Measurements at December 31, 2009, Using			Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Remaining Inputs	Significant Other Unobservable Remaining Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Reported as:				
Cash equivalents	\$ 1,032.6	\$ 17.0	\$ —	\$1,049.6
Short-term investments	101.3	469.2	—	570.5
Long-term investments	181.2	302.3	—	483.5
Restricted cash	49.9	—	—	49.9
Other accrued liabilities	—	(1.3)	—	(1.3)
Total	<u>\$ 1,365.0</u>	<u>\$ 787.2</u>	<u>\$ —</u>	<u>\$2,152.2</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

	Fair Value Measurements at December 31, 2008, Using			Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Remaining Inputs	Significant Other Unobservable Remaining Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Reported as:				
Cash equivalents	\$ 1,281.1	\$ 327.0	\$ —	\$1,608.1
Short-term investments	57.1	115.8	—	172.9
Long-term investments	46.5	54.9	—	101.4
Restricted cash	15.0	27.6	—	42.6
Other assets	—	2.6	—	2.6
Total	<u>\$ 1,399.7</u>	<u>\$ 527.9</u>	<u>\$ —</u>	<u>\$1,927.6</u>

Assets Measured at Fair Value on a Nonrecurring Basis

The following table presents the Company's assets that were measured at fair value on a nonrecurring basis and the related impairment charges recorded for loss on minority equity investments for the year ended December 31, 2009 (in millions):

Assets:	Net Carrying Value as of December 31, 2009	Fair Value Measurements Using			Impairment Charges for the Year Ended December 31, 2009
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	
Privately-held equity investments	\$ 0.5	\$ —	\$ —	\$ 0.5	\$ (5.5)
Total	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.5</u>	<u>\$ (5.5)</u>

In the year ended December 31, 2009, due to events and circumstances that significantly affected the fair value of three of its privately-held equity investments, which are normally carried at cost, the Company measured the fair value of these privately-held equity investments, at the time of impairment, using an analysis of the financial condition and near-term prospects of the investees, including recent financing activities and their capital structure. As a result, the Company recognized an impairment loss of \$5.5 million during the year ended December 31, 2009, and classified the investments as a Level 3 asset due to the absence of quoted market prices and inherent lack of liquidity.

The Company had no liabilities that were measured at fair value on a nonrecurring basis during the year ended December 31, 2009.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Note 5. Goodwill and Purchased Intangible Assets

Goodwill

The changes in the carrying amount of goodwill during the two years ended December 31, 2009, are as follows (in millions):

Segments	Balance at December 31, 2008	Acquisitions	Adjustments to Existing Goodwill	Escrow and Other Additions	Balance at December 31, 2009
Infrastructure	\$ 1,500.5	\$ —	\$ —	\$ —	\$ 1,500.5
Service Layer Technologies	2,158.1	—	—	—	2,158.1
Total	<u>\$ 3,658.6</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,658.6</u>

Segments	Balance at December 31, 2007	Reallocation	Adjustments to Existing Goodwill	Escrow and Other Additions	Balance at December 31, 2008
Infrastructure	\$ 976.6	\$ 523.9	\$ —	\$ —	\$ 1,500.5
Service Layer Technologies	1,879.7	278.4	—	—	2,158.1
Service	802.3	(802.3)	—	—	—
Total	<u>\$ 3,658.6</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,658.6</u>

In 2009 and 2008, there were no additions to goodwill. In the first quarter of 2008, the Company realigned its organizational structure to eliminate its Service segment and to include its service business into the related Infrastructure and SLT segments. As a result, the Company, with the assistance of an external service provider, reallocated goodwill of the former Service segment to the Infrastructure and SLT segments based on a relative fair value approach. Fair value was based on comparative market values and discounted cash flows. There was no indication of impairment when goodwill was reallocated to the new reporting segments.

The Company performed goodwill impairment reviews as of November 1, 2009 and 2008, and concluded that there was no impairment in the years ended 2009 and 2008.

Purchased Intangible Assets

The following table presents the Company's purchased intangible assets with definite lives (in millions):

	Gross	Accumulated Amortization	Impairment	Net
As of December 31, 2009:				
Technologies and patents	\$380.0	\$ (376.0)	\$ —	\$ 4.0
Other	68.9	(59.1)	—	9.8
Total	<u>\$448.9</u>	<u>\$ (435.1)</u>	<u>\$ —</u>	<u>\$13.8</u>
As of December 31, 2008:				
Technologies and patents	\$379.6	\$ (361.1)	\$ (4.3)	\$14.2
Other	68.9	(53.6)	(0.7)	14.6
Total	<u>\$448.5</u>	<u>\$ (414.7)</u>	<u>\$ (5.0)</u>	<u>\$28.8</u>

Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled \$15.4 million and \$44.0 million in 2009 and 2008, respectively. During 2008, the Company recorded an

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

impairment charge of \$5.0 million included in its amortization of purchased intangible assets due to the phase-out of its DX products. During 2009 and 2007, the Company had no impairment on its purchased intangible assets.

The estimated future amortization expense of purchased intangible assets with definite lives for future periods is as follows (in millions):

<u>Years Ending December 31,</u>	<u>Amount</u>
2010	\$ 4.0
2011	2.1
2012	1.3
2013	1.2
2014	1.0
Thereafter	4.2
Total	<u>\$ 13.8</u>

Note 6. Other Financial Information*Property and Equipment*

Property and equipment consist of the following (in millions):

	<u>As of December 31,</u>	
	<u>2009</u>	<u>2008</u>
Computers and equipment	\$ 492.4	\$ 399.7
Software	58.3	58.1
Leasehold improvements	158.0	143.2
Furniture and fixtures	21.5	20.9
Land	<u>192.4</u>	<u>192.4</u>
Property and equipment, gross	922.6	814.3
Accumulated depreciation	<u>(466.9)</u>	<u>(377.9)</u>
Property and equipment, net	<u>\$ 455.7</u>	<u>\$ 436.4</u>

Depreciation expense was \$133.0 million, \$123.5 million, and \$101.8 million in 2009, 2008, and 2007, respectively.

Deferred Revenue

Amounts billed in excess of revenue recognized are included as deferred revenue in the accompanying consolidated balance sheets. Product deferred revenue, net of the related deferred cost of revenue, includes

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

shipments to end-users, value-added resellers, and distributors. Below is a breakdown of the Company's deferred revenue (in millions):

	<u>As of December 31,</u>	
	<u>2009</u>	<u>2008</u>
Product:		
Deferred gross product revenue	\$ 391.3	\$ 268.0
Deferred cost of product revenue	(150.0)	(110.0)
Deferred product revenue, net	241.3	158.0
Deferred service revenue	512.3	432.3
Total	<u>\$ 753.6</u>	<u>\$ 590.3</u>
Reported as:		
Current	\$ 571.7	\$ 459.8
Long-term	181.9	130.5
Total	<u>\$ 753.6</u>	<u>\$ 590.3</u>

Warranties

The Company provides for the estimated cost of product warranties at the time revenue is recognized. This provision is reported as accrued warranty within current liabilities on its consolidated balance sheets. Changes in the Company's accrued warranty are as follows (in millions):

	<u>Years Ended</u>	
	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 40.1	\$ 37.5
Provisions made during the period, net	46.9	47.8
Change in estimate	(5.6)	—
Actual costs incurred during the period	(43.2)	(45.2)
Ending balance	<u>\$ 38.2</u>	<u>\$ 40.1</u>

Restructuring Liabilities

During 2009, the Company implemented a restructuring plan (the "2009 Restructuring Plan") in an effort to better align its business operations with the current market and macroeconomic conditions. The restructuring plan included a restructuring of certain business functions that resulted in reductions of workforce and facilities. The Company recorded \$19.5 million in restructuring charges during the year ended December 31, 2009, associated with the 2009 Restructuring Plan. The Company paid \$7.5 million for severance related charges associated with the 2009 Restructuring Plan during the year ended December 31, 2009. During the years ended December 31, 2008 and 2007, the Company incurred restructuring charges of nil and \$0.7 million, respectively, associated with past restructuring plans. The Company expects to incur additional charges of approximately \$8 million to \$10 million relating to additional facilities and employee restructuring under the 2009 Restructuring Plan in 2010.

Restructuring charges were based on the Company's restructuring plans that were committed to by management. Any changes in the estimates of executing the approved plans will be reflected in the Company's results of

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

operations. The following tables illustrate changes in the restructuring liabilities during 2009 and 2008, respectively (in millions):

	Remaining Liability as of December 31, 2008	Charges	Cash Payments	Adjustment	Remaining Liability as of December 31, 2009
Facilities	\$ —	\$ 7.2	\$ (0.8)	\$ (1.5)	\$ 4.9
Severance, contractual commitments, and other charges	—	12.3	(7.5)	(0.3)	4.5
Total restructuring charges	<u>\$ —</u>	<u>\$ 19.5</u>	<u>\$ (8.3)</u>	<u>\$ (1.8)</u>	<u>\$ 9.4</u>

	Remaining Liability as of December 31, 2007	Charges	Cash Payments	Adjustment	Remaining Liability as of December 31, 2008
Facilities	\$ 0.6	\$ —	\$ (0.6)	\$ —	\$ —
Total restructuring charges	<u>\$ 0.6</u>	<u>\$ —</u>	<u>\$ (0.6)</u>	<u>\$ —</u>	<u>\$ —</u>

Litigation Settlements

In 2009, the Company incurred a \$169.0 million expense related to the Company's agreement in principle reached in February 2010, to settle the securities class action litigations pending against the Company and certain of its current and former officers and directors, related to our historical stock option granting practices, a \$13.0 million expense for a legal settlement regarding the Menlo Equity arbitration, and a \$0.3 million expense related to settlement of another matter recorded in the fourth quarter of 2009. See Note 13, *Commitments and Contingencies*, under the heading "Legal Proceedings." In 2008, the Company incurred a \$9.0 million expense for the settlement of its shareholder derivative lawsuits. In 2007, the Company recorded a net litigation settlement gain of \$5.3 million, which consisted of cash proceeds of \$6.2 million, net of transaction costs of \$0.9 million.

Other Charges

In 2007, the Company incurred \$6.0 million in professional fees for the costs of external service providers used in the completion of its internal stock option investigation. The Company did not incur any such costs for 2009 or 2008. In addition, the Company recognized stock option amendment and tax-related charges of \$8.0 million in 2007, pertaining to the amendment of stock options and to the settlement with the Internal Revenue Service ("IRS") for employment tax assessments primarily related to the timing of tax deposits related to employee stock option exercises. The Company did not incur such charges in 2009 or 2008.

Interest and Other Income, Net

Interest and other income, net, consists of the following (in millions):

	Years Ended December 31,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest income and expense, net	\$5.8	\$49.6	\$99.2
Other income and expense, net	1.1	(0.9)	(2.4)
Total interest and other income, net	<u>\$6.9</u>	<u>\$48.7</u>	<u>\$96.8</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Interest income and expense, net, primarily includes interest income from the Company's cash, cash equivalents, and investments, as well as customer financing charges. Other income and expense, net, primarily includes foreign exchange gains and losses and other miscellaneous expenses such as bank fees.

Note 7. Financing Arrangements

The Company has customer financing arrangements to sell its accounts receivable to a major third-party financing provider. The program does not and is not intended to affect the timing of revenue recognition because the Company only recognizes revenue upon sell-through. Under the financing arrangements, proceeds from the financing provider are due to the Company 30 days from the sale of the receivable. In these transactions with the financing provider, the Company has surrendered control over the transferred assets. The accounts receivable have been isolated from the Company and put beyond the reach of creditors, even in the event of bankruptcy. The Company does not maintain effective control over the transferred assets through obligations or rights to redeem, transfer, or repurchase the receivables after they have been transferred.

Pursuant to the financing arrangements for the sale of receivables, the Company sold net receivables of \$449.8 million and \$427.2 million in 2009 and 2008, respectively. In 2009 and 2008, the Company received cash proceeds of \$426.3 million and \$392.7 million, respectively. The amounts owed by the financing provider recorded as accounts receivable on the Company's consolidated balance sheets as of December 31, 2009, and December 31, 2008, were \$89.8 million and \$73.9 million, respectively.

The portion of the receivable financed that has not been recognized as revenue is accounted for as a financing arrangement and is included in other accrued liabilities in the consolidated balance sheet. As of December 31, 2009, and December 31, 2008, the estimated amounts of cash received from the financing provider that has not been recognized as revenue from its distributors was \$52.6 million and \$33.0 million, respectively.

Note 8. Derivative Instruments

The Company uses derivatives partially to offset its market exposure to fluctuations in certain foreign currencies and does not enter into derivatives for speculative or trading purposes.

Cash Flow Hedges

The Company uses foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to cost of services and operating expenses. The derivatives are intended to protect the U.S. Dollar equivalent of the Company's planned cost of services and operating expenses denominated in foreign currencies. These derivatives are designated as cash flow hedges. Execution of these cash flow hedge derivatives typically occurs every month with maturities of less than one year. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the cost of services or operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during each of the three years ended December 31, 2009, in interest and other income, net on its consolidated statements of operations. Cash flows from such hedges are classified as operating activities. All amounts within other comprehensive income (loss) are expected to be reclassified into income within the next 12 months.

Non-Designated Hedges

The Company also uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in foreign currencies. These hedges do not qualify for special hedge accounting treatment. These derivatives are carried at fair value with changes recorded in interest and other income, net. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. The derivatives have maturities of approximately two months.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The following table summarizes the total fair value of the Company's derivative instruments as of December 31, 2009, (in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Other current assets	\$ 0.2	Other current liabilities	\$ 1.5
Total		<u>\$ 0.2</u>		<u>\$ 1.5</u>

The following represents the Company's top three outstanding derivative positions by currency as of December 31, 2009, (in millions):

	Buy EUR	Buy GBP	Buy INR
Foreign currency forward contracts:			
Notional amount of foreign currency	26.9	9.8	1,622.1
U.S. Dollar equivalent	\$ 39.4	\$ 16.1	\$ 34.6
Weighted average maturity	2 months	2 months	2 months

The effective portion of the Company's derivative instruments on its consolidated statements of operations during the year ended December 31, 2009, was as follows (in millions):

	Gain Recognized in Accumulated Other Comprehensive Income (Effective Portion)	Location of Gain Reclassified from Accumulated Other Comprehensive Income to Statements of Operations (Effective Portions)	Gain Reclassified from Accumulated Other Comprehensive Income to Statements of Operations (Effective Portion)
Foreign exchange forward contracts	\$ 0.6	Operating expense	\$ 4.2
Total	<u>\$ 0.6</u>		<u>\$ 4.2</u>

The ineffective portion of the Company's derivative instruments on its consolidated statements of operations was immaterial during the year ended December 31, 2009.

Gains on the Company's non-designated derivative instruments recognized in its consolidated statements of operations during the year ended December 31, 2009, were as follows (in millions):

	Location of Gain in Statements of Operations	Gain Recognized in Statements of Operations
Derivatives not designated as hedging instruments:		
Foreign exchange forward contracts	Other income, net	\$ 4.9
Total		<u>\$ 4.9</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Note 9. Stockholders' Equity

Stock Repurchase Activities

In March 2008, the Company's Board of Directors (the "Board") approved a \$1.0 billion stock repurchase program (the "2008 Stock Repurchase Program"). Under this program, the Company repurchased approximately 20.7 million shares of our common stock at an average price of \$21.91 per share for a total purchase price of \$453.5 million in 2009. As of December 31, 2009, the 2008 Stock Repurchase Program had remaining authorized funds of \$318.6 million.

In 2008, the Company repurchased \$604.7 million, or 25.1 million shares of common stock, at an average purchase price of \$24.10 per share, under the 2008 Stock Repurchase Program and the \$2.0 billion stock repurchase program approved in 2006 and 2007 (the "2006 Stock Repurchase Program"). As of December 31, 2008, the 2006 Stock Repurchase Program had no remaining authorized funds available for future stock repurchases.

All shares of common stock purchased under the 2006 and 2008 Stock Repurchase Programs have been retired. Future share repurchases under the Company's 2008 Stock Repurchase Program will be subject to a review of the circumstances in place at the 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. This program may be discontinued at any time. See Note 16, *Subsequent Events*, for discussion of our stock repurchase activity in 2010.

Convertible Preferred Stock

There are 10,000,000 shares of convertible preferred stock with a par value of \$0.00001 per share authorized for issuance. No preferred stock was issued and outstanding as of December 31, 2009, and December 31, 2008.

Note 10. Employee Benefit Plans

Stock Option Plans

2006 Equity Incentive Plan

On May 18, 2006, the Company's stockholders adopted the Company's 2006 Equity Incentive Plan (the "2006 Plan") to enable the granting of incentive stock options, nonstatutory stock options, RSUs, restricted stock, stock appreciation rights, performance shares, performance units, deferred stock units, and dividend equivalents to the employees and consultants of the Company. The 2006 Plan also provides for automatic, non-discretionary awards of nonstatutory stock options and RSUs to the Company's non-employee members of the Board.

The maximum aggregate number of shares authorized under the 2006 Plan is 64,500,000 shares of common stock, plus the addition of any shares subject to outstanding options under the Company's Amended and Restated 1996 Stock Plan (the "1996 Plan") and the Company's 2000 Nonstatutory Stock Option Plan (the "2000 Plan") to the extent that they expire unexercised after May 18, 2006, up to a maximum of 75,000,000 additional shares of common stock.

Options granted under the 2006 Plan have a maximum term of seven years from the grant date, and generally vest and become exercisable over a four-year period. Subject to the terms of change of control severance agreements, and except for a limited number of shares allowed under the 2006 Plan, restricted stock, performance shares, RSUs, or deferred stock units that vest solely based on continuing employment or provision of services will vest in full no earlier than the three-year anniversary of the grant date, or in the event vesting is based on factors other than continued future provision of services, such awards will vest in full no earlier than the one-year anniversary of the grant date.

The 2006 Plan provides each non-employee director an automatic grant of an option to purchase 50,000 shares of common stock on the date such individual first becomes a director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy (the "First Option"). In addition, at each of the Company's annual stockholder meetings (i) each non-employee director who was a non-employee director on the

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

date of the prior year's annual stockholder meeting shall be automatically granted RSUs for a number of shares equal to the Annual Value (as defined below), and (ii) each non-employee director who was not a non-employee director on the date of the prior year's annual stockholder meeting shall receive a RSU award for a number of shares determined by multiplying the Annual Value by a fraction, the numerator of which is the number of days since the non-employee director received their First Option, and the denominator of which is 365, rounded down to the nearest whole share. Each RSU award specified in (i) and (ii) are referred to herein as an "Annual Award." The Annual Value means the number of RSUs equal to \$125,000 divided by the average daily closing price of the Company's common stock over the six month period ending on the last day of the fiscal year preceding the date of grant. The First Option vests monthly over approximately three years from the grant date subject to the non-employee director's continuous service on the Board. The Annual Award shall vest approximately one year from the grant date subject to the non-employee director's continuous service on the Board. Under the 2006 Plan, options granted to non-employee directors have a maximum term of seven years.

2000 Nonstatutory Stock Option Plan

In July 2000, the Board adopted the 2000 Plan. The 2000 Plan provided for the granting of nonstatutory stock options to employees, directors, and consultants. Options granted under the 2000 Plan generally become exercisable over a four-year period beginning on the date of grant and have a maximum term of ten years. The Company had authorized 90,901,437 shares of common stock for issuance under the 2000 Plan. Effective May 18, 2006, additional equity awards under the 2000 Plan were discontinued and new equity awards are being granted under the 2006 Plan. Remaining authorized shares under the 2000 Plan that were not subject to outstanding awards as of May 18, 2006, were canceled on May 18, 2006. The 2000 Plan will remain in effect as to outstanding equity awards granted under the plan prior to May 18, 2006.

Amended and Restated 1996 Stock Plan

The 1996 Plan provided for the granting of incentive stock options to employees and nonstatutory stock options to employees, directors, and consultants. On November 3, 2005, the Board adopted an amendment to the 1996 Plan to add the ability to issue RSUs under the 1996 Plan. Options granted under the 1996 Plan generally become exercisable over a four-year period beginning on the date of grant and have a maximum term of ten years. The Company had authorized 164,623,039 shares of common stock for issuance under the 1996 Plan. Effective May 18, 2006, additional equity awards under the 1996 Plan were discontinued and new equity awards are being granted under the 2006 Plan. Remaining authorized shares under the 1996 Plan that were not subject to outstanding awards as of May 18, 2006, were canceled on May 18, 2006. The 1996 Plan will remain in effect as to outstanding equity awards granted under the plan prior to May 18, 2006.

Plans Assumed Upon Acquisition

In connection with past acquisitions, the Company assumed options and restricted stock under the stock plans of the acquired companies. The Company exchanged those options and restricted stock for Juniper Networks' options and restricted stock and, in the case of the options, authorized the appropriate number of shares of common stock for issuance pursuant to those options. As of December 31, 2009, there were approximately 2.0 million shares of common stock subject to outstanding awards under plans assumed through past acquisitions. There was no restricted stock subject to repurchase as of December 31, 2009, and 2008. There were no restricted stock repurchases during 2009, 2008, and 2007.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Stock Option Activities

A summary of the Company's stock option activity and related information as of and for the three years ended December 31, 2009, is set forth in the following table:

	<u>Outstanding Options</u>			
	<u>Number of Shares</u> (In thousands)	<u>Weighted- Average Exercise Price</u> (In dollars)	<u>Weighted Average Remaining Contractual Term</u> (In years)	<u>Aggregate Intrinsic Value</u> (In thousands)
Balance at December 31, 2006	82,092	\$ 18.66		
Options granted	14,745	22.91		
Options exercised	(22,399)	15.43		
Options canceled	(2,879)	19.19		
Options expired	(4,631)	24.56		
Balance at December 31, 2007	66,928	20.36		
Options granted	15,717	23.08		
Options exercised	(5,701)	14.49		
Options canceled	(2,429)	22.03		
Options expired	(878)	28.75		
Balance at December 31, 2008	73,637	21.24		
Options granted	9,887	17.86		
Options exercised	(8,651)	14.59		
Options canceled	(2,295)	21.57		
Options expired	(5,217)	34.91		
Balance at December 31, 2009	<u>67,361</u>	<u>\$ 20.84</u>	<u>4.6</u>	<u>\$ 451,238</u>
As of December 31, 2009:				
Vested or expected-to-vest options	59,840	\$ 20.82	4.5	\$ 405,065
Exercisable options	44,012	20.91	4.0	302,384

Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$26.67 as of December 31, 2009, and the exercise price multiplied by the number of related options. The pre-tax intrinsic value of options exercised, representing the difference between the fair market value of the Company's common stock on the date of the exercise and the exercise price of each option, was \$83.6 million, \$66.7 million, and \$291.7 million for 2009, 2008, and 2007, respectively. Total fair value of options vested during 2009, 2008, and 2007 was \$88.9 million, \$70.3 million, and \$78.8 million, respectively.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The following table summarizes information about stock options outstanding under all option plans as of December 31, 2009:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding (In thousands)	Weighted-Average Remaining Contractual Life (In years)	Weighted-Average Exercise Price (In dollars)	Number Exercisable (In thousands)	Weighted-Average Exercise Price (In dollars)
\$0.31 - \$10.31	6,798	2.4	\$ 8.62	6,798	\$ 8.62
\$10.54 - \$15.09	12,137	5.3	14.83	4,258	14.59
\$15.17 - \$18.01	8,291	4.6	17.30	4,520	17.31
\$18.03 - \$21.56	7,025	3.8	19.37	5,441	19.24
\$21.73 - \$23.53	6,933	5.2	22.66	6,172	22.65
\$23.69 - \$24.61	6,836	4.9	24.17	6,130	24.13
\$24.73 - \$25.73	6,945	5.2	25.25	3,408	25.31
\$25.93 - \$28.17	6,988	5.4	26.93	3,505	27.18
\$28.30 - \$135.67	5,404	3.5	36.87	3,775	38.87
\$183.06 - \$183.06	4	0.7	183.06	4	183.06
\$0.31 - \$183.06	<u>67,361</u>	4.6	\$ 20.84	<u>44,011</u>	\$ 20.91

As of December 31, 2009, approximately 44.0 million shares of common stock were exercisable at an average exercise price of \$20.91 per share. As of December 31, 2008, approximately 47.2 million shares of common stock were exercisable at an average exercise price of \$20.59 per share.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Restricted Stock Units and Performance Share Awards Activities

RSUs generally vest over a period of three to four years from the date of grant and performance share awards granted generally vest from 2009 through 2012 provided that certain annual performance targets and other vesting criteria are met. Until vested, RSUs and performance share awards do not have the voting and dividend participation rights of common stock and the shares underlying the awards are not considered issued and outstanding. The following table summarizes information about the Company's RSUs and performance share awards for the three years ended December 31, 2009:

	Outstanding RSUs and Performance Share Awards			
	Number of Shares (In thousands)	Weighted-Average Grant-Date Fair Value (In dollars)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Balance at December 31, 2006	3,221	\$ 18.43		
RSUs and performance share awards granted	3,606	25.39		
RSUs and performance share awards vested	(3)	21.90		
RSUs and performance share awards canceled	(540)	18.73		
Balance at December 31, 2007	6,284	\$ 22.40		
RSUs and performance share awards granted	3,022	24.51		
RSUs and performance share awards vested	(1,904)	18.37		
RSUs and performance share awards canceled	(710)	21.49		
Balance at December 31, 2008	6,692	\$ 24.59		
RSUs and performance share awards granted	4,797	17.98		
RSUs and performance share awards vested	(1,432)	21.19		
RSUs and performance share awards canceled	(934)	23.57		
Balance at December 31, 2009	9,123	\$ 21.76		\$ 243,323
As of December 31, 2009:				
Vested and expected-to-vest RSUs and performance share awards	5,913	\$ 21.80	1.5	157,706

In the three years ended December 31, 2009, 2008, and 2007, the Company granted RSUs covering approximately, 1.8 million, 1.5 million, and 2.9 million shares of common stock, respectively. Additionally, the Company granted performance shares, covering approximately, 3.0 million, 1.5 million, and 0.7 million shares of common stock in the three years ended December 31, 2009, 2008, and 2007, respectively. The number of shares subject to performance share awards granted represents the maximum number of shares that may be issued pursuant to the award over its full term.

Employee Stock Purchase Plan

In April 1999, the Board approved the adoption of Juniper Networks 1999 Employee Stock Purchase Plan (the "1999 Purchase Plan"). The 1999 Purchase Plan permits eligible employees to acquire shares of the Company's common stock through periodic payroll deductions of up to 10% of base compensation. Each employee may purchase no more than 6,000 shares in any twelve-month period, and in no event, may an employee purchase more than \$25,000 worth of stock, determined at the fair market value of the shares at the time such option is granted, in one calendar year. The 1999 Purchase Plan is implemented in a series of offering periods, each six months in duration, or a shorter period as determined by the Board. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable offering period or on the last day of the applicable offering period. As a result of the Company's failure to file its Quarterly Reports on Form 10-Q for the second and third quarters of 2006, the Company had suspended its employee payroll withholdings for the purchase of its common stock under the 1999 Purchase Plan from August 2006 through March 2007. In January 2007, the Board approved a delay of the start of the offering period from February 1, 2007, to April 1, 2007. Such offering period ended on July 31, 2007.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

In May 2008, the Company's stockholders approved the adoption of the Juniper Networks 2008 Employee Stock Purchase Plan (the "2008 Purchase Plan"), which replaced the 1999 Purchase Plan. The Board has reserved an aggregate of 12,000,000 shares of the Company's common stock for issuance under the 2008 Purchase Plan. The 2008 Purchase Plan is generally similar to the 1999 Purchase Plan, except that under the 2008 Purchase Plan, any increases to the number of shares reserved for issuance must be approved by the Company's stockholders. The first offering period of the 2008 Purchase Plan commenced on the first trading day after February 1, 2009.

Employees purchased approximately 3.2 million, 1.6 million, and 0.6 million shares of common stock through the 2008 Purchase Plan and 1999 Purchase Plan at an average exercise price of \$12.16, \$22.57, and \$17.08 per share during fiscal years 2009, 2008, and 2007, respectively. As of December 31, 2009, approximately 1.6 million shares had been issued under the 2008 Purchase Plan, and 10.4 million shares remained available for future issuance under the 2008 Purchase Plan. As of December 31, 2008, approximately 8.1 million shares had been issued since inception, and 12.3 million shares remained available for future issuance under the 1999 Purchase Plan. Effective February 1, 2009, immediately following the conclusion of the offering period ended January 30, 2009, the 1999 Purchase Plan was discontinued, and no shares remained available for future issuance under such plan.

Shares Available for Grant

The following table presents the total number of shares available for grant under the 2006 Plan as of December 31, 2009:

	<u>Number of Shares</u> (In thousands)
Balance at January 1, 2009	28,589
RSUs and performance share awards granted(1)	(10,073)
Options granted	(9,887)
RSUs canceled(1)	1,845
Options canceled(2)	2,295
Options expired(2)	5,198
Balance at December 31, 2009	<u>17,967</u>

(1) RSUs and performance share awards with a per share or unit purchase price lower than 100% of the fair market value of the Company's common stock on the day of the grant under the 2006 Plan are counted against shares authorized under the plan as two and one-tenth shares of common stock for each share subject to such award. The number of shares subject to performance share awards granted represents the maximum number of shares that may be issued pursuant to the award over its full term.

(2) Includes canceled or expired options under the 1996 Plan and the 2000 Plan that expired unexercised after May 18, 2006.

Common Stock Reserved for Future Issuance

As of December 31, 2009, the Company had reserved an aggregate of approximately 104.8 million shares of common stock for future issuance under its stock awards plans and the 2008 Purchase Plan.

Stock-Based Compensation Expense

The Company has elected to use the BSM option-pricing model, which incorporates various assumptions including volatility, risk-free interest rate, expected life, and dividend yield to calculate the fair value of stock option awards and common shares issues under the 1999 and 2008 Purchase Plans. The expected volatility is based on the implied volatility of market traded options on the Company's common stock, adjusted for other relevant factors including historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options. The expected life of an award is based on historical

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

experience and on the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that had not been exercised at the time.

In 2007, the government of India implemented a new fringe benefit tax that applies to equity awards granted to India taxpayers. This fringe benefit tax is payable by the issuer of the equity awards; however, the issuer is allowed to recover from individual award holders the fringe benefit taxes the issuer paid on their applicable equity awards. Beginning in January 2008, the Company amended its equity award agreements for future stock-based awards made to its employees in India to provide for the Company to be reimbursed for fringe benefit taxes paid in relation to applicable equity awards. The Company elected to use a BSM option-pricing model that incorporated a Monte Carlo simulation to calculate the fair value of stock-based awards issued under the amended equity award agreements. In August 2009, the government of India repealed the fringe benefit tax that applied to equity awards granted to India taxpayers. As of the effective date of the repeal, the Company discontinued the Monte Carlo simulation into its BSM option-pricing model to calculate the fair value of stock-based awards granted to its India employees subsequent to the repeal.

The assumptions used and the resulting estimates of fair value for employee stock options during the three years ended December 31, 2009, were:

	Years Ended December 31,		
	2009	2008	2007
Employee Stock Options:			
Volatility factor	42% - 58%	43% - 60%	34% - 46%
Risk-free interest rate	0.4% - 4.2%	1.1% - 4.4%	3.3% - 5.1%
Expected life (years)	4.3 - 5.8	3.6 - 5.9	3.5 - 3.7
Dividend yield	—	—	—
Fair value per share	\$6.02 - \$10.49	\$6.76 - \$10.88	\$6.42 - \$13.28

The assumptions used and the resulting estimates of weighted average fair value per share under the employee stock purchase plan during the three years ended December 31, 2009, were:

	Years Ended December 31,		
	2009	2008	2007
Employee Stock Purchase Plan:			
Volatility factor	46% - 58%	46% - 48%	38%
Risk-free interest rate	2.8% - 3.9%	1.9% - 2.2%	5.0%
Expected life (years)	0.5	0.5	0.4
Dividend yield	—	—	—
Weighted-average fair value per share	\$4.51 - \$7.35	\$7.40 - \$7.80	\$6.52

The Company determines the fair value of its RSUs and performance share awards based upon the fair market value of the shares of the Company's common stock at the date of grant. The Company expenses the cost of RSUs ratably over the period during which the restrictions lapse. In addition, the Company estimates stock compensation expense for its performance share awards based on the vesting criteria and only recognized expense for the portions of such awards for which annual targets have been set. The weighted average fair value per share of RSUs and performance share awards granted during these periods were:

	Years Ended December 31,		
	2009	2008	2007
Weighted-average fair value per share:			
RSUs	\$17.87	\$23.51	\$27.08
Performance share awards	\$18.05	\$25.61	\$18.28

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The Company's stock-based compensation expense associated with stock options, employee stock purchases, RSUs, and performance share awards is recorded in the following cost and expense categories for the three years ended December 31, 2009, (in millions):

	Years Ended December 31,		
	2009	2008	2007
Cost of revenues — Product	\$ 3.9	\$ 3.0	\$ 2.1
Cost of revenues — Service	11.7	9.2	8.7
Research and development	59.3	47.0	36.6
Sales and marketing	41.9	36.2	27.9
General and administrative	22.9	12.7	12.7
Total	<u>\$139.7</u>	<u>\$108.1</u>	<u>\$88.0</u>

During the three years ended December 31, 2009, 2008, and 2007, the Company recorded stock-based compensation expense related to employee stock options in the amount of \$81.2 million, \$59.7 million and \$58.2 million, respectively. As of December 31, 2009, approximately \$129.4 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options will be recognized over a weighted average period of approximately 2.5 years.

The Company recorded stock-based compensation expense related to its employee stock purchase plans in the amount of \$14.4 million, \$13.2 million, and \$7.6 million for the three years ended December 31, 2009, 2008, 2007, respectively.

The Company recognized stock compensation expense of \$44.1 million, \$35.2 million, and \$22.2 million for the three years ended December 31, 2009, 2008, and 2007, respectively, in connection with RSUs and performance share awards. As of December 31, 2009, approximately \$60.9 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs and unvested performance share awards will be recognized over a weighted-average period of approximately 2.2 years.

Extension of Stock Option Exercise Periods for Former Employees

The Company could not issue any securities under its registration statements on Form S-8 during the period in which it was not current in its SEC reporting obligations to file periodic reports under the Securities Exchange Act of 1934. As a result, during parts of 2007, options vested and held by certain former employees of the Company could not be exercised until the completion of the Company's stock option investigation and the Company's public filings obligations had been met (the "trading black-out period"). The Company extended the expiration date of these stock options to April 7, 2007, the end of a 30-day period subsequent to the Company's filing of its required regulatory reports. As a result of the extensions, the fair values of such stock options had been reclassified to current liabilities subsequent to the modification and were subject to mark-to-market provisions at the end of each reporting period until the earlier of final settlement or April 7, 2007. Stock options covering approximately 660,000 shares of common stock were scheduled to expire and could not be exercised as a result of the trading black-out period restriction during the first quarter of 2007. The Company measured the fair value of these stock options using the BSM option valuation model and recorded an expense of approximately \$4.3 million in the first quarter of 2007. In addition, the Company recorded an expense of \$4.4 million in the first quarter of 2007 associated with the approximately 1,446,000 shares covered by such options which had exercise periods extended in 2006 as a result of the trading black-out period restriction. As of December 31, 2007, all of these extended stock options were either exercised or expired un-exercised. All previously recorded liabilities associated with such extensions were reclassified to additional paid-in capital by the second quarter of 2007.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Amendment of Certain Stock Options

In 2007, the Company completed a tender offer to amend certain options granted under the 1996 Plan and the 2000 Plan that had original exercise prices per share that were less than the fair market value per share of the common stock underlying the option on the option's grant date, as determined by the Company for financial accounting purposes. Under this tender offer, employees subject to taxation in the United States and Canada had the opportunity to increase their strike price on affected options to the appropriate fair market value per share on the date of grant so as to avoid unfavorable tax consequences under United States Internal Revenue Code Section 409A ("409A issue") or Canadian tax laws and regulations. In exchange for increasing the strike price of these options, the Company committed to make a cash payment to employees participating in the offer so as to make employees whole for the incremental strike price as compared to their original option exercise price. In connection with this offer, the Company amended options to purchase 4.3 million shares of its common stock and committed to make aggregate cash payments of \$7.6 million to offer participants and recorded such amount as operating expense in 2007.

In addition, the Company entered into a separate agreement with two executives in 2007 to amend their unexercised stock options covering 0.1 million shares of the Company's common stock in order to cure the 409A issue associated with such stock options. As a result, the Company committed to make aggregate cash payments of \$0.4 million and recorded this payment liability as operating expense in 2007.

401(k) Plan

Juniper Networks maintains a savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees meeting the eligibility requirement, as defined, may contribute up to the statutory limits of the year. The Company has matched employee contributions since January 1, 2001. The Company currently matches 25% of all eligible employee contributions. All matching contributions vest immediately. The Company's matching contributions to the plan totaled \$11.9 million, \$10.7 million, and \$9.5 million in 2009, 2008, and 2007, respectively.

Deferred Compensation Plan

In July 2008, the Company formed a non-qualified deferred compensation ("NQDC") plan, which is an unfunded and unsecured deferred compensation arrangement. Under the NQDC plan, officers and other senior employees may elect to defer a portion of their compensation and contribute such amounts to one or more investment funds. The plan assets are included within investments and offsetting obligations are included within accrued compensation on the consolidated balance sheet. The investments are considered trading securities and are reported at fair value. The realized and unrealized holding gains and losses related to these investments are recorded in interest and other income, net, and the offsetting compensation expense are recorded operating expenses in the consolidated statements of operations. As of December 31, 2009, and 2008, the deferred compensation liability under this plan was approximately \$4.7 million and \$1.0 million, respectively.

Note 11. Segment Information

The Company's chief operating decision maker ("CODM") allocates resources and assesses performance based on financial information by the Company's business groups. The Company's operations are organized into two reportable segments: Infrastructure and SLT. The Infrastructure segment includes products from the E-, M-, MX-, and T-series router product families, EX-series switching products, as well as the circuit-to-packet products. The SLT segment consists primarily of Firewall virtual private network ("Firewall") systems and appliances, SRX services gateways, secure socket layer ("SSL") virtual private network ("VPN") appliances, intrusion detection and prevention ("IDP") appliances, the J-series router product family and wide area network ("WAN") optimization platforms.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The primary financial measure used by the CODM in assessing performance of the segments is segment operating income, which includes certain cost of revenues, R&D expenses, sales and marketing expenses, and general and administrative expenses. The CODM does not allocate certain miscellaneous expenses to its segments even though such expenses are included in the Company's management operating income.

For arrangements with both Infrastructure and SLT products and services, revenue is attributed to the segment based on the underlying purchase order, contract, or sell-through report. Direct costs and operating expenses, such as standard costs, research and development ("R&D"), and product marketing expenses, are generally applied to each segment. Indirect costs, such as manufacturing overhead and other cost of revenues, are allocated based on standard costs. Indirect operating expenses, such as sales, marketing, business development, and general and administrative expenses are generally allocated to each segment based on factors including headcount, usage, and revenue. The CODM does not allocate stock-based compensation, amortization of purchased intangible assets, restructuring and impairment charges, gains or losses on equity investments, other net income and expense, income taxes, as well as certain other charges to the segments.

The following table summarizes financial information for each segment used by the CODM (in millions):

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net revenues:			
Infrastructure:			
Product	\$1,959.2	\$2,301.9	\$1,753.2
Service	482.4	424.0	320.1
Total Infrastructure revenues	2,441.6	2,725.9	2,073.3
Service Layer Technologies:			
Product	608.8	609.1	573.8
Service	265.5	237.4	189.0
Total Service Layer Technologies revenues	874.3	846.5	762.8
Total net revenues	3,315.9	3,572.4	2,836.1
Operating income:			
Infrastructure	541.4	806.0	597.8
Service Layer Technologies	127.0	65.8	5.8
Total segment operating income	668.4	871.8	603.6
Other corporate(1)	—	(7.9)	—
Total management operating income	668.4	863.9	603.6
Amortization of purchased intangible assets(2)	(15.4)	(49.0)	(91.4)
Stock-based compensation expense	(139.7)	(108.1)	(88.0)
Stock-based compensation related payroll tax expense	(0.8)	(2.8)	(7.7)
Litigation settlement (charges) gain	(182.3)	(9.0)	5.3
Restructuring charges	(19.5)	—	(0.7)
Other charges(3)	—	—	(14.0)
Total operating income	310.7	695.0	407.1
Interest and other income, net	6.9	48.7	96.8
(Loss) gain on equity investments	(5.5)	(14.8)	6.7
Income before income taxes and noncontrolling interest	<u>\$ 312.1</u>	<u>\$ 728.9</u>	<u>\$ 510.6</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

- (1) Other corporate charges include severance and related costs associated with workforce-rebalancing activities, which are not included in the business segment results.
- (2) Amount includes amortization expense of purchased intangible assets in operating expenses and in costs of revenues.
- (3) Other charges for 2007 includes stock option amendment and tax-related charges. There were no such charges for 2009 and 2008.

AT&T, Inc., accounted for 10.4% of the Company's total net revenues for 2009. No single customer accounted for more than 10% of the Company's total net revenues for 2008. NSN and its predecessor companies accounted for 12.8% of the Company's net revenues for 2007.

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

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Americas:			
United States	\$1,515.1	\$1,537.5	\$1,215.8
Other	172.8	228.7	124.7
Total Americas	1,687.9	1,766.2	1,340.5
Europe, Middle East, and Africa	953.2	1,077.7	918.0
Asia Pacific	674.8	728.5	577.6
Total	<u>\$3,315.9</u>	<u>\$3,572.4</u>	<u>\$2,836.1</u>

The Company tracks assets by physical location. The majority of the Company's assets, excluding cash and cash equivalents and investments, as of December 31, 2009, and 2008 were attributable to U.S. operations. As of December 31, 2009, and 2008, property and equipment, held in the U.S. as a percentage of total property and equipment was 81% and 82%, respectively. Although management reviews asset information on a corporate level and allocates depreciation expense by segment, the CODM does not review asset information on a segment basis.

Note 12. Income Taxes

The components of income (loss) before the provision for income taxes and noncontrolling interest are summarized as follows (in millions):

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Domestic	\$ 50.1	\$363.7	\$225.9
Foreign	262.0	365.2	284.7
Total income before provision for income taxes and noncontrolling interest	<u>\$312.1</u>	<u>\$728.9</u>	<u>\$510.6</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The provision for income taxes is summarized as follows (in millions):

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current Provision:			
Federal	\$123.8	\$ 96.6	\$ 52.9
State	21.4	35.8	15.2
Foreign	43.5	39.3	48.0
Total current provision	188.7	171.7	116.1
Deferred expense/(benefit):			
Federal	(42.7)	21.4	(0.5)
State	55.7	(4.4)	(5.7)
Foreign	(5.9)	(2.7)	(3.6)
Total deferred expense/(benefit)	7.1	14.3	(9.8)
Income tax benefits attributable to employee stock plan activity	1.0	31.2	43.5
Total provision for income taxes	<u>\$196.8</u>	<u>\$217.2</u>	<u>\$149.8</u>

The provision for income taxes differs from the amount computed by applying the federal statutory rate to income (loss) before provision for income taxes as follows (in millions):

	<u>Years Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Expected provision at 35% rate	\$109.2	\$255.1	\$178.7
State taxes, net of federal benefit	(1.6)	16.6	6.5
Foreign income at different tax rates	(33.8)	(51.2)	(21.7)
R&D credits	(14.4)	(12.1)	(18.6)
Stock-based compensation	62.1	2.4	1.2
Temporary differences not currently benefited	72.8	—	—
Other	2.5	6.4	3.7
Total provision for income taxes	<u>\$196.8</u>	<u>\$217.2</u>	<u>\$149.8</u>

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Deferred income taxes reflect the net tax effects of tax carry-forward items and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in millions):

	<u>As of December 31,</u>	
	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Net operating loss carry-forwards	\$ 6.2	\$ 7.7
Foreign tax credit carry-forwards	34.1	27.8
Research and other credit carry-forwards	66.0	53.5
Deferred revenue	66.3	60.5
Stock-based compensation	68.3	84.8
Reserves and accruals not currently deductible	264.5	170.4
Other	25.8	19.7
Total deferred tax assets	<u>531.2</u>	<u>424.4</u>
Valuation allowance	<u>(112.8)</u>	<u>(41.5)</u>
Net deferred tax assets	418.4	382.9
Deferred tax liabilities:		
Property and equipment basis differences	(25.1)	(12.6)
Purchased intangibles	(37.8)	(39.3)
Unremitted foreign earnings	(148.3)	(114.7)
Other	<u>(0.3)</u>	<u>—</u>
Total deferred tax liabilities	<u>(211.5)</u>	<u>(166.6)</u>
Net deferred tax assets	<u>\$ 206.9</u>	<u>\$ 216.3</u>

As of December 31, 2009, and 2008, the Company had a valuation allowance on its U.S. domestic deferred tax assets of approximately \$112.8 million and \$41.5 million, respectively. The balance at December 31, 2009, consisted of approximately \$70.7 million against certain California deferred assets and approximately \$42.1 million relates to capital losses that will carry forward to offset future capital gains. The valuation allowance increased \$71.3 million in the year ended December 31, 2009. The 2009 increase was primarily due to changes in California income tax law which impacted the future taxable income within California and the tax rates that will apply to taxable income for the years in which the deferred tax assets are expected to be realized or settled. The valuation allowance increased \$7.2 million in the year ended December 31, 2008, primarily due to investment losses currently disallowed for income tax purposes.

As of December 31, 2009, the Company had federal and California net operating loss carry-forwards of approximately \$11.8 million and \$21.2 million, respectively. The Company also had California tax credit carry-forwards of approximately \$120.0 million. Approximately \$12.5 million of the benefit from the California tax credit carry-forwards will be credited to additional paid-in capital when utilized on the Company's income tax returns since they have not met the utilization criteria of ASC Topic 718. Unused net operating loss carry-forwards will expire at various dates beginning in the year 2012. The California tax credit carry-forwards will carry forward indefinitely.

The Company provides U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside of the United States. The Company has made no provision for U.S. income taxes on approximately \$902.9 million of cumulative undistributed earnings of certain foreign subsidiaries through December 31, 2009, because it is the Company's intention to permanently reinvest such

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

earnings. If such earnings were distributed, the Company would accrue additional income taxes expense of approximately \$274.5 million. These earnings are considered indefinitely invested in operations outside of the U.S., as we intend to utilize these amounts to fund future expansion of our international operations.

As of December 31, 2009, and 2008, the total amount of gross unrecognized tax benefits was \$183.6 million and \$113.5 million, respectively. As of December 31, 2009, approximately \$118.6 million of the \$183.6 million gross unrecognized tax benefits, if recognized, would affect the effective tax rate.

A reconciliation of the beginning and ending amount of the Company's total gross unrecognized tax benefits for the years ended December 31, 2009, and 2008 is as follows (in millions):

	<u>2009</u>	<u>2008</u>
Balance beginning of the year	\$113.5	\$ 94.7
Tax positions related to current year:		
Additions	12.7	17.9
Reductions	—	—
Tax positions related to prior years:		
Additions	73.5	1.3
Reductions	(1.0)	—
Settlements	(12.8)	(0.4)
Lapses in statutes of limitations	(2.3)	—
Balance end of the year	<u>\$183.6</u>	<u>\$113.5</u>

As of December 31, 2009, and 2008, the Company had accrued interest expense and penalties related to unrecognized tax benefits of \$23.5 million and \$8.7 million, respectively, within other long-term liabilities in the consolidated balance sheets. In accordance with the Company's accounting policy, accrued interest and penalties related to unrecognized tax benefits are recognized as a component of tax expense in the consolidated statements of operations. The Company recognized net interest and penalties expense of \$14.8 million and \$2.9 million in its consolidated statements of operations during the years ending December 31, 2009, and 2008, respectively.

The Company engages in continuous discussion and negotiation with tax authorities regarding tax matters in various jurisdictions. As a result, it is reasonably possible that the amount of the liability for unrecognized tax benefits may change within the next 12 months. However, an estimate of the range of possible change cannot be made at this time due to the high uncertainty of the resolution and/or closure on open audits. The Company does not expect complete resolution of any IRS audits or other audits within significant foreign or state jurisdictions within the next 12 months.

During 2009, the Company recorded unrecognized tax benefits related to share-based compensation due to a decision reached by the U.S. Court of Appeals for the Ninth Circuit ("the Court") in *Xilinx Inc. v. Commissioner*. On January 13, 2010, the Court withdrew their decision in a one-line order. The Court indicated that it will be taking further actions on this case, but did not indicate what actions it intended to take or the timing of such actions. There are several possible actions that the Court may take including: (a) issue another order that affirms the lower Tax Court's decision; (b) issue a new opinion that either affirms the Tax Court decision or reverses the Tax Court decision (e.g., based on different analysis); or (c) grant Xilinx's petition for a rehearing en banc, or for a re-hearing by the same three-judge panel that issued the original Ninth Circuit Court ruling. At this time, the Company has no indication as to which of these options the Court will pursue. Given the holding articulated in the Court's now withdrawn opinion, it is possible that the Court will pursue a course of action that will ultimately hold against Xilinx. As a result, the Company's judgment has not changed with regard to this particular unrecognized tax benefit. Should the Court conclude on this matter within the next 12 months, it is reasonably possible that the Company's unrecognized tax benefits will change by approximately \$73 million.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

The Company conducts business globally and, as a result, Juniper Networks or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Ireland, Hong Kong, U.K., France, Germany, The Netherlands, Japan, China, Australia, India, and the U.S. With few exceptions, the Company is no longer subject to U.S. federal, state and local, and non-U.S. income tax examinations for years before 2004, although carry-forward attributes that were generated prior to 2004 may still be adjusted upon examination by the IRS if the attributes either have been or will be used in a future period.

The Company is currently under examination by the IRS for the 2004 through 2006 tax years. The Company is also subject to two separate ongoing examinations by the India tax authorities for the 2004 and 2004 through 2008 tax years, respectively, and has received an inquiry from the Hong Kong tax authorities for the 2002 through 2006 tax years. Additionally, the Company has not reached a final resolution with the IRS on an adjustment it proposed for the 1999 and 2000 tax years. The Company is not aware of any other examination by taxing authorities in any other major jurisdictions in which it files income tax returns as of December 31, 2009.

In 2009, as part of the on-going 2004 IRS audit, the Company received a proposed adjustment related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. In March 2009, the Company received an assessment from the Hong Kong tax authorities specifically related to an inquiry of the 2002 tax year. In December 2008, the Company received a proposed adjustment from the India tax authorities related to the 2004 tax year.

In July 2009, the India tax authorities commenced a separate investigation of our 2004 through 2008 tax returns and are disputing the Company's determination of taxable income due to the cost basis of certain fixed assets. The Company recorded \$4.6 million in penalties and interest in 2009 relevant to this matter. The Company understands that the India tax authorities may issue an initial assessment that is substantially higher than this amount. As a result, in accordance with the administrative and judiciary process in India, the Company may be required to make payments that are substantially higher than the amount accrued in order to ultimately settle this issue. The Company strongly believes that any assessment it may receive in excess of the amount accrued would be inconsistent with applicable India tax laws and intends to defend this position vigorously.

The Company is pursuing all available administrative procedures relative to the matters referenced above. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to these proposed adjustments and the ultimate resolution of these matters is unlikely to have a material effect on its consolidated financial condition or results of operations; however there is still a possibility that an adverse outcome of these matters could have a material effect on its consolidated financial condition and results of operations. For more information, please see Note 13, *Commitments and Contingencies*, under the heading "IRS Notices of Proposed Adjustments."

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Note 13. Commitments and Contingencies*Commitments*

The following table summarizes the Company's principal contractual obligations as of December 31, 2009, (in millions):

	<u>Total</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Other</u>
Operating leases	\$303.9	\$ 51.6	\$42.3	\$36.7	\$27.6	\$23.8	\$ 121.9	\$ —
Sublease rental income	(0.6)	(0.6)	—	—	—	—	—	—
Purchase commitments	139.5	139.5	—	—	—	—	—	—
Tax liabilities	177.0	1.5	—	—	—	—	—	175.5
Other contractual obligations	39.3	18.3	13.5	5.6	1.9	—	—	—
Total	<u>\$659.1</u>	<u>\$210.3</u>	<u>\$55.8</u>	<u>\$42.3</u>	<u>\$29.5</u>	<u>\$23.8</u>	<u>\$ 121.9</u>	<u>\$175.5</u>

Operating Leases

The Company leases its facilities under operating leases that expire at various times, the longest of which expires in November 2022. Future minimum payments under the non-cancelable operating leases, net of committed sublease income, totaled \$303.3 million as of December 31, 2009. Rent expense for 2009, 2008, and 2007 was approximately \$56.6 million, \$58.0 million, and \$48.7 million, respectively.

In October 2009, the Company amended three existing leases for the Company's corporate headquarters facilities in Sunnyvale, California. Each lease was amended to: (i) extend the underlying lease term, and (ii) establish new monthly base rent payments for periods after November 1, 2009. The new monthly base rent payments represent a significant reduction in base rent that would have been payable for the previously remaining terms of each of the underlying leases.

Purchase Commitments

In order to reduce manufacturing lead times and ensure adequate component supply, contract manufacturers utilized by the Company place non-cancelable, non-returnable ("NCNR") orders for components based on the Company's build forecasts. As of December 31, 2009, there were NCNR component orders placed by the contract manufacturers with a value of \$139.5 million. The contract manufacturers use the components to build products based on the Company's forecasts and on purchase orders that the Company has received from customers. Generally, the Company does not own the components and title to the products transfers from the contract manufacturers to the Company and immediately to the Company's customers upon delivery at a designated shipment location. If the components remain unused or the products remain unsold for specified periods, the Company may incur carrying charges or obsolete materials charges for components that the contract manufacturers purchased to build products to meet the Company's forecast or customer orders. As of December 31, 2009, the Company had accrued \$27.8 million based on its estimate of such charges.

Tax Liabilities

As of December 31, 2009, the Company had \$177.0 million included in current and long-term liabilities in the consolidated balance sheet for unrecognized tax positions. It is reasonably possible that the Company may reach agreement on certain issues and, as a result, the amount of the liability for unrecognized tax benefits may decrease by approximately \$1.5 million within the next 12 months. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments related to the additional \$175.5 million in liability due to uncertainties in the timing of tax audit outcomes.

Juniper Networks, Inc.**Notes to Consolidated Financial Statements — (Continued)*****Other Contractual Obligations***

As of December 31, 2009, other contractual obligations consists of an indemnity-related escrow amount of \$1.3 million, a five-year \$36.4 million data center hosting agreement, a three-year \$22.7 million software subscription, and a joint development agreement with a third-party for development of network-related technology, which requires quarterly payments of \$3.5 million through January 2010. The Company records the quarterly payment to the third-party developer as R&D expense in its consolidated statements of operations until the technology under development has reached technological feasibility. Pursuant to the joint development agreement, in exchange for each party's respective contributions to the development effort as well as the consideration payable by the Company, each party will obtain a license to the technology that result from the development for use in certain of their respective product lines. As of December 31, 2009, \$19.1 million remained unpaid under the data center hosting agreement with the remaining commitment expected to be paid through the end of April 2013, and \$15.4 million remained unpaid under the software subscription agreement with the remaining commitment expected to be paid through the end of January 2011, and \$3.5 million remained under the joint development agreement.

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 infringe the intellectual property rights of a third party. Other guarantees or indemnification arrangements include guarantees of product and service performance, guarantees related to third-party customer financing arrangements, and standby letters of credit for certain lease facilities. As of December 31, 2009, the Company had \$34.0 million in guarantees and standby letters of credit and recorded a liability of \$21.9 million related to a third-party customer-financing guarantee. As of December 31, 2008, the Company had not recorded a liability related to its guarantees and indemnification arrangements.

Legal Proceedings

The Company is subject to legal claims and litigation arising in the ordinary course of business, such as employment or intellectual property claims, including the matters described below. The outcome of any such matters is currently not determinable. Although the Company does not expect that any such legal claims or litigation will ultimately have a material adverse effect on its consolidated financial condition or results of operations, an adverse result in one or more of such matters could negatively affect the Company's consolidated financial results in the period in which they occur.

Federal Securities Class Action

On July 14, 2006, and August 29, 2006, two purported class actions were filed in the Northern District of California against the Company and certain of the Company's current and former officers and directors. On November 20, 2006, the Court consolidated the two actions as *In re Juniper Networks, Inc. Securities Litigation*, No. C06-04327-JW, and appointed the New York City Pension Funds as lead plaintiffs. The lead plaintiffs filed a Consolidated Class Action Complaint on January 12, 2007, and filed an Amended Consolidated Class Action Complaint on April 9, 2007. The Amended Consolidated Complaint alleges that the defendants violated federal securities laws by manipulating stock option grant dates to coincide with low stock prices and issuing false and misleading statements including, among others, incorrect financial statements due to the improper accounting of stock option grants. The Amended Consolidated Complaint asserts claims for violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 on behalf of all persons who purchased or otherwise acquired Juniper Networks' publicly-traded securities from July 12, 2001, through and including August 10, 2006. Plaintiffs seek unspecified damages in an unspecified amount. On June 7, 2007, the defendants filed a motion to dismiss certain of the claims, and a hearing was held on September 10, 2007. On March 31, 2008, the Court issued an order granting in

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

part and denying in part the defendants' motion to dismiss. The order dismissed with prejudice plaintiffs' section 10 (b) claim to the extent it was based on challenged statements made before July 14, 2001. The order also dismissed, with leave to amend, plaintiffs' section 10(b) claim against Pradeep Sindhu. The order upheld all of plaintiffs' remaining claims. Plaintiffs did not amend their complaint.

On September 25, 2009, the Court certified a plaintiff class consisting of all persons and entities who purchased or otherwise acquired the Company's securities from July 11, 2003 to August 10, 2006 inclusive, and were damaged thereby, including those who received or acquired Juniper Networks' common stock issued pursuant to the registration statement on SEC Form S-4, dated March 10, 2004, for the Company's merger with NetScreen Technologies Inc.; and purchasers of Zero Coupon Convertible Senior Notes due June 15, 2008 issued pursuant to a registration statement on SEC Form S-3 dated November 20, 2003. Excluded from the Class are the Defendants and the current and former officers and directors of the Company, their immediate families, their heirs, successors, or assigns and any entity controlled by any such person.

On February 5, 2010, the Company and the lead plaintiffs entered into an agreement in principle to settle the claims against the Company and each of the Company's current and former officers and directors. The settlement is contingent upon approval by the Boards of Trustees of the lead plaintiffs and approval by the Court. Under the proposed settlement, the claims against the Company and its officers and directors will be dismissed with prejudice and released in exchange for a \$169.0 million cash payment by the Company. The Company considers the proposed payment to be probable and reasonably estimable and, therefore, recorded the cash settlement amount as a pre-tax operating expense in its consolidated statement of operations for the fourth quarter ended December 31, 2009.

Calamore Proxy Statement Action

On March 28, 2007, an action titled *Jeanne M. Calamore v. Juniper Networks, Inc., et al.*, No. C-07-1772-JW, was filed by Jeanne M. Calamore in the Northern District of California against the Company and certain of the Company's current and former officers and directors. The complaint alleges that the proxy statement for the Company's 2006 Annual Meeting of Stockholders contained various false and misleading statements in that it failed to disclose stock option backdating information. As a result, the plaintiff seeks preliminary and permanent injunctive relief with respect to the Company's 2006 Equity Incentive Plan, including seeking to invalidate the plan and all equity awards granted and grantable thereunder. On May 21, 2007, the Company filed a motion to dismiss, and the plaintiff filed a motion for preliminary injunction. On July 19, 2007, the Court issued an order denying the plaintiff's motion for a preliminary injunction and dismissing the complaint in its entirety with leave to amend. The plaintiff filed an amended complaint on August 27, 2007, and the defendants filed a motion to dismiss on October 9, 2007. On August 13, 2008, the Court issued an order granting the Company's motion to dismiss with prejudice, and entered final judgment in favor of the Company. On September 9, 2008, the plaintiff filed a Notice of Appeal in the United States Court of Appeals for the Ninth Circuit. The plaintiff's appeal was fully briefed and the Court of Appeals heard oral argument on the appeal on October 7, 2009. On February 5, 2010, the Ninth Circuit issued a memorandum decision affirming the District Court's dismissal with prejudice. On February 19, 2010, plaintiff filed a Petition for Rehearing and Suggestion for Rehearing *En Banc*.

IPO Allocation Case

In December 2001, a class action complaint was filed in the United States District Court for the Southern District of New York against the Goldman Sachs Group, Inc., Credit Suisse First Boston Corporation, FleetBoston Robertson Stephens, Inc., Royal Bank of Canada (Dain Rauscher Wessels), SG Cowen Securities Corporation, UBS Warburg LLC (Warburg Dillon Read LLC), Chase (Hambrecht & Quist LLC), J.P. Morgan Chase & Co., Lehman Brothers, Inc., Salomon Smith Barney, Inc., Merrill Lynch, Pierce, Fenner & Smith, Incorporated (collectively, the "Underwriters"), Juniper Networks and certain of Juniper Networks' officers. This action was brought on behalf of purchasers of the Company's common stock in its initial public offering in June 1999 and the Company's secondary offering in September 1999.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Specifically, among other things, this complaint alleged that the prospectus pursuant to which shares of common stock were sold in the Company's initial public offering and the Company's subsequent secondary offering contained certain false and misleading statements or omissions regarding the practices of the Underwriters with respect to their allocation of shares of common stock in these offerings and their receipt of commissions from customers related to such allocations. Various plaintiffs have filed actions asserting similar allegations concerning the initial public offerings of approximately 300 other issuers. These various cases pending in the Southern District of New York have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation*, 21 MC 92. In April 2002, the plaintiffs filed a consolidated amended complaint in the action against the Company, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The defendants in the coordinated proceeding filed motions to dismiss. In October 2002, the Company's officers were dismissed from the case without prejudice pursuant to a stipulation. On February 19, 2003, the Court granted in part and denied in part the motion to dismiss, but declined to dismiss the claims against the Company.

In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the Court for approval. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the Appellate Court overturned the certification of classes in the six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceedings (the action involving the Company is not one of the six test cases). Because class certification was a condition of the settlement, it was unlikely that the settlement would receive final Court approval. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon a stipulation among the parties to the settlement. The plaintiffs have filed amended master allegations and amended complaints in the six focus cases. On March 26, 2008, the Court largely denied the defendants' motion to dismiss the amended complaints in the six test cases.

The parties have reached a global settlement of the litigation. On October 5, 2009, the Court entered an Opinion and Order granting final approval of the settlement. Under the settlement, the insurers are to pay the full amount of settlement share allocated to the Company, and the Company will bear no financial liability. The Company, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, will receive complete dismissals from the case. Certain objectors have appealed the Court's October 5, 2009, final order to the Second Circuit Court of Appeals.

16(b) Demand

On October 3, 2007, a purported Juniper Networks shareholder filed a complaint for violation of Section 16(b) of the Securities Exchange Act of 1934, which prohibits short-swing trading, against the Company's IPO underwriters. The complaint, *Vanessa Simmonds v. The Goldman Sachs Group, et al.*, Case No. C07-015777, in District Court for the Western District of Washington, seeks the recovery of short-swing profits. The Company is named as a nominal defendant. No recovery is sought from the Company in this matter.

Menlo Equities

In December 2008, Menlo Equities Development Company II, LLC ("Menlo Equities") initiated in an arbitration proceeding against the Company. Menlo Equities and the Company are members of Menlo/Juniper Networks LLC and are parties to an Operating Agreement and a Development Services Agreement relating to certain real estate in Sunnyvale, California purchased in 2000. The dispute related to whether the Company would be obligated to pay Menlo Equities certain fees under the agreements, if and when the real estate is developed or sold. Menlo Equities asserted that it is entitled to immediate payment of damages of approximately \$29.0 million plus attorney's fees as a result of a repudiation and breach of the agreements. The Company denied Menlo Equities' allegations. An arbitration hearing was conducted in June 2009, and the arbitrator issued an interim decision in September that ruled in Menlo's favor in most areas. On December 28, 2009, the parties resolved the dispute through an amendment of the underlying agreements whereby the Company acquired Menlo Equities' interest in the LLC pursuant to the amended buy out provisions of the Operating Agreement for \$13.0 million, which the

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

Company recorded as litigation settlement charges within operating expenses on the consolidated statement of operations for the year ended December 31, 2009, and each party was relieved of all obligations under the Development Services Agreement. In addition, the Company was released from all claims and the parties agreed to terminate the arbitration.

IRS Notices of Proposed Adjustments

In 2007, the IRS opened an examination of the Company's U.S. federal income tax and employment tax returns for the 2004 fiscal year. Subsequently, the IRS extended their examination of the Company's employment tax returns to include fiscal years 2005 and 2006. As of December 31, 2009, the IRS has not yet concluded its examinations of these returns. In September 2008, as part of its ongoing audit of the U.S. federal income tax return, the IRS issued a Notice of Proposed Adjustment ("NOPA") regarding the Company's business credits. The Company believes that it has adequately provided for any reasonable foreseeable outcome related to this proposed adjustment.

In July 2009, the Company received a NOPA from the IRS claiming that the Company owes additional taxes, plus interest and possible penalties, for the 2004 tax year based on a transfer pricing transaction related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. The asserted changes to the Company's 2004 tax year would affect the Company's income tax liabilities in tax years subsequent to 2003. Because of the NOPA, the estimated incremental tax liability would be approximately \$807.0 million, excluding interest and penalties. The Company has filed a protest to the proposed deficiency with the IRS, which will cause the matter to be referred to the Appeals Division of the IRS. The Company strongly believes the IRS' position with regard to this matter is inconsistent with applicable tax laws and existing Treasury regulations, and that its previously reported income tax provision for the year in question is appropriate. However, there can be no assurance that this matter will be resolved in the Company's favor. Regardless of whether this matter is resolved in the Company's favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. While the Company believes it has provided adequately for this matter, there is still a possibility that an adverse outcome of the matter could have a material effect on its results of operations and financial condition.

The Company has not reached a final resolution with the IRS on an adjustment the IRS proposed for the 1999 and 2000 tax years. The Company is also under routine examination by certain state and non-U.S. tax authorities. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to these audits.

Note 14. Selected Quarterly Financial Data (Unaudited)

The table below sets forth selected unaudited financial data for each quarter of the two years ended December 31, 2009, (in millions, except per share amounts):

<u>Year Ended December 31, 2009</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Net revenues:				
Product	\$587.8	\$607.0	\$634.1	\$739.1
Service	176.3	179.4	189.8	202.4
Total net revenues	764.1	786.4	823.9	941.5
Cost of revenues:				
Cost of revenues — Product	193.0	207.6	206.3	234.8
Cost of revenues — Service	75.4	78.4	80.4	81.9
Total cost of revenues	268.4	286.0	286.7	316.7
Gross margin	495.7	500.4	537.2	624.8

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

<u>Year Ended December 31, 2009</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Operating expenses:				
Research and development	185.4	183.9	185.2	187.2
Sales and marketing	181.2	170.6	177.3	204.9
General and administrative	39.2	39.2	39.9	41.2
Amortization of purchased intangibles	4.4	3.5	1.3	1.2
Litigation settlement charges	—	—	1.0	181.3
Restructuring charges	4.3	7.5	4.5	3.2
Total operating expenses	<u>414.5</u>	<u>404.7</u>	<u>409.2</u>	<u>619.0</u>
Operating income	81.2	95.7	128.0	5.8
Other income and expense, net	0.3	1.3	1.7	(1.9)
Income before income taxes and noncontrolling interest	81.5	97.0	129.7	3.9
Provision for income taxes	85.9	82.2	45.9	(17.2)
Consolidated (loss) net income	(4.4)	14.8	83.8	21.1
Plus: Net loss attributable to noncontrolling interest	—	—	—	1.8
Net (loss) income attributable to Juniper Networks	<u>\$ (4.4)</u>	<u>\$ 14.8</u>	<u>\$ 83.8</u>	<u>\$ 22.9</u>
Net (loss) income per share attributable to Juniper Networks common stockholders:				
Basic (loss) income per share	\$ (0.01)	\$ 0.03	\$ 0.16	\$ 0.04
Diluted (loss) income per share	\$ (0.01)	\$ 0.03	\$ 0.16	\$ 0.04

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

<u>Year Ended December 31, 2008</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Net revenues:				
Product	\$674.2	\$723.9	\$767.0	\$745.9
Service	<u>148.7</u>	<u>155.1</u>	<u>180.0</u>	<u>177.6</u>
Total net revenues	822.9	879.0	947.0	923.5
Cost of revenues:				
Cost of revenues — Product	191.8	215.1	230.1	230.6
Cost of revenues — Service	<u>73.0</u>	<u>74.1</u>	<u>77.5</u>	<u>73.8</u>
Total cost of revenues	<u>264.8</u>	<u>289.2</u>	<u>307.6</u>	<u>304.4</u>
Gross margin	558.1	589.8	639.4	619.1
Operating expenses:				
Research and development	170.7	186.4	194.0	180.1
Sales and marketing	186.0	190.3	200.6	206.0
General and administrative	33.6	35.6	37.6	38.0
Amortization of purchased intangibles	25.1	8.0	5.2	5.2
Litigation settlement charges	<u>—</u>	<u>9.0</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>415.4</u>	<u>429.3</u>	<u>437.4</u>	<u>429.3</u>
Operating income	142.7	160.5	202.0	189.8
Other income and expense, net	<u>17.6</u>	<u>11.6</u>	<u>9.7</u>	<u>(5.0)</u>
Income before income taxes and noncontrolling interest	160.3	172.1	211.7	184.8
Provision for income taxes	<u>49.9</u>	<u>51.7</u>	<u>63.2</u>	<u>52.4</u>
Net income attributable to Juniper Networks	<u>\$110.4</u>	<u>\$120.4</u>	<u>\$148.5</u>	<u>\$132.4</u>
Basic income per share attributable to Juniper Networks	\$ 0.21	\$ 0.23	\$ 0.27	\$ 0.25
Diluted income per share attributable to Juniper Networks	\$ 0.20	\$ 0.22	\$ 0.27	\$ 0.25

Note 15. Joint Venture

In 2009, the Company entered into an agreement to form a joint venture to provide a combined carrier Ethernet-based solution with NSN. At inception, the Company contributed \$6.6 million for a 60 percent interest in the joint venture. Both NSN and Juniper Networks are entitled to appoint two board members to the Board of the joint venture. The Board shall consist of four board members at all times.

Given the Company's majority ownership interest in the joint venture, the venture's financial results have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded to reflect the noncontrolling investor's interest in the venture's results. All intercompany transactions have been eliminated, with the exception of the noncontrolling interest.

Note 16. Subsequent Event***Stock Repurchases***

Subsequent to December 31, 2009, through the filing of this report, the Company repurchased 2.1 million shares of its common stock, for \$55.3 million at an average purchase price of \$26.28 per share, under its 2008 Stock Repurchase Program. As of the filing of this Annual Report on Form 10-K, the Company's 2008 Stock Repurchase Programs had remaining authorized funds of \$263.3 million. Purchases under this program are subject to a review of the circumstances in place at the time. Acquisitions under the Company's share repurchase program may be made from time to time as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

Juniper Networks, Inc.

Notes to Consolidated Financial Statements — (Continued)

In February 2010, the Company's Board approved a new stock repurchase program which authorized the Company to repurchase up to \$1.0 billion of its common stock. This new authorization is in addition to the Company's 2008 Stock Repurchase Program. Share repurchases under the Company's stock repurchase programs will be subject to a review of the circumstances in place at the 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. These programs may be discontinued at any time.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

ITEM 9A. Controls and Procedures

(a) *Management's Annual Report on Internal Control Over Financial Reporting:* Please see Management's Annual Report on Internal Control over Financial Reporting under Item 8 on page 63 of this Form 10-K, which report is incorporated herein by reference.

(b) For the "Report of Independent Registered Public Accounting Firm," please see the report under Item 8 on page 62 of this Form 10-K, which report is incorporated herein by reference.

Evaluation of Disclosure Controls and Procedures

Attached as exhibits to this report are certifications of our principal executive officer and principal financial officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This "Controls and Procedures" section includes information concerning the controls and related evaluations referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

In 2007, we initiated a multi-year implementation to upgrade certain key internal systems and processes, including our company-wide human resources management system, customer relationship management ("CRM") system, and our enterprise resource planning ("ERP") system. This project is the result of our normal business process to evaluate and upgrade or replace our systems software and related business processes to support our evolving operational needs. There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Our controls and procedures are designed to provide reasonable assurance that our control system's objective will be met and our CEO and CFO have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions

about the likelihood of future events. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. *Other Information*

None

PART III

ITEM 10. *Directors and Executive Officers of the Registrant*

We have adopted a Worldwide Code of Business Conduct and Ethics that applies to our principal executive officer and all other employees. This code of ethics is posted on our Website at www.juniper.net, and may be found as follows:

1. From our main Web page, first click on “Company” and then on “Investor Relations Center.”
2. Next, select Corporate Governance and then click on “Worldwide Code of Business Conduct and Ethics.”

Alternatively, you may obtain a free copy of this code of ethics by contacting the Investor Relations Department at our corporate offices by calling (888) 586-4737 or by sending an e-mail message to investor-relations@juniper.net.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our Website, at the address and location specified above.

For information with respect to Executive Officers, see Part I, Item 1 of this Annual Report on Form 10-K, under “Executive Officers of the Registrant.”

Information concerning directors, including director nominations, and our audit committee and audit committee financial expert, appearing in our definitive Proxy Statement to be filed with the SEC in connection with the 2010 Annual Meeting of Stockholders (the “Proxy Statement”) under “Corporate Governance Principles and Board Matters,” “Director Compensation” and “Election of Directors” is incorporated herein by reference.

Information concerning Section 16(a) beneficial ownership reporting compliance appearing in the Proxy Statement under “Section 16(a) Beneficial Ownership Reporting Compliance,” is incorporated herein by reference.

ITEM 11. *Executive Compensation*

Information concerning executive compensation appearing in the Proxy Statement under “Executive Compensation” is incorporated herein by reference.

Information concerning compensation committee interlocks and insider participation appearing in the Proxy Statement under “Compensation Committee Interlocks and Insider Participation” is incorporated herein by reference.

Information concerning the compensation committee report appearing in the Proxy Statement under “Compensation Committee Report” is incorporated herein by reference.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information concerning the security ownership of certain beneficial owners and management appearing in the Proxy Statement, under “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,” is incorporated herein by reference.

Table of Contents

Information concerning our equity compensation plan information appearing in the Proxy Statement, under “Equity Compensation Plan Information,” is incorporated herein by reference.

ITEM 13. *Certain Relationships and Related Transactions, and Director Independence*

The information appearing in the Proxy Statement under the heading “Certain Relationships and Related Transactions” is incorporated herein by reference.

The information appearing in the Proxy Statement under the heading “Board Independence” is incorporated herein by reference.

ITEM 14. *Principal Accountant Fees and Services*

Information concerning principal accountant fees and services and the audit committee’s preapproval policies and procedures appearing in the Proxy Statement under the headings “Principal Accountant Fees and Services” is incorporated herein by reference.

PART IV

ITEM 15. *Exhibits and Financial Statement Schedules*

(a) 1. *Consolidated Financial Statements*

See Index to Consolidated Financial Statements at Item 8 herein.

2. *Financial Statement Schedules*

The following financial statement schedule is included as part of this Annual Report on Form 10-K:

<u>Schedule</u>	<u>Page</u>
Schedule II — Valuation and Qualifying Account	119

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes herein.

3. *Exhibits*

See Exhibit Index on page 120 of this report.

(b) *Exhibits*

See Exhibit Index on page 120 of this report.

(c) *None*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in this City of Sunnyvale, State of California, on the 26th day of February 2010.

Juniper Networks, Inc.

By: /s/ Robyn M. Denholm

Robyn M. Denholm
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal
Financial Officer)

By: /s/ Gene Zamiska

Gene Zamiska
Vice President, Finance and Corporate Controller
(Duly Authorized Officer and Principal Accounting
Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Mitchell Gaynor and Robyn M. Denholm, and each of them individually, as his or her attorney-in-fact, each with full power of substitution, for him or her in any and all capacities to sign any and all amendments to this Report on Form 10-K, and to file the same with, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his or her substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kevin R. Johnson</u> Kevin R. Johnson	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2010
<u>/s/ Robyn M. Denholm</u> Robyn M. Denholm	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2010
<u>/s/ Gene Zamiska</u> Gene Zamiska	Vice President, Finance and Corporate Controller (Principal Accounting Officer)	February 26, 2010
<u>/s/ Scott Kriens</u> Scott Kriens	Chairman of the Board	February 26, 2010
<u>/s/ Pradeep Sindhu</u> Pradeep Sindhu	Chief Technical Officer and Vice Chairman of the Board	February 26, 2010
<u>/s/ Robert M. Calderoni</u> Robert M. Calderoni	Director	February 26, 2010
<u>/s/ Mary B. Cranston</u> Mary B. Cranston	Director	February 26, 2010
<u>/s/ Michael Lawrie</u> Michael Lawrie	Director	February 26, 2010
<u>/s/ William F. Meehan</u> William F. Meehan	Director	February 26, 2010
<u>/s/ Stratton Sclavos</u> Stratton Sclavos	Director	February 26, 2010
<u>/s/ William R. Stensrud</u> William R. Stensrud	Director	February 26, 2010

Juniper Networks, Inc.

Schedule II — Valuation and Qualifying Account
Years Ended December 31, 2009, 2008, and 2007

	<u>Balance at Beginning of Year</u>	<u>Charged to (Reversed from) Costs and Expenses</u>	<u>Recoveries (Deductions), Net</u>	<u>Balance at End of Year</u>
	(In millions)			
Year ended December 31, 2009				
Allowance for doubtful accounts	\$ 9.7	\$ (0.6)	\$ —	\$ 9.1
Sales returns reserve	\$ 36.8	\$ 84.1	\$ (75.3)	\$ 45.6
Year ended December 31, 2008				
Allowance for doubtful accounts	\$ 8.3	\$ 1.7	\$ (0.3)	\$ 9.7
Sales returns reserve	\$ 25.1	\$ 89.0	\$ (77.3)	\$ 36.8
Year ended December 31, 2007				
Allowance for doubtful accounts	\$ 7.3	\$ 0.4	\$ 0.6	\$ 8.3
Sales returns reserve	\$ 15.0	\$ 56.8	\$ (46.7)	\$ 25.1

Exhibit Index

Exhibit No.	Exhibit	Incorporated by Reference			
		Filing	Exhibit No.	File No.	File Date
3.1	Juniper Networks, Inc. Amended and Restated Certificate of Incorporation	10-K	3.1	000-26339	3/27/2001
3.2	Amended and Restated Bylaws of Juniper Networks, Inc.	8-K	3.1	000-26339	11/24/2008
10.1	Form of Indemnification Agreement entered into by the Registrant with each of its directors, officers and certain employees	10-Q	10.1	000-26339	11/14/2003
10.2	Amended and Restated 1996 Stock Plan++	8-K	10.1	000-26339	11/09/2005
10.3	Form of Stock Option Agreement for the Juniper Networks, Inc. Amended and Restated 1996 Stock Plan++	10-Q	10.16	000-26339	11/2/2004
10.4	Form of Notice of Grant and Restricted Stock Unit Agreement for the Juniper Networks, Inc. Amended and Restated 1996 Stock Plan++	8-K	10.2	000-26339	11/09/2005
10.5	Juniper Networks 2000 Nonstatutory Stock Option Plan++	S-8	10.1	333-92086	7/9/2002
10.6	Form of Option Agreement for the Juniper Networks 2000 Nonstatutory Stock Option Plan++	10-K	10.6	000-26339	3/4/2005
10.7	Juniper Networks, Inc. 2006 Equity Incentive Plan, as amended++	10-K	10.738	000-26339	3/2/2009
10.8	Form of Stock Option Agreement for the Juniper Networks, Inc. 2006 Equity Incentive Plan++	8-K	10.2	000-26339	5/24/2006
10.9	Form of Non-Employee Director Stock Option Agreement for the Juniper Networks, Inc. 2006 Equity Incentive Plan++	S-8	10.3	000-26339	5/24/2006
10.10	Form of Notice of Grant and Restricted Stock Unit Agreement for the Juniper Networks, Inc. 2006 Equity Incentive Plan++	10-K	10.20	000-26339	2/29/2008
10.11	Form of Notice of Grant and Performance Share Agreement for the Juniper Networks, Inc. 2006 Equity Incentive Plan++	10-K	10.21	000-26339	2/29/2008
10.12	Form of India Stock Option Agreement under the Juniper Networks, Inc. 2006 Equity Incentive Plan	10-Q	10.2	000-26339	5/9/2008
10.13	Form of India Restricted Stock Unit Agreement under the Juniper Networks, Inc. 2006 Equity Incentive Plan	10-Q	10.2	000-26339	5/9/2008
10.14	Unisphere Networks, Inc. Second Amended and Restated 1999 Stock Incentive Plan++	S-8	10.1	333-92090	7/9/2002
10.15	NetScreen Technologies, Inc. 1997 Equity Incentive Plan++	S-1+	10.2	333-71048	10/5/2001
10.16	NetScreen Technologies, Inc. 2001 Equity Incentive Plan++	S-1+	10.3	333-71048	12/10/2001
10.17	NetScreen Technologies, Inc. 2002 Stock Option Plan++	S-8	4.7	333-114688	4/21/2004
10.18	Neoteris 2001 Stock Plan++	S-8+	4.1	333-110709	11/24/2003
10.19	Kagoor Networks, Inc. 2003 General Stock Option Plan++	S-8	4.1	333-124572	5/3/2005
10.20	Kagoor Networks, Inc. 2003 Israel Stock Option Plan++	S-8	4.2	333-124572	5/3/2005
10.21	Redline Networks 2000 Stock Plan++	S-8	4.1	333-124610	5/4/2005
10.22	Peribit Networks 2000 Stock Plan++	S-8	99.1	333-126404	7/6/2005
10.23	Amended and Restated Juniper Networks 1999 Employee Stock Purchase Plan++	10-Q	10.2	000-26339	8/9/2007

Table of Contents

<u>Exhibit No.</u>	<u>Exhibit</u>	<u>Incorporated by Reference</u>			
		<u>Filing</u>	<u>Exhibit No.</u>	<u>File No.</u>	<u>File Date</u>
10.24	Juniper Networks, Inc. 2008 Employee Stock Purchase Plan++	S-8	4.3	333-151669	6/16/2008
10.25	Sub-plan to the Juniper Networks, Inc. 2008 Employee Stock Purchase Plan For Employees Located in the European Economic Area	10-K	10.25	000-26339	3/2/2009
10.26	Juniper Networks, Inc. Deferred Compensation Plan++	S-8	4.4	333-151669	6/16/2008
10.27	Form of Executive Officer Change of Control Agreement, as amended++	10-K	10.27	000-26339	3/2/2009
10.28	Form of Executive Officer Severance Agreement, as amended++	10-Q	10.4	000-26339	11/10/2008
10.29	Option Amendment Agreement by and between the Registrant and Kim Perdikou++	8-K	99.2	000-26339	5/2/2007
10.30	Severance Agreement by and between the Registrant and Robyn M. Denholm++	10-K	10.33	000-26339	3/2/2009
10.31	Summary of Compensatory Arrangements for Certain Officers adopted on March 9, 2007++	8-K	99.1	000-26339	3/12/2007
10.32	Summary of Compensatory Arrangements for Certain Officers announced on August 14, 2007++	8-K	Item 5.02	000-26339	8/14/2007
10.33	Summary of Compensatory Plans and Arrangements for Certain Officers adopted on February 26, 2008++	8-K	99.1	000-26339	2/28/2008
10.34	Summary of Compensatory Arrangements for Certain Officers adopted on February 11, 2009++	8-K	Item 5.02	000-26339	2/18/2009
10.35	Summary of Compensatory Arrangements for Certain Officers adopted on March 2, 2009++	8-K	Item 5.02	000-26339	3/6/2009
10.36	Summary of Compensatory Arrangements for Certain Officers adopted on November 12, 2009++	8-K	Item 5.02	001-34501	11/18/2009
10.37	Offer Letter by and between Juniper Networks, Inc. and John Morris++	10-Q	10.1	000-26339	11/10/2008
10.38	Employment Agreement by and between Juniper Networks, Inc. and Kevin Johnson++	10-Q	10.2	000-26339	11/10/2008
10.39	Offer Letter by and between Juniper Networks, Inc. and Michael J. Rose++	10-K	10.38	000-26339	3/2/2009
10.40	Tolling Agreement by and between Juniper Networks, Inc. and Scott Kriens++	10-Q	10.3	000-26339	11/10/2008
10.41	Agreement for ASIC Design and Purchase of Products between IBM Microelectronics and the Registrant dated August 26, 1997	S-1	10.8	333-76681	6/18/1999
10.42	Amendment One dated January 5, 1998 to Agreement for ASIC Design and Purchase of Products between IBM Microelectronics and the Registrant dated August 26, 1997	S-1	10.8.1	333-76681	4/23/1999
10.43	Amendment Two dated March 2, 1998 to Agreement for ASIC Design and Purchase of Products between IBM Microelectronics and the Registrant dated August 26, 1997	S-1	10.8.2	333-76681	4/23/1999
10.44	Lease between Mathilda Associates LLC and the Registrant dated June 18, 1999	S-1	10.10	333-76681	6/23/1999
10.45	Lease between Mathilda Associates LLC and the Registrant dated February 1, 2000	10-K	10.9	000-26339	3/27/2001
10.46	Lease between Mathilda Associates II LLC and the Registrant dated August 15, 2000	10-Q	10.15	000-26339	11/2/2004

Table of Contents

<u>Exhibit No.</u>	<u>Exhibit</u>	<u>Incorporated by Reference</u>			
		<u>Filing</u>	<u>Exhibit No.</u>	<u>File No.</u>	<u>File Date</u>
10.47	First Amendment to Lease between Sunnyvale Office Park, L.P. and the Registrant dated January 24, 2002*				
10.48	First Amendment to Lease between Sunnyvale Office Park, L.P. and the Registrant dated February 28, 2000*				
10.49	First Amendment to Lease between Sunnyvale Office Park, L.P. and the Registrant dated October 14, 2009*				
10.50	Second Amendment to Lease between Sunnyvale Office Park, L.P. and the Registrant dated October 14, 2009*				
10.51	Amendment No. 2 to Lease between Sunnyvale Office Park, L.P. and the Registrant dated October 14, 2009*				
21.1	Subsidiaries of the Company*				
23.1	Consent of Independent Registered Public Accounting Firm*				
24.1	Power of Attorney (see page 118)				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*				
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**				
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**				
101	The following materials from Juniper Networks Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, and (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text				
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				

* Filed herewith

** Furnished herewith

+ Filed by NetScreen Technologies, Inc.

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

AMENDMENT NO. 1 TO LEASE

This **AMENDMENT NO. 1 TO LEASE** (this "Amendment") is dated as of this 24th day of January, 2002, by and between **MATHILDA ASSOCIATES II LLC**, a California limited liability company ("Landlord"), and **JUNIPER NETWORKS, INC.**, a Delaware corporation ("Tenant").

RECITALS

A. Landlord and Tenant entered into that certain Lease Agreement dated August 15, 2000 (the "Lease") for premises located in the City of Sunnyvale, County of Santa Clara, State of California, commonly known as 1220 Mathilda Avenue, comprised of 158,075 rentable square feet of floor area (the "Leased Premises"). Capitalized terms used in this Amendment and not otherwise defined shall have the meanings assigned to them in the Lease.

B. Landlord and Tenant acknowledge and agree that Landlord will be able to achieve Substantial Completion of the Tenant Improvements (as defined in the Work Letter), and will be able to deliver possession of the Leased Premises to Tenant, in the condition required by the Lease, by no later than May 1, 2002, in which event the Lease Commencement Date would be June 1, 2002.

C. Notwithstanding the foregoing, Tenant has requested that Landlord delay Substantial Completion of the Tenant Improvements and delay delivery of possession of the Leased Premises until September 3, 2002; and Landlord is willing to do so provided that the Lease Commencement Date not be delayed and otherwise on the terms and conditions set forth herein.

D. Landlord and Tenant now desire to amend the Lease according to the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Recitals. The foregoing Recitals are hereby incorporated into this Amendment.

2. Intended Delivery Date. The term "Intended Delivery Date" which is defined as "May 1, 2002" in Article 1 of the Lease, is hereby redefined to be "September 3, 2002."

3. Rentable Square Footage of Leased Premises. Landlord and Tenant hereby agree that the rentable square footage of Leased Premises is 158,075.

4. Lease Commencement Date. Section 2.3 of the Lease is hereby amended in its entirety to read as follows:

" **2.3 Lease Commencement Date And Lease Term.** The term of this Lease shall begin, and the Lease Commencement Date shall be deemed to have occurred, on June 1,



2002. The term of this Lease shall in all events end on the Lease Expiration Date (as set forth in Article 1). The Lease Term shall be that period of time commencing on the Lease Commencement Date and ending on the Lease Expiration Date (the "Lease Term")."

5. Performance Of Tenant Improvements; Acceptance Of Possession. Section 2.5 of the Lease is hereby amended in its entirety to read as follows:

"Landlord shall, pursuant to the work letter attached to and made a part of this Lease (the "Work Letter"), perform the work and make the installations in the Leased Premises substantially as set forth in the Work Letter (such work and installations hereinafter referred to as the "Tenant Improvements"). It is agreed that by occupying the Leased Premises, Tenant formally accepts same and acknowledges that the Leased Premises are in the condition called for hereunder, subject to reasonable punchlist items and latent defects specified by Tenant to Landlord in writing within ten (10) days of such occupancy."

6. Cost Of Building Core. Landlord, at Tenant's request, has performed construction work on the Building core and has charged the cost thereof against the Tenant Improvement Allowance. The work and cost detail has previously been provided to and approved by Tenant.

7. Surrender Of Possession. The first sentence of Section 2.6 of the Lease is hereby amended in its entirety to read as follows:

"Immediately prior to the expiration or upon the sooner termination of this Lease, Tenant shall remove all of Tenant's signs from the exterior of the Building and shall remove all of Tenant's equipment, trade fixtures, furniture, supplies, wall decorations and other personal property from within the Leased Premises, the Building and the Outside Areas, and shall vacate and surrender the Leased Premises, the Building, the Outside Areas and the Property to Landlord in the same condition, broom clean, as existed at the Delivery Date, damage by casualty or condemnation (which events shall be governed by Articles 10 and 11) and reasonable wear and tear excepted."

8. Landlord's Duty To Restore. The second sentence of Section 10.1 of the Lease is hereby amended in its entirety to read as follows:

"If this Lease is not so terminated, then upon the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the Leased Premises, the Building or the Outside Area, as the case may be, to the extent then allowed by law, to substantially the same condition in which it existed as of the Delivery Date."

9. Condition Precedent To Lease Amendment. Landlord's obligations hereunder are subject to the receipt by Landlord, no later than fifteen (15) business days after the date hereof, of the Lender's Consent, as hereinafter defined. Landlord hereby agrees to use diligent efforts to obtain the Lender's Consent by such date; however, if Landlord does not receive the

Lender's Consent by such date, this Amendment shall, at Landlord's option, thereupon be deemed terminated and of no further force or effect, and neither party shall have any further rights, obligations, or liabilities hereunder. As used herein, the term "Lender's Consent" means a written consent to this Amendment in form reasonably satisfactory to Landlord, executed by the holder of the promissory note secured by that certain Deed of Trust (encumbering the fee interest in the real property of which the Leased Premises are a part) recorded on December 29, 2000 in the Official Records of Santa Clara County, California, at Series No. 15512549.

10. Ratification. The Lease, as amended by this Amendment, is hereby ratified by Landlord and Tenant and Landlord and Tenant hereby agree that the Lease, as so amended, shall continue in full force and effect.

11. Miscellaneous.

(a) Voluntary Agreement. The parties have read this Amendment and on the advice of counsel they have freely and voluntarily entered into this Amendment.

(b) Attorney's Fees. If either party commences an action against the other party arising out of or in connection with this Amendment, the prevailing party shall be entitled to recover from the losing party reasonable attorney's fees and costs of suit.

(c) Successors. This Amendment shall be binding on and inure to the benefit of the parties and their successors.

(d) Counterparts. This Amendment may be signed in two or more counterparts. When at least one such counterpart has been signed by each party, this Amendment shall be deemed to have been fully executed, each counterpart shall be deemed to be an original, and all counterparts shall be deemed to be one and the same agreement.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date first written above.

TENANT:

JUNIPER NETWORKS, INC., a Delaware corporation

By: /s/ [ILLEGIBLE]

Title: VP General Counsel & Secretary

[SIGNATURES CONTINUED ON NEXT PAGE]

[SIGNATURES CONTINUED FROM PRIOR PAGE]

LANDLORD:

MATHILDA ASSOCIATES II LLC, a California limited liability company

By: Menlo Equities LLC, a California
limited liability company, Manager

By: Diamant Investments LLC, a Delaware
limited liability company, Member

By: /s/ Richard J. Holmstrom
Richard J. Holmstrom, Manager

FIRST AMENDMENT TO LEASE

This FIRST AMENDMENT TO LEASE (this "Amendment") is dated as of this 28th day of February, 2000 by and between MATHILDA ASSOCIATES LLC, a California limited liability company ("Landlord"), and JUNIPER NETWORKS, INC., a Delaware corporation ("Tenant").

RECITALS

A. Landlord and Tenant entered into a Lease dated June 18, 1999 (the "Lease"), for premises (the "Leased Premises") with a street address of 1194 Mathilda Avenue, Sunnyvale, California, and more particularly described in the Lease;

B. Landlord and Tenant now desire to amend the Lease on the terms and conditions set forth herein. Capitalized terms used in this Amendment and not otherwise defined shall have the meanings assigned to them in the Lease.

AGREEMENT

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Security Deposit. The amount of the Security Deposit set forth in Article 1 of the Lease is hereby changed to \$1,000,000. The amount of the Security Deposit shall remain subject to reduction as set forth in Paragraph 3.7 of the Lease.

2. Expansion Rights. Concurrently herewith, Landlord and Tenant have entered into a new lease (the "1184 Lease") for 1184 Mathilda Avenue, Sunnyvale, California, referred to in the Lease as the "1184 Building." Landlord and Tenant agree that notwithstanding any provision in the Lease to contrary, Tenant's lease of the 1184 Building shall be on all of the terms set forth in the 1184 Lease, and accordingly, upon full execution of the 1184 Lease, the First Expansion Option contained in Article 16 of the Lease shall be null and void.

3. Lease Commencement Date. The Intended Commencement Date set forth in Article 1 of the Lease is deleted and replaced with "July 1, 2000." The first sentence of Paragraph 2.3 is deleted and replaced with the following:

Subject to Paragraph 2.4 below, the term of this Lease shall begin, and the Lease Commencement Date shall be deemed to have occurred on the date which is sixty (60) days after the actual Delivery Date, as determined pursuant to Section 2.4 below.

4. Base Monthly Rent. The Base Monthly Rent set forth in Article 1 of the Lease is hereby deleted and replaced with the following:

Base Monthly Rent: The term "Base Monthly Rent" shall mean the following:

Period	Monthly Amount
7/1/00-5/31/01	\$360,787.50

At the end of the 11th month after the actual Delivery Date and at the end of each 12 month period thereafter (until the Lease Expiration Date), Base Monthly Rent shall be increased at a rate of 3.5% per annum compounded annually.

5. Commencement Date Certificate. The following provision is added to the end of Paragraph 2.3 of the Lease:

In the event the actual Lease Commencement Date is different than the Intended Commencement Date, Landlord and Tenant agree to execute a Lease Commencement Date Certificate in the form attached as Exhibit C setting forth the actual Lease Commencement Date and the Lease Expiration Date (such that the length of the Lease Term is the same as set forth in Article 1) and an adjustment to the schedule of Base Monthly Rent to reflect the change in the Lease Commencement Date and Lease Expiration Date. For purposes of adjusting the schedule of Base Monthly Rent set forth in Article 1 above, the annual date on which the Base Monthly Rent shall increase shall be that date which is eleven (11) months after the actual Lease Commencement Date and at the end of each twelve (12) month period thereafter.

6. Cross-Default. A new subparagraph 12.1(i) is added to Article 12 as follows:

(i) Tenant shall be in default of its obligations under any other Lease between Landlord and Tenant.

7. Notices. The following party is added to Paragraph 13.10 for receipt of copies of notices sent to Landlord:

Beacon Capital Partners Inc.
One Federal Street, 26th Floor
Boston, Massachusetts 02110
Attention: General Counsel

8. Condition Precedent To Lease Amendment. This Amendment and the parties' obligations hereunder are subject to the receipt by Landlord, no later than twenty one (21) business days after the date hereof, of the Lender's Consent, as hereinafter defined. Landlord hereby agrees to use diligent efforts to obtain the Lender's Consent by such date; however, if Landlord does not receive the Lender's Consent by such date, this Amendment shall thereupon be deemed terminated and of no further force or effect, and neither party shall have any further rights, obligations, or liabilities hereunder. As used herein, the term "Lender's Consent" means a written consent to this Amendment in form reasonably satisfactory to Landlord, executed by the holder of the promissory note secured by that certain Deed of Trust (encumbering the fee interest in the real property of which the Leased Premises are a part) recorded on November 11, 1999 in the Official Records of Santa Clara County, California, at Series No. 15042012.

9. Ratification. The Lease, as amended by this Amendment, is hereby ratified by Landlord and Tenant and Landlord and Tenant hereby agree that the Lease, as so amended, shall continue in full force and effect.

10. Miscellaneous.

(a) Voluntary Agreement. The parties have read this Amendment and on the advice of counsel they have freely and voluntarily entered into this Amendment.

(b) Attorneys' Fees. If either party commences an action against the other party arising out of or in connection with this Amendment, the prevailing party shall be entitled to recover from the losing party reasonable attorney's fees and costs of suit.

(c) Successors. This Amendment shall be binding on and inure to the benefit of the parties and their successors.

(d) Counterparts. This Amendment may be signed in two or more counterparts. When at least one such counterpart has been signed by each party, this Amendment shall be deemed to have been fully executed, each counterpart shall be deemed to be an original, and all counterparts shall be deemed to be one and the same agreement.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date first written above.

LANDLORD:

MATHILDA ASSOCIATES LLC, a California limited liability company

By: Menlo Equities LLC, a California limited liability company, its Manager

By: Diamant Investments LLC, a Delaware limited liability company, Member

By: /s/ Richard J. Holmstrom
Richard J. Holmstrom, Manager

TENANT:

JUNIPER NETWORKS, INC., a Delaware corporation

By: /s/ [ILLEGIBLE]
Title: Chief Financial Officer

By: /s/ [ILLEGIBLE]
Title: General Counsel & Secretary

FIRST AMENDMENT TO LEASE
(1184 Building)

THIS FIRST AMENDMENT TO LEASE (this “Amendment”) is made as of October 14, 2009 the (“Effective Date”) by and between SUNNYVALE OFFICE PARK, L.P., Delaware limited partnership (“Landlord”), and JUNIPER NETWORKS, INC., a Delaware corporation (“Tenant”), with reference to the following facts:

RECITALS

A. Landlord, as successor in interest to CSHV Mathilda I, LLC, successor to the original landlord, and Tenant are parties to that certain Lease dated as of February 28, 2000 for the office building commonly known as 1184 Mathilda Avenue, Sunnyvale, California (the “Lease”).

B. Landlord and Tenant desire to extend the term of the Lease to October 31, 2021 and modify the base rent payable thereunder for the remainder of such term, all as more particularly provided in this Amendment.

NOW, THEREFORE, with reference to the foregoing Recitals and for other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Definitions. All capitalized terms used but not defined in this Amendment have the meanings given such terms in the Lease.
2. Amendments to Lease. The Lease is hereby amended as follows:

2.1 Term. Article 1, Paragraph 1.1 of the Lease is amended to delete the term “Lease Term” therefrom. “Lease Term” shall continue to have the meaning set forth in Paragraph 2.3 of the Lease.

2.2 Lease Expiration Date. In Article I, Paragraph 1.1 of the Lease, the definition of the term “Lease Expiration Date” is amended and restated as follows:

“October 31, 2021, unless earlier terminated in accordance with the terms of the Lease, or extended by Tenant pursuant to Article 15.”

2.3 Base Monthly Rent. In Article 1, Paragraph 1.1, the definition of “Base Monthly Rent” is amended and restated as follows:

“The term ‘Base Monthly Rent’ shall mean the following:

<u>Period</u>	<u>Monthly Amount</u>
8/1/01 — 7/31/02	\$327,888.58

At the end of the 12th month after the actual Lease Commencement Date and at the end of each 12 month period thereafter (until October 31, 2009), Base Monthly Rent shall be increased at a rate of 3.5% per annum compounded annually.

Thereafter, commencing on the November 1, 2009 and continuing through October 31, 2021, the “Base Monthly Rent” shall be as follows:

<u>Period</u>	<u>Monthly Amount</u>
11/1/09-6/30/11	\$328,336.89
7/1/11-6/30/12	\$338,290.86
7/1/12-6/30/13	\$348,543.44
7/1/13-6/30/14	\$359,103.61
7/1/14-6/30/15	\$369,980.57
7/1/15-6/30/16	\$381,183.85
7/1/16-6/30/17	\$392,723.22
7/1/17-6/30/18	\$404,608.78
7/1/18-6/30/19	\$416,850.90
7/1/19-6/30/20	\$429,460.29
7/1/20-6/30/21	\$442,447.95
7/1/21-10/31/21	\$455,825.25”

2.4 Landlord’s Liability. Article 12, Paragraph 12.4 is hereby amended and restated as follows:

“Limitation of Tenant’s Recourse. The liability of Landlord for Landlord’s obligations under the Lease, as amended from time to time, and any other documents executed by Landlord and Tenant in connection with the Lease, as amended from time to time (collectively, the “Lease Documents”), shall be limited to Landlord’s interest in the Building and Tenant shall not look to any other property or assets of Landlord or the property or assets of any direct or indirect partner, member, manager, shareholder, director, officer, principal, employee or agent of Landlord (collectively, the “Landlord Parties”) in

seeking either to enforce Landlord's obligations under the Lease Documents or to satisfy a judgment for Landlord's failure to perform such obligations; and none of the Landlord Parties shall be personally liable for the performance of Landlord's obligations under the Lease Documents."

3. Rent Credit. For the month of November 2009 only, Tenant shall receive a credit against the Base Monthly Rent in the amount of \$103,858.66.

4. Brokers. Tenant hereby represents and warrants to Landlord that except for Jones Lang LaSalle Brokerage, Inc. ("Tenant's Broker"), Tenant has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment. Landlord shall pay each of Tenant's Broker and landlord's broker (Tishman Speyer Properties, L.P.) a commission in the amount, and on the terms and subject to the conditions, set forth in separate written agreements between Landlord and each such broker. Tenant shall indemnify, defend and hold Landlord harmless from and against any claims, demands, losses, liabilities, judgments, costs and expenses (including, without limitation, reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owed or owing to (i) Tenant's Broker, to the extent exceeding the amount payable under the agreement between Landlord and Tenant's Broker, and (ii) any other broker, agent or other person claiming to have acted on Tenant's behalf.

5. No Other Amendments. The Lease has not been amended other than by this Amendment and, as amended by this Amendment, the Lease is and remains in full force and effect and is hereby ratified by Landlord and Tenant. In the event of any conflict between this Amendment and the Lease, the terms of this Amendment shall prevail.

6. Counterparts. This Amendment may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute but one and the same agreement.

7. Condition Precedent. This Amendment is contingent upon Landlord and Tenant concurrently entering into amendments to the leases for the buildings located at 1194 and 1220 Mathilda Avenue, Sunnyvale, California, respectively, in the forms agreed upon the parties.

8. Miscellaneous.

8.1 Voluntary Agreement. The parties have read this Amendment and on the advice of counsel they have freely and voluntarily entered into this Amendment.

8.2 Attorneys Fees. If either party commences an action against the other party arising out of or in connection with this Amendment, the prevailing party shall be entitled to recover from the losing party reasonable attorney's fees and costs of suit.

8.3 Successors. This Amendment shall be binding upon and inure to the benefit of the parties' respective successors or assigns.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

LANDLORD:

SUNNYVALE OFFICE PARK, L.P.,
a Delaware limited partnership

By: Sunnyvale Office Park GP, L.L.C.,
a Delaware limited liability company,
General Partner

By: /s/ Steven R. Wechsler

Name: Steven R. Wechsler

Title: Sr. Managing Director

TENANT:

JUNIPER NETWORKS, INC.,
a Delaware corporation

By: /s/ Robyn M. Denholm

Name: Robyn M. Denholm

Title: Executive VP & CFO

By: /s/ Mitchell L. Gaynor

Name: Mitchell L. Gaynor

Title: Senior VP & General Counsel

SECOND AMENDMENT TO LEASE
(1194 Building)

THIS SECOND AMENDMENT TO LEASE (this “Amendment”) is made as of October 14, 2009 the (“Effective Date”) by and between SUNNYVALE OFFICE PARK, L.P., Delaware limited partnership (“Landlord”), and JUNIPER NETWORKS, INC., a Delaware corporation (“Tenant”), with reference to the following facts:

RECITALS

A. Landlord, as successor in interest to CSHV Mathilda II, LLC, successor in interest to the original landlord, and Tenant are parties to that certain Lease dated as of June 18, 1999, as amended by that certain First Amendment to Lease dated as of February 28, 2002, for the office building commonly known as 1194 Mathilda Avenue, Sunnyvale, California (as so amended, the “Lease”).

B. Landlord and Tenant desire to extend the term of the Lease to June 30, 2020 and modify the base rent payable thereunder for the remainder of such term, all as more particularly provided in this Amendment.

NOW, THEREFORE, with reference to the foregoing Recitals and for other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Definitions. All capitalized terms used but not defined in this Amendment have the meanings given such terms in the Lease.
2. Amendments to Lease. The Lease is hereby amended as follows:

2.1 Term. Article 1, Paragraph 1.1 of the Lease is amended to delete the term “Lease Term” therefrom. “Lease Term” shall continue to have the meaning set forth in Paragraph 2.3 of the Lease.

2.2 Lease Expiration Date. In Article 1, Paragraph 1.1 of the Lease, the definition of the term “Lease Expiration Date” is amended and restated as follows:

“June 30, 2020, unless earlier terminated in accordance with the terms of the Lease, or extended by Tenant pursuant to Article 15.”

2.3 Base Monthly Rent . In Article 1, Paragraph 1.1 of the Lease, the definition of “Base Monthly Rent” is amended and restated as follows:

“The term ‘Base Monthly Rent’ shall mean the following:

<u>Period</u>	<u>Monthly Amount</u>
7/1/00 - 5/31/01	\$360,787.50

At the end of the 11th month after the actual Delivery Date and at the end of each 12 month period thereafter (until October 31, 2009), Base Monthly Rent shall be increased at a rate of 3.5% per annum compounded annually.

Thereafter, commencing on November 1, 2009 and continuing through June 30, 2020, the ‘Base Monthly Rent’ shall be as follows:

<u>Period</u>	<u>Monthly Amount</u>
11/1/09-6/30/11	\$369,457.59
7/1/11-6/30/12	\$380,670.86
7/1/12-6/30/13	\$392,220.54
7/1/13-6/30/14	\$404,116.70
7/1/14-6/30/15	\$416,369.75
7/1/15-6/30/16	\$428,990.39
7/1/16-6/30/17	\$441,989.65
7/1/17-6/30/18	\$455,378.89
7/1/18-6/30/19	\$469,169.80
7/1/19-6/30/20	\$483,374.44”

2.4 Landlord’s Liability . Article 12, Paragraph 12.4 of the Lease is hereby amended and restated as follows:

“ Limitation of Tenant’s Recourse . The liability of Landlord for Landlord’s obligations under the Lease, as amended from time to time, and any other documents executed by Landlord and Tenant in connection with the Lease, as amended from time to time (collectively, the “ Lease Documents ”), shall be limited to Landlord’s interest in the Building and Tenant shall not look to any other property or assets of Landlord or the property or assets of any direct or indirect partner, member, manager, shareholder, director, officer, principal, employee or agent of Landlord (collectively, the “ Landlord Parties ”) in seeking either to enforce Landlord’s obligations under the Lease Documents or to satisfy a judgment for Landlord’s failure to perform such obligations; and none of the Landlord

Parties shall be personally liable for the performance of Landlord's obligations under the Lease Documents."

3. Rent Credit. For the month of November 2009 only, Tenant shall receive a credit against the Base Monthly Rent in the amount of \$122,656.56.

4. Brokers. Tenant hereby represents and warrants to Landlord that except for Jones Lang LaSalle Brokerage, Inc. ("Tenant's Broker"), Tenant has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment. Landlord shall pay each of Tenant's Broker and Landlord's broker (Tishman Speyer Properties, L.P.) a commission in the amount, and on the terms and subject to the conditions, set forth in separate written agreements between Landlord and each such broker. Tenant shall indemnify, defend and hold Landlord harmless from and against any claims, demands, losses, liabilities, judgments, costs and expenses (including, without limitation, reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owed or owing to (i) Tenant's Broker, to the extent exceeding the amount payable under the agreement between Landlord and Tenant's Broker, and (ii) any other broker, agent or other person claiming to have acted on Tenant's behalf.

5. No Other Amendments. The Lease has not been amended other than by this Amendment and, as amended by this Amendment, the Lease is and remains in full force and effect and is hereby ratified by Landlord and Tenant. In the event of any conflict between this Amendment and the Lease, the terms of this Amendment shall prevail.

6. Counterparts. This Amendment may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute but one and the same agreement.

7. Condition Precedent. This Amendment is contingent upon Landlord and Tenant concurrently entering into amendments to the leases for the buildings located at 1184 and 1220 Mathilda Avenue, Sunnyvale, California, respectively, in the forms agreed upon by the parties.

8. Miscellaneous.

8.1 Voluntary Agreement. The parties have read this Amendment and on the advice of counsel they have freely and voluntarily entered into this Amendment.

8.2 Attorneys Fees. If either party commences an action against the other party arising out of or in connection with this Amendment, the prevailing party shall be entitled to recover from the losing party reasonable attorney's fees and costs of suit.

8.3 Successors. This Amendment shall be binding upon and inure to the benefit of the parties' respective successors or assigns.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

LANDLORD:

SUNNYVALE OFFICE PARK, L.P.,
a Delaware limited partnership

By: Sunnyvale Office Park GP, L.L.C.,
a Delaware limited liability company,
General Partner

By: /s/ Steven R. Wechsler

Name: Steven R. Wechsler

Title: Sr. Managing Director

TENANT:

JUNIPER NETWORKS, INC.,
a Delaware corporation

By: /s/ Robyn M. Denholm

Name: Robyn M. Denholm

Title: Executive VP & CFO

By: /s/ Mitchell L. Gaynor

Name: Mitchell L. Gaynor

Title: Senior VP & General Counsel

AMENDMENT NO. 2 TO LEASE
(1220 Building)

THIS AMENDMENT NO. 2 TO LEASE (this “Amendment”) is made as of October 14, 2009 the (“Effective Date”) by and between SUNNYVALE OFFICE PARK, L.P., Delaware limited partnership (“Landlord”), and JUNIPER NETWORKS, INC., a Delaware corporation (“Tenant”), with reference to the following facts:

RECITALS

A. Landlord, as successor in interest to CSHV Mathilda III, LLC, as successor in interest to the original landlord, and Tenant are parties to that certain Lease dated as of August 15, 2000, as amended by that certain Amendment No. 1 to Lease dated as of January 24, 2002, for the office building commonly known as 1220 Mathilda Avenue, Sunnyvale, California (as so amended, the “Lease”).

B. Landlord and Tenant desire to extend the term of the Lease to November 30, 2022 and modify the base rent payable thereunder for the remainder of such term, all as more particularly provided in this Amendment.

NOW, THEREFORE, with reference to the foregoing Recitals and for other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Definitions. All capitalized terms used but not defined in this Amendment have the meanings given such terms in the Lease.
2. Amendments to Lease. The Lease is hereby amended as follows:

2.1 Term. Article 1, Paragraph 1.1 of the Lease is amended to delete the term “Lease Term” therefrom. “Lease Term” shall continue to have the meaning set forth in Paragraph 2.3 of the Lease.

2.2 Lease Expiration Date. In Article 1, Paragraph 1.1 of the Lease, the definition of the term “Lease Expiration Date” is amended and restated as follows:

“November 30, 2022, unless earlier terminated in accordance with the terms of the Lease, or extended by Tenant pursuant to Article 15.”

2.3 Base Monthly Rent . In Article 1, Paragraph 1.1 of the Lease, the definition of “Base Monthly Rent” is amended and restated as follows:

“The term ‘Base Monthly Rent’ shall mean the following:

Period	Base Monthly Rent per Rentable Square Foot
Months 1-12	\$2,812

Commencing with Month 13 of the Lease Term and at the end of each 12 month period thereafter (until October 31, 2009), Base Monthly Rent shall be increased at a rate of 3.5% per annum compounded annually.

Thereafter, commencing on November 1, 2009 and continuing through November 30, 2022, the ‘Base Monthly Rent’ shall be as follows:

Period	Monthly Amount
11/1/09-6/30/11	\$445,351.30
7/1/11-6/30/12	\$458,819.29
7/1/12-6/30/13	\$472,691.32
7/1/13-6/30/14	\$486,979.51
7/1/14-6/30/15	\$501,696.35
7/1/15-6/30/16	\$516,854.69
7/1/16-6/30/17	\$532,467.78
7/1/17-6/30/18	\$548,549.26
7/1/18-6/30/19	\$565,113.19
7/1/19-6/30/20	\$582,174.04
7/1/20-6/30/21	\$599,746.71
7/1/21-6/30/22	\$617,846.56
7/1/22-11/30/22	\$636,489.41”

2.4 Landlord’s Liability . Article 12, Paragraph 12.4 of the Lease is hereby amended and restated as follows:

“ Limitation of Tenant’s Recourse . The liability of Landlord for Landlord’s obligations under the Lease, as amended from time to time, and any other documents executed by Landlord and Tenant in connection with the Lease, as amended from time to time (collectively, the “ Lease Documents ”), shall be limited to Landlord’s interest in the Building and Tenant shall not look to any other property or assets of Landlord or the property or assets of any direct or indirect partner, member, manager, shareholder, director, officer, principal, employee or

agent of Landlord (collectively, the “Landlord Parties”) in seeking either to enforce Landlord’s obligations under the Lease Documents or to satisfy a judgment for Landlord’s failure to perform such obligations; and none of the Landlord Parties shall be personally liable for the performance of Landlord’s obligations under the Lease Documents.”

3. Rent Credit. For the month of November 2009 only, Tenant shall receive a credit against the Base Monthly Rent in the amount of \$120,557.20.

4. Brokers. Tenant hereby represents and warrants to Landlord that except for Jones Lang LaSalle Brokerage, Inc. (“Tenant’s Broker”), Tenant has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment. Landlord shall pay each of Tenant’s Broker and Landlord’s broker (Tishman Speyer Properties, L.P.) a commission in the amount, and on the terms and subject to the conditions, set forth in separate written agreements between Landlord and each such broker. Tenant shall indemnify, defend and hold Landlord harmless from and against any claims, demands, losses, liabilities, judgments, costs and expenses (including, without limitation, reasonable attorneys’ fees) with respect to any leasing commission or equivalent compensation alleged to be owed or owing to (i) Tenant’s Broker, to the extent exceeding the amount payable under the agreement between Landlord and Tenant’s Broker, and (ii) any other broker, agent or other person claiming to have acted on Tenant’s behalf.

5. No Other Amendments. The Lease has not been amended other than by this Amendment and, as amended by this Amendment, the Lease is and remains in full force and effect and is hereby ratified by Landlord and Tenant. In the event of any conflict between this Amendment and the Lease, the terms of this Amendment shall prevail.

6. Counterparts. This Amendment may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute but one and the same agreement.

7. Conditions Precedent. This Amendment is contingent upon Landlord and Tenant concurrently entering into amendments to the leases for the buildings located at 1184 and 1194 Mathilda Avenue, Sunnyvale, California, respectively, in the forms agreed upon by the parties.

8. Miscellaneous.

8.1 Voluntary Agreement. The parties have read this Amendment and on the advice of counsel they have freely and voluntarily entered into this Amendment.

8.2 Attorneys Fees. If either party commences an action against the other party arising out of or in connection with this Amendment, the prevailing party shall be entitled to recover from the losing party reasonable attorney’s fees and costs of suit.

8.3 Successors. This Amendment shall be binding upon and inure to the benefit of the parties' respective successors or assigns.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

LANDLORD:

SUNNYVALE OFFICE PARK, L.P.,
a Delaware limited partnership

By: Sunnyvale Office Park GP, L.L.C.,
a Delaware limited liability company,
General Partner

By: /s/ Steven R. Wechsler

Name: Steven R. Wechsler

Title: Sr. Managing Director

TENANT:

JUNIPER NETWORKS, INC.,
a Delaware corporation

By: /s/ Robyn M. Denholm

Name: Robyn M. Denholm

Title: Executive VP & CFO

By: /s/ Mitchell L. Gaynor

Name: Mitchell L. Gaynor

Title: Senior VP & General Counsel

SUBSIDIARIES OF THE COMPANY AS OF DECEMBER 31, 2009*

NAME	JURISDICTION OF INCORPORATION
Juniper Networks (Cayman) Limited	Cayman Islands
Juniper Networks Ireland	Ireland
Juniper Networks (Hong Kong), Ltd.	Hong Kong
Juniper Networks (US), Inc.	California, USA

* All other subsidiaries would not in the aggregate constitute a “significant subsidiary” as defined in Regulation S-X.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements (Form S-8 Nos. 333-151669, 333-141211, 333-132260, 333-126404, 333-124610, 333-124572, 333-118340, 333-114688, 333-92086, 333-92088, 333-92090, 333-85387, 333-32412, 333-44148, 333-52258, 333-57860, 333-57862, 333-57864, and 333-75770 and Form S-3 No. 333-110714) of Juniper Networks, Inc. of our reports dated February 26, 2010, with respect to the consolidated financial statements and schedule of Juniper Networks, Inc., and the effectiveness of internal control over financial reporting of Juniper Networks, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2009.

/ s / Ernst & Young LLP

San Jose, California
February 26, 2010

CERTIFICATION

I, Kevin R. Johnson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Juniper Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2010

/s/ Kevin R. Johnson

Kevin R. Johnson
Chief Executive Officer

CERTIFICATION

I, Robyn M. Denholm, certify that:

1. I have reviewed this Annual Report on Form 10-K of Juniper Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2010

/s/ Robyn M. Denholm

Robyn M. Denholm
Executive Vice President and Chief Financial Officer

**Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350 As Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Kevin R. Johnson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Juniper Networks, Inc. on Form 10-K for the fiscal year ended December 31, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Juniper Networks, Inc.

/s/ Kevin R. Johnson

Kevin R. Johnson
Chief Executive Officer
February 26, 2010

**Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350 As Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Robyn M. Denholm, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Juniper Networks, Inc. on Form 10-K for the fiscal year ended December 31, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Juniper Networks, Inc.

/s/ Robyn M. Denholm

Robyn M. Denholm
Executive Vice President and Chief Financial Officer
February 26, 2010