JUNIPER NETWORKS, INC.
1194 N. Mathilda Avenue
Sunnyvale, California 94089
www.juniper.net
(408) 745-2000

2005 Annual Report

Letter to Stockholders

Notice of 2006 Annual Meeting of Stockholders and Proxy Statement

Report on Form 10-K

To Our Valued Stockholders,

As we celebrate our 10-year anniversary, we look back to February 6, 1996, when Juniper Networks was founded by one individual with one product idea. Today, the company has grown to over 4,000 employees selling 55 products and solutions to 8,000 customers in 80 countries. We serve 77 of the Fortune 100 enterprise networks and all 25 of the largest wireline service providers around the world. In 2005, Juniper generated over $2 billion in revenue and we ended the year with approximately $2 billion in cash and investments on our balance sheet.

During the past 10 years, Juniper has helped shape and drive the networking industry while executing on our mission to revolutionize the economics of global information exchange. We continue to lead this revolution by helping to make information more readily available around the world. We have been successful by being able to:

1. **Focus on executing our strategy** to be the best provider of traffic processing for the delivery of virtual network services. Our focused strategy enables Juniper to handle the secure and assured requirements of our customers—both service providers and enterprises—and the customers who depend on them.

2. **Provide best-in-class products** that map to our customers' critically important networking challenges. Recognized for our industry-leading routing, security and application performance products, Juniper continues to hold the #2 position in the Service Provider Core and Edge Routing markets according to Synergy Research Group, who also named Juniper #2 in the High-End Enterprise Routing category, a market in which we had no presence in 2004. Juniper also led the 2005 Gartner Magic Quadrant in the four security market segments we serve: Firewall, IPSec VPN, SSL VPN and IPS. To meet customers' evolving needs, Juniper introduced thousands of new software features across several best-in class-platforms in 2005—from the multi-chassis TX Matrix and the E320 Broadband Services Router in our infrastructure portfolio, to our security portfolio's ISG 2000, SA6000 and Unified Access Control, an industry-leading open standards security architecture that protects customers' existing network equipment investments.

3. **Work openly with partners** to broaden our reach and better serve customers' evolving requirements. Adding to our established partnerships with such industry leaders as Ericsson, Lucent, Siemens and NEC, in 2005 Juniper formed a strategic partnership with leading enterprise service provider Avaya to deliver secure converged communication solutions to enterprise customers worldwide. In addition, we grew the number of our quality channel partners to over 6,000.

4. **Stay agile** while growing globally. Providing us a competitive edge, Juniper has retained the nimbleness of a small company while adding products, services, people and resources that enable us to respond quickly to customers' wide-ranging needs around the globe.

5. **Deliver continual innovation** to meet changing customer requirements and maintain a lead in the marketplace. In 2005, Juniper spent over $300M in R&D for the ramp of new product cycles. Our investments in innovation continued to pay off as Juniper once again grew significantly faster than our competitors, allowing us to further establish our brand and gain market share in a number of key market segments.

Moving forward, we will continue to hone our abilities in each of these areas while addressing new and growing market trends in both the service provider and enterprise markets.

In the service provider market, for example, there is a wave of next-generation network planning as the migration from multiple standalone legacy networks to a single converged infrastructure accelerates. The large service providers, who are building fiber from the network infrastructure all the way out to the home—in the U.S., Europe and Asia—are experiencing an urgent need to plan for the next generation of capacity, performance and reliability. 2006 will be a year of decisions by carriers worldwide. We believe these decisions will also fuel the continued expansion of wireless and mobility in the areas of DSL and broadband, cellular and WiFi, and we expect to see the continued confirmation that there is only one infrastructure—built around secure IP—that will support these access technologies as last-mile solutions connected to a single network. This presents an exciting opportunity for Juniper.

In the enterprise market, requirements are moving closer to those of traditional service providers every day. Banks, governments, retailers and other businesses are demanding the same always-on reliability and simultaneous high performance and security as was once reserved only for the largest service providers. These demands can be met by Juniper's infrastructure and security technologies exactly as they are being designed for service providers, a consistency that presents another opportunity for us. Application performance—a network requirement to ensure the user experience is protected as business processes move online—is more strategic than ever, and our capabilities in both website and wide area network optimization are big differentiators for Juniper in this marketplace.

All customers, whether service providers or enterprises, require carrier-class reliability. The lines are blurring, but this is where our opportunity and our leverage are becoming clearer than ever, because everyone on the planet with an Internet connection traverses the traffic-processing infrastructure. While helping customers succeed, Juniper owes its own continuing success to the incredible daily efforts of our employees, and to the invaluable support of our customers, partners, suppliers and investors. I would like to thank you all for your continued support and confidence in Juniper Networks.

Scott Kriens
Chairman and CEO

JUNIPER NETWORKS, INC.
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NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

Time and Date	9:00 a.m., Pacific time, on Thursday, May 18, 2006
Place	Juniper Networks, Inc. 1220 North Mathilda Avenue Building 3, Pacific Conference Room Sunnyvale, CA 94089
Items of Business	(1) To elect three Class I directors; (2) To approve the Juniper Networks, Inc. 2006 Equity Incentive Plan, including approval of its material terms and performance goals for purposes of Internal Revenue Code Section 162(m); (3) To ratify the appointment of Ernst & Young LLP, an independent registered public accounting firm, as auditors for the fiscal year ending December 31, 2006; and (4) To consider such other business as may properly come before the meeting.
Adjournments and Postponements	Any action on the items of business described above may be considered at the annual meeting at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed.
Record Date	You are entitled to vote only if you were a Juniper Networks stockholder as of the close of business on March 21, 2006.

This notice of annual meeting and proxy statement and form of proxy are being distributed on or about April 13, 2006.

Meeting Admission

You are entitled to attend the annual meeting only if you were a Juniper Networks stockholder as of the close of business on March 21, 2006 or hold a valid proxy for the annual meeting. You should be prepared to present valid government-issued photo identification for admittance. In addition, if you are a stockholder of record, your ownership will be verified against the list of stockholders of record or plan participants on the record date prior to being admitted to the meeting. If you are not a stockholder of record but hold shares through a broker or nominee (i.e., in street name), you should provide proof of beneficial ownership as of the record date, such as your most recent account statement prior to March 21, 2006, a copy of the voting instruction form provided by your broker, trustee or nominee, or other similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you may not be admitted to the annual meeting.

The annual meeting will begin promptly at 9:00 a.m., Pacific time. Check-in will begin at 8:30 a.m., Pacific time, and you should allow ample time for the check-in procedures.

Voting

Your vote is very important. Whether or not you plan to attend the annual meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. You may submit your proxy or voting instructions for the annual meeting by completing, signing, dating and returning your proxy or voting instruction card in the pre-addressed envelope provided, or, in most cases, by using the telephone or the Internet. For specific instructions on how to vote your shares, please refer to the section entitled *Questions and Answers* beginning on page 1 of this proxy statement or refer to the instructions printed on your proxy or voting instruction form.

By Order of the Board of Directors,

Mitchell L. Gaynor
Vice President, General Counsel and Secretary

2006 ANNUAL MEETING OF STOCKHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

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QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Q: ***Why am I receiving these materials?***

A: The Board of Directors (the "Board") of Juniper Networks, Inc., a Delaware corporation ("Juniper Networks" or the "Company"), is providing these proxy materials for you in connection with Juniper Networks' annual meeting of stockholders, which will take place on May 18, 2006. As a stockholder as of the Record Date, you are invited to attend the annual meeting and are entitled to and requested to vote on the items of business described in this proxy statement.

Q: ***What information is contained in this proxy statement?***

A: The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, the compensation of directors and executive officers, and certain other required information.

Q: ***How may I obtain Juniper Networks' 10-K?***

A: A copy of our 2005 Annual Report on Form 10-K is enclosed.

Stockholders may request another free copy of the 2005 Form 10-K from**:**

Juniper Networks, Inc.
Attn: Investor Relations
1194 North Mathilda Avenue
Sunnyvale, CA 94089
(408) 745-2000

A copy of our 2005 Annual Report on Form 10-K is also available on the website of the Securities and Exchange Commission. You can reach this website by going to the Investor Relations Center on our Website, and clicking on the drop-down menu labeled "SEC Filings". The address of the Investor Relations Center is:

http://www.juniper.net/company/investor

We will also furnish any exhibit to the 2005 Annual Report on Form 10-K if specifically requested in writing.

Q: ***What items of business will be voted on at the annual meeting?***

A: The items of business scheduled to be voted on at the annual meeting are:

- The election of three Class I directors;
- The approval of the Juniper Networks, Inc. 2006 Equity Incentive Plan (the "2006 Plan"), including approval of its material terms and performance goals for purposes of Internal Revenue Code Section 162(m);
- The ratification of Ernst & Young LLP, an independent registered public accounting firm, as auditors for the fiscal year ending December 31, 2006; and

We will also consider other business that properly comes before the annual meeting.

Q: ***How does the Board recommend that I vote?***

A: Our Board recommends that you vote your shares "FOR" each of the nominees to the Board, "FOR" the approval of the 2006 Plan and "FOR" the ratification of Ernst & Young LLP, an independent registered public accounting firm as auditors for the fiscal year ending December 31, 2006.

Q: ***What shares can I vote?***

A: Each share of Juniper Networks common stock issued and outstanding as of the close of business on March 21, 2006, (the "Record Date"), is entitled to be voted on all items being voted upon at the annual meeting. You may vote all shares owned by you as of the Record Date, including (1) shares held directly in your name as the *stockholder of record* and (2) shares held for you as the *beneficial owner* through a broker, trustee or other nominee such as a bank. More information on how to vote these shares is contained in this proxy statement. On the Record Date we had approximately 564,325,167 shares of Common Stock issued and outstanding.

Q: ***What is the difference between holding shares as a stockholder of record and as a beneficial owner?***

A: Most Juniper Networks stockholders hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially, which may affect your ability to vote your shares.

Stockholder of Record

If your shares are registered directly in your name with Juniper Networks' transfer agent, Wells Fargo Shareowner Services, you are considered, with respect to those shares, the *stockholder of record*, and these proxy materials are being sent directly to you by Juniper Networks. As the *stockholder of record*, you have the right to grant your voting proxy directly to Juniper Networks or to vote in person at the meeting. We have enclosed or sent a proxy card for you to use.

Beneficial Owner

If your shares are held in a brokerage account or by another nominee, you are considered the *beneficial owner* of shares held *in street name*, and these proxy materials are being forwarded to you together with a voting instruction form. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the annual meeting.

Since a beneficial owner is not the *stockholder of record*, you may not vote these shares in person at the meeting unless you obtain a "legal proxy" from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares.

Q: ***How can I attend the annual meeting?***

A: You are entitled to attend the annual meeting only if you were a Juniper Networks stockholder as of the close of business on March 21, 2006 or you hold a valid proxy for the annual meeting. You should be prepared to present valid government-issued photo identification for admittance. In addition, if you are a stockholder of record, your name will be verified against the list of stockholders of record on the record date prior to your being admitted to the annual meeting. If you are not a stockholder of record but hold shares through a broker or nominee (i.e., in street name), you should provide proof of beneficial ownership on the record date, such as your most recent account statement prior to March 21, 2006, a copy of the voting instruction form provided by your broker, trustee or nominee, or other similar evidence of ownership. If you do not provide valid government-issued photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the annual meeting.

The meeting will begin promptly at 9:00 a.m., Pacific time. Check-in will begin at 8:30 a.m., and you should allow ample time for the check-in procedures.

Q: ***How can I vote my shares in person at the annual meeting?***

A: Shares held in your name as the stockholder of record may be voted in person at the annual meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares. *Even if you plan to attend the annual meeting, you may also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the meeting.*

Q: ***How can I vote my shares without attending the annual meeting?***

A: Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a stockholder of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, trustee or nominee. For directions on how to vote, please refer to the instructions below and those included on your proxy card or, for shares held beneficially in street name, the voting instruction form provided by your broker, trustee or nominee.

By Internet — Stockholders of record of Juniper Networks common stock with Internet access may submit proxies by following the "Vote by Internet" instructions on their proxy cards. Most Juniper Networks stockholders who hold shares beneficially in street name may vote by accessing the website specified on the voting instruction forms provided by their brokers, trustee or nominees. Please check the voting instruction form for Internet voting availability.

By Telephone — Stockholders of record of Juniper Networks common stock who live in the United States or Canada may submit proxies by following the "Vote by Phone" instructions on their proxy cards. Most Juniper Networks stockholders who hold shares beneficially in street name and live in the United States or Canada may vote by phone by calling the number specified on the voting instruction forms provided by their brokers, trustee or nominees. Please check the voting instruction form for telephone voting availability.

By Mail — Stockholders of record of Juniper Networks common stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelopes. Juniper Networks stockholders who hold shares beneficially in street name may vote by mail by completing, signing and dating the voting instruction forms provided and mailing them in the accompanying pre-addressed envelopes.

Q: Can I change my vote or otherwise revoke my proxy?

A: You may change your vote at any time prior to the vote at the annual meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to the Juniper Networks Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

Q: How many shares must be present or represented to conduct business at the annual meeting?

A: The quorum requirement for holding the annual meeting and transacting business is that holders of a majority of shares of Juniper Networks common stock entitled to vote must be present in person or represented by proxy. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.

Q: Will my shares be voted if I do not return my proxy card?

A: If your shares are held in street name, your broker may, under certain circumstances, vote your shares. Brokerage firms have authority to vote client's unvoted shares on some "routine" matters. If you do not give a proxy to vote your shares, your broker may either (1) vote your shares on "routine" matters or (2) leave your shares unvoted. In addition, the terms of the agreement with your broker may grant your broker discretionary authority to vote your shares.

Q: How are votes counted?

A: In the election of directors, you may vote "FOR" all of the nominees or your vote may be "WITHHELD" with respect to one or more of the nominees.

For the other items of business, you may vote "FOR," "AGAINST" or "ABSTAIN." If you "ABSTAIN," the abstention has the same effect as a vote "AGAINST." If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board ("FOR" all of Juniper Networks' nominees to the Board, "FOR" the approval of the 2006 Plan, and "FOR" ratification of the independent auditors).

Q: What is the voting requirement to approve each of the proposals?

A: In the election of directors, the three nominees receiving the highest number of "FOR" votes at the annual meeting will be elected. The proposals for the approval of the 2006 Plan and the ratification of the independent auditors each require the affirmative "FOR" vote of a majority of those shares present in person or represented by proxy and entitled to vote on each proposal at the annual meeting. If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute "broker non-votes." Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained. Abstentions have the same effect as votes against the matter.

Q: Is cumulative voting permitted for the election of directors?

A: No. Each share of common stock outstanding as of the close of business on the Record Date is entitled to one vote.

Q: What happens if additional matters are presented at the annual meeting?

A: Other than the three items of business described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy using the enclosed form, the persons named as proxyholders, Robert Dykes and Mitchell Gaynor, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any unforeseen reason any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board of Directors.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

Q: How may I obtain a separate set of voting materials?

A: If you share an address with another stockholder, you may receive only one set of proxy materials (including our letter to stockholders, 2005 Annual Report on Form 10-K and proxy statement) unless you have provided contrary instructions. If you wish to receive a separate set of proxy materials now or in the future, you may write or call us to request a separate copy of these materials from:

Juniper Networks, Inc.
Attn: Investor Relations
1194 North Mathilda Avenue
Sunnyvale, CA 94089
(408) 745-2000
http://www.juniper.net/company/investor

Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may write or call us at the above address and phone number to request delivery of a single copy of these materials.

Q: Who will bear the cost of soliciting votes for the annual meeting?

A: Juniper Networks is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. We also have hired Morrow & Co. to assist us in the distribution of proxy materials and the solicitation of votes described above. We will pay Morrow & Co. a fee of $10,000 plus customary costs and expenses for these services. Upon request, we will also reimburse brokerage houses and other custodians, nominees and fiduciaries for forwarding proxy and solicitation materials to stockholders.

Q: Where can I find the voting results of the annual meeting?

A: We intend to announce preliminary voting results at the annual meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of 2006.

Q: What is the deadline to propose actions for consideration or to nominate individuals to serve as directors?

A: Although the deadline for submitting proposals or director nominations for consideration at the 2006 annual meeting has passed, you may submit proposals, including director nominations, for consideration at future stockholder meetings.

Stockholder Proposals: For a stockholder proposal to be considered for inclusion in Juniper Networks' proxy statement for the annual meeting next year, the written proposal must be received by the Corporate Secretary of Juniper Networks at our principal executive offices no later than December 14, 2006. If the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's annual meeting, the deadline for inclusion of proposals in Juniper Networks' proxy statement is instead a reasonable time before Juniper Networks begins to print and mail its proxy materials. Such proposals also will need to comply with Securities and Exchange Commission regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Juniper Networks, Inc.
Attn: Corporate Secretary
1194 North Mathilda Avenue
Sunnyvale, CA 94089
Fax: (408) 745-2100

For a stockholder proposal that is not intended to be included in Juniper Networks' proxy statement under Rule 14a-8, the stockholder must deliver a proxy statement and form of proxy to holders of a sufficient number of shares of Juniper Networks common stock to approve that proposal, provide the information required by the bylaws of Juniper Networks and give timely notice to the Corporate Secretary of Juniper Networks in accordance with our bylaws, which, in general, require that the notice be received by the Corporate Secretary of Juniper Networks not later than the close of business on December 14, 2006.

If the date of the stockholder meeting is moved more than 30 days before or 60 days after the anniversary of the Juniper Networks annual meeting for the prior year, then notice of a stockholder proposal that is not intended to be included in Juniper Networks' proxy statement under Rule 14a-8 must be received no earlier than the close of business 120 days prior to the meeting and no later than the close of business on the later of the following two dates:

- 90 days prior to the meeting; and
- 10 days after public announcement of the meeting date.

Recommendation and Nomination of Director Candidates: The Nominating and Corporate Governance Committee will consider both recommendations and nominations for candidates to the Board of Directors from Qualifying Stockholders. A "Qualifying Stockholder" is a stockholder that has owned for a period of one year prior to the date of the submission of the recommendation through the time of submission of the recommendation at least 1% of the total common stock of the Company outstanding as of the last day of the calendar month preceding the submission. A Qualifying Stockholder that desires to recommend a candidate for election to the Board of Directors must direct the recommendation in writing to Juniper Networks, Inc., Corporate Secretary, 1194 North Mathilda Avenue, Sunnyvale, California 94089-1206, and must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years, written evidence that the candidate is willing to serve as a director of the Company if nominated and elected and evidence of the nominating person's ownership of Company stock.

A stockholder that instead desires to nominate a person directly for election to the Board of Directors must meet the deadlines and other requirements set forth in Section 2.5 of the Company's bylaws and the rules and regulations of the Securities and Exchange Commission. To be timely, such stockholder's notice must be delivered to or mailed and received by the Corporate Secretary of the Company not less than one hundred twenty (120) days prior to the date of the Company's proxy statement released to stockholders in connection with the Company's previous year's annual meeting of stockholders. To be in proper form, a stockholder's notice to the Secretary shall set forth:

(i) the name and address of the stockholder who intends to make the nominations and the name and address of the person or persons to be nominated;

(ii) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

(iii) if applicable, a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;

(iv) such other information regarding each nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated by the Board of Directors; and

(v) if applicable, the consent of each nominee to serve as director of the Company if so elected.

Copy of Bylaws: You may contact the Juniper Networks Corporate Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

Juniper Networks is committed to having sound corporate governance principles. Having such principles is essential to running our business efficiently and to maintaining our integrity in the marketplace. Juniper Networks' Corporate Governance Standards and Worldwide Code of Business Conduct and Ethics applicable to all Juniper Networks employees, officers, directors, contractors and agents are available at http://www.juniper.net/company/investor. Our Worldwide Code of Business Conduct and Ethics complies with the rules of the SEC, the listing standards of the NASDAQ National Market and Rule 406 of the Sarbanes-Oxley Act of 2002. Juniper Networks has also adopted complaint procedures for Accounting and Auditing matters in compliance with the listing standards of the NASDAQ National Market. Concerns relating to accounting, internal controls or auditing matters may be brought to the attention of either the Company's Concerns Committee (comprised of the Company's Chief Financial Officer, General Counsel, Executive Vice President of Human Resources, Corporate Controller and the Director of Audit Services), or to the Audit Committee directly. Concerns are reviewed by the Audit Committee and handled in accordance with procedures established by the Audit Committee with respect to such matters. For information on how to contact the Audit Committee directly, please see the section entitled "Stockholder Communications with the Board" below.

Board Independence

Our Board of Directors (the "Board") has determined that, except for Scott Kriens and Pradeep Sindhu, each of whom is an executive officer of the company, each of the current directors has no material relationship with Juniper Networks (either directly or as a partner, stockholder or officer of an organization that has a material relationship with Juniper Networks) and is independent within the meaning of the NASDAQ Stock Market, Inc. ("NASDAQ") director independence standards. Furthermore, the Board has determined that each of the members of each of the committees of the Board has no material relationship with Juniper Networks (either directly or as a partner, stockholder or officer of an organization that has a material relationship with Juniper Networks) and is "independent" within the meaning of the NASDAQ director independence standards, including in the case of the members of the Audit Committee, the heightened independence standard required for such committee members set forth in the applicable SEC rules.

Board Structure and Committee Composition

As of December 31, 2005, our Board had 9 directors divided into three classes — Class I, Class II and Class III — with each class being equal in number and with a three-year term for each class. As of December 31, 2005, the classes were comprised as follows:

Class I (Term expires this year)	Class II (Term expires in 2007)	Class III (Term expires in 2008)
Scott Kriens	Pradeep Sindhu	William R. Hearst III
Stratton Sclavos	Kenneth Levy	Kenneth Goldman
William R. Stensrud	Robert M. Calderoni	Frank Marshall

The Board has a standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. The membership during the last fiscal year and the function of each of the committees are described below. Each of these committees operates under a written charter adopted by the Board. All of those committee charters are available on Juniper Networks' website at http://www.juniper.net/company/investor. In addition, the Board has a Stock Committee comprised of the Chief Executive Officer and Chief Financial Officer. The Stock Committee has authority to grant stock options and restricted stock awards to employees who are not executive officers. During 2005, the Stock Committee held no meetings, and took action only by written consent. The Board has also established special litigation and securities pricing committees for specific purposes, such as oversight of securities litigation matters or the issuance of securities. None of the special committees met during 2005. During 2005, each director attended at least 75% of all Board and applicable committee meetings.

Name of Director	Board	Audit	Compensation	Nominating and Corporate Governance
Non-Employee Directors:				
Robert M. Calderoni	X	X		
Kenneth Goldman(1)	X	X		X
William R. Hearst III	X	X		
Frank Marshall	X		X	
Kenneth Levy	X		X	X
Stratton Sclavos	X			
William R. Stensrud	X		X	X
Employee Directors				
Scott Kriens	X			
Pradeep Sindhu	X			
Number of Meetings in Fiscal 2005	9	12	4	4

X = Committee member

(1) The Board has determined that Mr. Goldman is an "audit committee financial expert" within the meaning of the rules promulgated by the Securities and Exchange Commission.

Audit Committee

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of Juniper Networks' financial statements, Juniper Networks' compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, the performance of Juniper Networks' internal audit function and independent auditors, and risk assessment and risk management. The Audit Committee works closely with management as well as our independent auditors. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from Juniper Networks for, outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties.

The report of the Audit Committee is included herein on page 37. The charter of the Audit Committee is available at http://www.juniper.net/company/investor.

Compensation Committee

The Compensation Committee discharges the Board's responsibilities relating to compensation of our executive officers, including evaluation of the CEO, produces an annual report on executive compensation for inclusion in Juniper Networks' proxy statement and has overall responsibility for approving and evaluating executive officer compensation plans. The report of the Compensation Committee is included herein beginning on page 30. The charter of the Compensation Committee is available at http://www.juniper.net/company/investor.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee identifies individuals qualified to become Board members, consistent with criteria approved by the Board; oversees the organization of the Board to discharge the Board's duties and responsibilities properly and efficiently; and identifies best practices and recommends corporate governance principles, including giving proper attention and making effective responses to stockholder concerns regarding corporate governance. The charter of the Nominating and Governance Committee is available at http://www.juniper.net/company/investor.

Identification and Evaluation of Nominees for Directors

The Nominating and Corporate Governance Committee's criteria and process for evaluating and identifying the candidates that it selects, or recommends to the full Board for selection, as director nominees, are as follows:

- The Committee regularly reviews the current composition and size of the Board.
- The Committee reviews the qualifications of any candidates who have been properly recommended or nominated by a stockholder, as well as those candidates who have been identified by management, individual members of the Board or, if the Committee determines, a search firm. Such review may, in the Committee's discretion, include a review solely of information provided to the Committee or may also include discussions with persons familiar with the candidate, an interview with the candidate or other actions that the Committee deems proper.
- The Committee evaluates the performance of the Board as a whole and evaluates the qualifications of individual members of the Board eligible for re-election at the annual meeting of stockholders.
- The Committee considers the suitability of each candidate, including the current members of the Board, in light of the current size and composition of the Board. In evaluating the qualifications of the candidates, the Committee considers many factors, including, issues of character, judgment, independence, age, expertise, diversity of experience, length of service, other commitments, ability to serve on committees of the Board and the like. The Committee evaluates such factors, among others, and does not assign any particular weighting or priority to any of these factors. The Committee considers each individual candidate in the context of the current perceived needs of the Board as a whole. While the Committee has not established specific minimum qualifications for Director candidates, the Committee believes that candidates and nominees must reflect a Board that is comprised of directors who (i) are predominantly independent, (ii) are of high integrity, (iii) have qualifications that will increase overall Board effectiveness and (iv) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to audit committee members.
- In evaluating and identifying candidates, the Committee has the authority to retain and terminate any third party search firm that is used to identify director candidates, and has the authority to approve the fees and retention terms of any search firm.
- After such review and consideration, the Committee selects, or recommends that the Board of Directors select, the slate of director nominees, either at a meeting of the Committee at which a quorum is present or by unanimous written consent of the Committee.

Each of the nominees for reelection at the 2006 Annual Meeting was evaluated by the Nominating and Corporate Governance Committee, recommended by the Committee to the Board for nomination and nominated by the Board for reelection.

Stockholder Communications with the Board

Stockholders of Juniper Networks, Inc. and other parties interested in communicating with the Board may contact any of our directors by writing to them by mail or express mail c/o Juniper Networks, Inc., 1194 North Mathilda Avenue, Sunnyvale, California 94089-1206. The Nominating and Corporate Governance Committee of the Board has approved a process for handling stockholder communications received by the Company. Under that process, the General Counsel receives and logs stockholder communications directed to the Board and, unless marked "confidential", reviews all such correspondence and regularly (not less than quarterly) forwards to the Board a summary of such correspondence and copies of such correspondence. Communications marked "confidential" will be logged as received by the General Counsel and then will be forwarded to the addressee(s).

Policy on Director Attendance at Annual Meetings

Although we do not have a formal policy regarding attendance by members of the Board at our annual meetings of stockholders, directors are encouraged to attend annual meetings of Juniper Networks stockholders. Eight of our nine directors attended the 2005 Annual Meeting of Stockholders.

DIRECTOR COMPENSATION

The following table provides information on Juniper Networks' compensation and reimbursement practices during fiscal 2005 for non-employee directors, as well as the range of compensation paid to non-employee directors who served during the 2005 fiscal year. Effective October 1, 2005, compensation for non-employee directors was increased as reflected in the table below. Neither Mr. Kriens nor Dr. Sindhu received any separate compensation for their Board activities. The Board has not made any additional changes to director compensation for 2006.

NON-EMPLOYEE DIRECTOR COMPENSATION TABLE FOR FISCAL 2005

	Prior to June 30, 2005	After June 30, 2005
Annual retainer for all Non-employee Directors (payable quarterly)	$ 20,000	$30,000
Additional annual retainer for Audit Committee members (payable quarterly)	$ —	$10,000
Additional annual retainer for Compensation Committee members (payable quarterly)	$ —	$ 5,000
Additional annual retainer for Nominating and Corporate Governance Committee members (payable quarterly)	$ —	$ 5,000
Additional annual retainer for Audit Committee Chairman (payable quarterly)	$ —	$20,000
Additional annual retainer for Compensation Committee Chairman (payable quarterly)	$ —	$ 5,000
Additional annual retainer for Nominating and Corporate Governance Committee Chairman (payable quarterly)	$ —	$ 5,000
Stock options granted upon initial appointment or election to the Board(1)(2)	100,000	50,000
Stock options granted annually(3)	20,000	20,000
Payment for each Board meeting attended in person	$ 1,000	$ 1,250
Payment for each Board meeting attended by phone or video conference	$ 500	$ 625
Payment for each committee meeting attended in person	$ 500	$ 625
Payment for each committee meeting attended by phone or video conference	$ 250	$312.50
Reimbursement for expenses attendant to Board membership	Yes	Yes
Range of total cash compensation earned by directors (for the year)		$29,750 — $53,688

(1) Directors who joined the Board between February 2003 and June 2005 received a grant of 100,000 shares. Prior to February 2003, directors received grants in varying amounts determined at the time of their initial appointment.

(2) Vests monthly over three years commencing on the date of grant.

(3) Vests monthly over twelve months commencing on the date of grant.

PROPOSALS TO BE VOTED ON

PROPOSAL NO. 1

ELECTION OF DIRECTORS

There are three nominees for election to Class I of the Board this year — Scott Kriens, Stratton Sclavos and William R. Stensrud. Each of the nominees is presently a member of the Board. Information regarding the business experience of each nominee and the other members of the Board is provided below. Each of the Class I directors are elected to serve a three-year term until the Company's annual meeting in 2009 and until their respective successors is elected. There are no family relationships among our executive officers and directors.

If you sign your proxy or voting instruction card but do not give instructions with respect to the voting of directors, your shares will be voted for the three persons recommended by the Board. If you wish to give specific instructions with respect to the voting of directors, you may do so by indicating your instructions on your proxy or voting instruction card.

Our Board recommends a vote FOR the election to the Board of each of the following nominees.

Vote Required

The three persons receiving the highest number of "for" votes represented by shares of Juniper Networks common stock present in person or represented by proxy and entitled to be voted at the annual meeting will be elected.

Nominees for Election

Scott Kriens
Director since 1996
Age 48

Mr. Kriens has served as Chief Executive Officer and Chairman of the Board of Directors of Juniper Networks since October 1996. From April 1986 to January 1996, Mr. Kriens served as Vice President of Sales and Vice President of Operations at StrataCom, Inc., a telecommunications equipment company, which he co-founded in 1986. Mr. Kriens also serves on the boards of directors of Equinix, Inc. and VeriSign, Inc.,

Stratton Sclavos
Director since 2000
Age 44

Mr. Sclavos has been President and Chief Executive Officer of VeriSign Inc. since July 1995 and Chairman of its board of directors since December 2001. From October 1993 to June 1995, he was Vice President, Worldwide Marketing and Sales of Taligent, Inc., a software development company that was a joint venture among Apple Computer, Inc., IBM and Hewlett-Packard. Prior to that time, he served in various sales, business development and marketing capacities for GO Corporation, MIPS Computer Systems, Inc. and Megatest Corporation. Mr. Sclavos also serves on the boards of directors of Salesforce.com and Intuit, Inc.

William R. Stensrud
Director since 1996
Age 55

Mr. Stensrud has been a general partner with the venture capital firm of Enterprise Partners since January 1997. Mr. Stensrud was an independent investor and turn-around executive from March 1996 to January 1997. During this period, Mr. Stensrud served as President of Paradyne Corporation and as a director of Paradyne Corporation, GlobeSpan Corporation and Paradyne Partners LLP, all data networking companies. From January 1992 to July 1995, Mr. Stensrud served as President and Chief Executive Officer of Primary Access Corporation, a data networking company acquired by 3Com Corporation. From 1986 to 1992, Mr. Stensrud served as the Marketing Vice President of StrataCom, Inc., a telecommunications equipment company, which Mr. Stensrud co-founded.

Continuing Directors

Robert M. Calderoni
Director since 2003
Age 46

Mr. Calderoni has served as President and Chief Executive Officer and a member of the board of directors of Ariba, Inc., a provider of spend management solutions, since October 2001. From October 2001 to December 2001, Mr. Calderoni also served as Ariba's Interim Chief Financial Officer. From January 2001 to October 2001, Mr. Calderoni served as Ariba's Executive Vice President and Chief Financial Officer. Mr. Calderoni was also an employee of the Company from November 2000 to January 2001. From November 1997 to January 2001, he served as Chief Financial Officer at Avery Dennison Corporation, a manufacturer of pressure-sensitive materials and office products. From June 1996 to November 1997, Mr. Calderoni served as Senior Vice President of Finance at Apple Computer, a provider of hardware and software products and Internet-based services.

Kenneth Goldman
Director since 2003
Age 56

From August 2000 through January 2006, Mr. Goldman served as Senior Vice President, Finance and Administration and Chief Financial Officer of Siebel Systems, Inc., a supplier of customer software solutions and services that was recently acquired by Oracle Corporation. From July 1996 to July 2000, Mr. Goldman served as Senior Vice President of Finance and Chief Financial Officer of Excite@-Home, Inc. From 1992 to 1996, Mr. Goldman served as Senior Vice President of Finance and Chief Financial Officer of Sybase, Inc., a global enterprise software company. Mr. Goldman was a member of the Financial Accounting Standards Advisory Council from December 1999 to December 2003. Mr. Goldman is a member of the board of directors of Leadis Technology Inc. and a member of the board of trustees of Cornell University.

William R. Hearst III
Director since 1996
Age 56

Mr. Hearst has been a partner with Kleiner Perkins Caufield & Byers, a venture capital firm, since January 1995. Mr. Hearst was editor and publisher of the San Francisco Examiner from 1984 until 1995. Mr. Hearst serves on the boards of directors of Hearst-Argyle Television, The Hearst Corporation, OnFiber, Applied Minds, Akimbo and RGB Media. He is a Fellow of the American Association for the Advancement of Science and a trustee of Carnegie Institution, the Hearst Foundation, Mathematical Sciences Research Institute, the California Academy of Sciences and Grace Cathedral of San Francisco.

Kenneth Levy
Director since 2003
Age 63

Mr. Levy is a founder of KLA Instruments Corporation, a supplier of yield management solutions for the worldwide semiconductor industry, and since July 1, 1999 has been Chairman of the Board of KLA-Tencor Corporation. From July 1998 until June 1999, he was Chief Executive Officer and a director of KLA-Tencor Corporation. From April 1997 until June 1998, he was its Chairman of the Board. From 1975 until April 1997, he was Chief Executive Officer and Chairman of the Board of KLA Instruments Corporation. He currently serves on the boards of directors of the following publicly traded companies: KLA-Tencor Corporation, Extreme Networks, Inc. and Saifun Semiconductors, Ltd. Mr. Levy is a Director Emeritus of SEMI, a semiconductor manufacturing industry trade association.

Frank Marshall
Director since 2004
Age 59

Mr. Marshall joined the board of directors of NetScreen Technologies, Inc. in December 1997, became chairman of the NetScreen board in November 2002 and was appointed to our Board upon our acquisition of NetScreen. Mr. Marshall is a private investor in early stage high technology companies. Mr. Marshall serves as a director and advisor for several private companies and is a director for PMC-Sierra, Inc. Mr. Marshall was the interim chief executive officer of Covad Communications Group, Inc. Mr. Marshall served as vice president of engineering and general manager, core business unit of Cisco Systems, Inc. from 1992 until October 1997. He holds a B.S. in electrical engineering from Carnegie Mellon University and an M.S. in electrical engineering from the University of California, Irvine.

Pradeep Sindhu
Director since 1996
Age 53

Dr. Sindhu co-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, and a technology research center.

PROPOSAL NO. 2

APPROVAL OF JUNIPER NETWORKS, INC. 2006 EQUITY INCENTIVE PLAN

Our stockholders are being asked to approve the Juniper Networks, Inc. 2006 Equity Incentive Plan (the "2006 Plan"), the effect of which approval will:

- Reserve 64,500,000 shares of Common Stock for issuance under the 2006 Plan;
- Terminate the Company's existing 1996 Stock Plan (the "1996 Plan") and 2000 Nonstatutory Stock Option Plan (the "2000 Plan"), under which plans an aggregate of 70,050,364 shares of Common Stock were available for grant as of March 31, 2006;
- Enable shares subject to outstanding stock options under the 1996 Plan and 2000 Plan that expire unexercised to be added to the shares reserved for issuance under the 2006 Plan, up to a maximum addition of 75,000,000 shares of Common Stock;
- Prohibit the repricing of stock options or stock appreciation rights under the 2006 Plan unless stockholder approval is obtained;
- Include a maximum option term of seven (7) years under the 2006 Plan;
- Eliminate "evergreen" automatic share reserve increase provisions under the 1996 Plan and 2000 Plan;
- Include the ability to grant restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units, deferred stock units and dividend equivalents under the 2006 Plan; and
- Count 2006 Plan awards of restricted stock, restricted stock units, performance shares or deferred stock units as 2.1 shares for every one share subject thereto against the total number of shares issuable under the plan.

Our stockholders are also being asked to approve the material terms of the 2006 Plan and the performance goals thereunder for the purpose of helping awards under the 2006 Plan qualify as "performance-based" compensation under Internal Revenue Code Section 162(m).

Principles of the 2006 Plan

We believe our success is due to our highly talented employee base and that future success depends on the ability to attract and retain high caliber personnel. Our primary centers for innovation are in technology centers such as Silicon Valley where we must compete with many companies for a limited pool of talented people. The ability to grant equity awards is a necessary and powerful recruiting and retention tool for us to obtain the quality personnel we need to move our business forward.

The 2006 Plan is intended to replace two existing stock plans, the 1996 Plan and the 2000 Plan, and to reduce the overall number of shares available for future grant by the Company. Upon stockholder approval of the 2006 Plan, we will terminate the 1996 Plan and 2000 Plan and make no further grants under such plans. Based on the number of shares available for grant as of March 31, 2006, the adoption of the 2006 Plan (and the resulting termination of the 1996 Plan and 2000 Plan) will result in a net reduction of approximately 5,500,000 shares available for future grant under our equity incentive plans.

We designed the 2006 Plan to conform to current best practices in equity incentive plans. The 2006 Plan adopts many features noted above that are designed to address stockholder concerns related to equity incentive plans, such as the prohibition on option and stock appreciation right repricing without stockholder consent, reduced maximum option terms, elimination of "evergreen" share reserve increases and the flexibility of restricted stock, restricted stock units, performance shares or deferred stock units which can be used in lieu of stock options to reduce the total number of our shares necessary to grants competitive equity awards.

Our Board believes that the proposed 2006 Plan and shares reserved for issuance thereunder are necessary for us to continue to offer a competitive equity incentive program. If approved, the 2006 Plan will be a critical factor in attracting, retaining, and rewarding the high caliber personnel that are essential to our future success. In addition, the 1996 Plan is currently the Company's only active equity plan that can be used to grant restricted stock awards. If the stockholders do not approve the 2006 Plan, we believe we will not be able to continue to offer competitive equity packages to our personnel following expiration of the 1996 Plan in June 2006. We believe that this will likely adversely affect our efforts to successfully attract and retain the best possible talent.

Members of our Board and our executive officers have an interest in this proposal because they are eligible to receive awards under the 2006 Plan.

Our Board recommends a vote FOR (i) approval of the 2006 Plan (ii) authorization of 64,500,000 shares of Common Stock, plus up to an additional 75,000,000 shares of Common Stock subject to outstanding stock options under the Company's 2000 Nonstatutory Stock Option Plan and 1996 Stock Incentive Plan that expire unexercised, reserved for issuance thereunder, and (iii) approval of the material terms of the 2006 Plan and the performance goals thereunder for the purpose of helping awards under the 2006 Plan qualify as "performance-based" compensation under Internal Revenue Code Section 162(m).

Vote Required

Approval of the 2006 Plan and authorization for issuance thereunder of a reserve of 64,500,000 shares of Common Stock, plus the addition of any shares subject to outstanding options under the Company's 2000 Plan and 1996 Plan that subsequently expire unexercised up to a maximum of 75,000,000 additional shares of Common Stock, requires the affirmative vote of a majority of the shares of Juniper Networks common stock present in person or represented by proxy and entitled to be voted at the annual meeting.

Description of the 2006 Plan

ELIGIBILITY; LIMITATIONS. Options, stock appreciation rights, performance shares, performance units, restricted stock, restricted stock units, deferred stock units and dividend equivalents may be granted under the 2006 Plan. Options granted under the 2006 Plan may be either "incentive stock options," as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or nonstatutory stock options. Incentive stock options may be granted only to employees of the Company or of any subsidiary of the Company. Other awards may be granted under the 2006 Plan to any employee, consultant or non-employee director of the Company or of any parent or subsidiary of the Company. Non-employee directors, however, may only be granted stock options under the 2006 Plan, and these are made pursuant to an automatic, non-discretionary formula. Otherwise, the 2006 Plan administrator, in its discretion, selects the person(s) to whom awards may be granted, and (except for performance units and dividend equivalents, which are cash awards) the number of shares subject to each such grant. For this reason, it is not possible to determine the benefits or amounts that will be received by any particular individual or individuals in the future. The 2006 Plan provides that no person(s) may be granted, in any fiscal year of the Company: (i) options or stock appreciation rights to purchase more than four million (4,000,000) shares of Common Stock in such person's first fiscal year of service with the Company and more than two million (2,000,000) shares of Common Stock in any other fiscal year of service; (ii) performance shares, restricted stock units, restricted stock or deferred stock units to more than more than two million (2,000,000) shares of Common Stock in such person's first fiscal year of service with the Company and more than one million (1,000,000) shares of Common Stock in any other fiscal year of service; and (iii) performance units having an initial value more than four million dollars ($4,000,000) in such persons' first fiscal year of service with the Company and more than two million dollars ($2,000,000) in any other fiscal year of service.

SHARES AVAILABLE FOR ISSUANCE. Upon approval of the 2006 Plan, a total of 64,500,000 shares of Common Stock will be available for issuance thereunder plus the addition of any shares subject to any outstanding options under the Company's 2000 Plan and 1996 Plan that expire unexercised after May 18, 2006 up to a maximum of 75,000,000 additional shares.

Any shares subject to options or stock appreciation rights shall be counted against the shares available for issuance as one share for every share subject thereto. Any restricted stock, restricted stock units, performance shares or deferred stock units with a per share purchase price lower than 100% of fair market value on the date of grant shall be counted against the shares available for issuance as two and one-tenth (2.1) shares for every one share subject thereto. To the extent that a share that was subject to an award that counted as two and one-tenth shares against the 2006 Plan reserve is recycled back into the 2006 Plan, the 2006 Plan shall be credited with two and one-tenth shares.

If an award expires or becomes unexercisable without having been exercised in full, or, with respect to restricted stock, performance shares, restricted stock units or deferred stock units, is forfeited to or repurchased by the Company due to its failure to vest, the unpurchased shares (or for awards other than options and stock appreciation rights, the forfeited or repurchased shares) which were subject thereto shall become available for future grant or sale under the 2006 Plan. With respect to stock appreciation rights, when a stock-settled SAR is exercised, the shares subject to a SAR grant agreement shall be counted against the shares available for issuance under the 2006 Plan as one share for every share subject thereto, regardless of the number of shares used to settle the SAR upon exercise. Shares that have actually been issued under the 2006 Plan under any award shall not be returned to the 2006 Plan and shall not become available for future distribution under the 2006 Plan; provided, however, that if shares of restricted stock, performance shares, restricted stock units or deferred stock units are repurchased by the Company at their original purchase price or are forfeited to the Company due to their failure to vest, such shares shall become available for future grant under the 2006 Plan as described above. Shares used to pay the exercise price of a stock option shall not become available for future grant or sale under the 2006 Plan. Shares used to satisfy tax withholding obligations shall not become available for future grant or sale under the 2006 Plan. To the extent a 2006 Plan award is paid out in cash rather than stock, such cash payment shall not reduce the number of shares available for issuance under the 2006 Plan. Any payout of dividend equivalents or performance units, because they are payable only in cash, shall not reduce the number of shares available for issuance under the 2006 Plan. Conversely, any forfeiture of dividend equivalents or performance units shall not increase the number of shares available for issuance under the 2006 Plan.

ADMINISTRATION. The Plan may generally be administered by the Board or a committee appointed by the Board (as applicable, the "Administrator"). The Board has authorized the Compensation Committee of the Board to approve awards and grants to Section 16 reporting executive officers. The Compensation Committee is composed entirely of independent non-employee directors. The Board has authorized the Stock Committee to approve awards and grants to employees and consultants other than the Section 16 reporting executive officers. The Stock Committee is composed of the Chief Executive Officer and Chief Financial Officer.

OPTION TERMS AND CONDITIONS. Each option is evidenced by a stock option agreement between the Company and the optionee, and is subject to the following additional terms and conditions:

EXERCISE PRICE. The Administrator determines the exercise price of options at the time the options are granted. The exercise price of an option may not be less than 100% of the fair market value of our Common Stock on the date such option is granted; provided, however, the exercise price of an incentive stock option granted to a 10% stockholder may not be less than 110% of the fair market value of our Common Stock on the date such option is granted. The fair market value of our Common Stock is determined with reference to the closing sale price for our Common Stock (or the closing bid if no sales were reported) on the date the option is granted.

EXERCISE OF OPTION; FORM OF CONSIDERATION. The Administrator determines when options become exercisable, and may in its discretion, accelerate the vesting of any outstanding option. Stock options granted under the 2006 Plan generally vest and become exercisable over a four (4) year period. The 2006 Plan permits payment to be made by cash, check, other shares of Common Stock of the Company, cashless exercises, a reduction in the amount of any Company liability to the optionee, any other form of consideration permitted by applicable law, or any combination thereof.

TERM OF OPTION. Currently, options granted under the 2006 Plan expire seven (7) years from the date of grant. However, the 2006 Plan allows an option to be granted with a shorter term determined by the Administrator and in the case of an incentive stock option granted to a 10% stockholder, the term of the option may be no more than five (5) years from the date of grant. No option may be exercised after the expiration of its term.

TERMINATION OF EMPLOYMENT. If the optionee's employment or status as a service provider terminates for any reason other than death or permanent total disability or unless the Administrator otherwise approves, then options may be exercised no later than 90 days after such termination and may be exercised only to the extent the option was exercisable on the termination date.

DEATH OR DISABILITY. If an optionee's employment or status as a service provider terminates as a result of his or her death or permanent total disability, then all options held by such optionee under the 2006 Plan may be exercised within twelve (12) months or as may be provided in the option agreement, but only to the extent the options would have been exercisable at the date of death or permanent total disability.

OTHER PROVISIONS. The stock option agreement may contain other terms, provisions and conditions not inconsistent with the 2006 Plan as may be determined by the Administrator.

STOCK APPRECIATION RIGHTS. Stock appreciation rights are exercisable in whole or in part at such times as the Administrator specifies in the grant or agreement. However, the term of an independent stock appreciation right may be no more than seven (7) years from the date of grant. The Company's obligations arising upon the exercise of a stock appreciation right may be paid in cash or Common Stock, or any combination of the same, as the Administrator may determine. We expect, however, that most stock appreciation rights that we grant will provide that they may only be settled in shares of Common Stock. Shares issued upon the exercise of a stock appreciation right are valued at their fair market value as of the date of exercise.

VESTING OF CERTAIN AWARDS. Restricted stock, performance shares, restricted stock units or deferred stock units that vest solely based on continuing as an employee or service provider will vest in full no earlier (except if accelerated pursuant to a change of control or similar transaction) than the three (3) year anniversary of the grant date. If vesting is based on factors other than solely on continued employment or provision of services, they will vest in full no earlier than the one (1) year anniversary of the grant date (except if accelerated pursuant to a change of control or similar transaction).

RESTRICTED STOCK. Subject to the terms and conditions of the 2006 Plan, restricted stock may be granted to participants at any time and from time to time at the discretion of the Administrator. Subject to the annual share limit and vesting limitations set forth above, the Administrator shall have complete discretion to determine (i) the number of shares subject to a restricted stock award granted to any participant, and (ii) the conditions for grant or for vesting that must be satisfied, which typically will be based principally or solely on continued provision of services but may include a performance-based component. Each restricted stock grant shall be evidenced by an agreement that shall specify the purchase price (if any) and such other terms and conditions as the Administrator shall determine; *provided*, *however*, that if the restricted stock grant has a purchase price, the purchase price must be paid no more than seven (7) years following the date of grant.

RESTRICTED STOCK UNITS. Restricted stock units are awards that obligate the Company to deliver Common Stock shares to the participant as specified on each vesting date. Subject to the annual share limit and vesting limitations set forth above, the Administrator has complete discretion to determine (i) the number of shares subject to a restricted stock unit award granted to any participant, and (ii) the conditions for grant or for vesting that must be satisfied, which typically will be based principally or solely on continued provision of services but may include a performance-based component.

PERFORMANCE SHARES. Performance shares are also awards that obligate the Company to deliver Common Stock shares to the participant as specified on each vesting date. Performance shares may be granted to employees and consultants at any time and from time to time as shall be determined at the discretion of the Administrator. Subject to the annual share limit and vesting limitations set forth above, the Administrator shall have complete discretion to determine (i) the number of shares of common stock subject to a performance share award granted to any service provider and (ii) the conditions that must be satisfied for grant or for vesting, which typically will be based principally or solely on achievement of performance milestones but may include a service-based component.

PERFORMANCE UNITS. Performance Units are similar to Performance Shares, except that they are settled in a cash equivalent to the Fair Market Value of the underlying shares, determined as of the vesting date. Subject to the terms and conditions of the 2006 Plan, Performance Units may be granted to participants at any time and from time to time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine the conditions that must be satisfied, which typically will be based principally or solely on achievement of performance milestones but may include a service-based component, upon which is conditioned the grant or vesting of Performance Units. Performance Units shall be granted in the form of units to acquire shares. Each such unit shall be the cash equivalent of one share of Common Stock. No right to vote or receive dividends or any other rights as a stockholder shall exist with respect to Performance Units or the cash payable thereunder.

DEFERRED STOCK UNITS. Deferred Stock Units consist of a Restricted Stock, Restricted Stock Unit, Performance Share or Performance Unit Award that the Administrator, in its sole discretion permits to be paid out in installments or on a deferred basis, in accordance with rules and procedures established by the Administrator and applicable law, including Internal Revenue Code Section 409A. Deferred Stock Units shall remain subject to the claims of the Company's general creditors until distributed to the participant.

DIVIDEND EQUIVALENTS. A dividend equivalent is a credit, payable in cash, awarded at the discretion of the Administrator, to the account of a participant in an amount equal to the cash dividends paid on one share for each share represented by an award. Dividend equivalents may be subject to the same vesting restrictions as apply to a related award.

CODE SECTION 162(m) PERFORMANCE GOALS. The 2006 Plan is designed to permit the Company to issue awards that qualify as performance-based under Section 162(m) of the Code. Thus, the Administrator may make performance goals applicable to a participant with respect to an award. At the Administrator's discretion, one or more of the following performance goals may apply: annual revenue, cash position, earnings per share, net income, operating cash flow, operating income, return on assets, return on equity, return on sales and total stockholder return. Except with respect to cash position, return on equity and total stockholder return, which measures shall only apply to Company performance, the performance goals may apply to either the company or to a specified business unit. The Administrator shall appropriately adjust any evaluation of performance under a performance goal to exclude any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial conditions and results of operation appearing in the Company's annual report to stockholders for the applicable year, or the effect of any changes in accounting principles affecting the Company's or a business units' reported results.

NO REPRICING. The 2006 Plan prohibits option or stock appreciation right repricings (including by way of exchange for another award) unless stockholder approval is obtained.

NONTRANSFERABILITY OF AWARDS. Unless determined otherwise by the Administrator, an award granted under the 2006 Plan is not transferable other than by will or the laws of descent and distribution, and may be exercised during the participant's lifetime only by the participant.

AUTOMATIC GRANTS TO OUTSIDE DIRECTORS. The 2006 Plan provides that each non-employee member of the Board (each, an "Outside Director") shall be automatically granted an option to purchase 50,000 shares of Common Stock upon the date on which such person 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"). At each of the Company's annual stockholder meetings (i) each Outside Director who was an Outside Director on the date of the prior year's annual stockholder meeting shall be automatically granted an option to purchase 20,000 shares of Common Stock, and (ii) each Outside Director who was not an Outside Director on the date of the prior year's annual stockholder meeting shall receive an option covering the number of shares of Common Stock determined by multiplying 20,000 shares by a fraction, the numerator of which is the number of days since the Outside Director received their First Option, and the denominator of which is 365, rounded down to the nearest whole share (the "Annual Option"). The First Option shall vest monthly over approximately three years from the grant date, with the last tranche vesting on the day prior to the annual stockholders meeting approximately three years following the grant date, subject to the Outside Director remaining on the Board. The Annual Option shall vest monthly over approximately one (1) year from the grant date, with the last tranche vesting on the day prior to the annual stockholders meeting approximately one year following the grant date, subject to the Outside Director remaining on the Board. The options granted to Outside Directors will have a term of seven (7) years. Outside Directors are not otherwise eligible to receive discretionary awards under the 2006 Plan.

ADJUSTMENTS UPON CHANGES IN CAPITALIZATION. In the event that the stock of the Company changes by reason of any stock split, reverse stock split, stock dividend, combination, reclassification or other similar change in the capital structure of the Company effected without the receipt of consideration, appropriate adjustments shall be made in the number and class of shares of stock subject to the 2006 Plan, the number and class of shares of award outstanding under the 2006 Plan, the fiscal year limits on the number of awards that any person may receive, the number of shares subject to automatic option grants to Outside Directors and the exercise price of any outstanding option or stock appreciation right.

In the event of a liquidation or dissolution, the Administrator shall notify each participant prior to the effective date. Except with respect to Outside Director options, the Administrator may, in its discretion, provide that each participant shall have the right to exercise all of their options and stock appreciation rights, as to all of the shares covered by the option or stock appreciation right, including as to those shares not otherwise exercisable. In addition, the Administrator may provide that any Company repurchase option or forfeiture rights applicable to any award shall lapse 100%, and that any award vesting shall accelerate 100%, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated.

MERGER OR ASSET SALE. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding option and stock appreciation right shall be assumed or an equivalent option or stock appreciation right substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option or stock appreciation right, the participant shall fully vest in and have the right to exercise the option or stock appreciation right as to all of the Common Stock covered thereby including shares as to which it would not otherwise be vested or exercisable. If an option or stock appreciation right becomes fully vested and exercisable in lieu of assumption or substitution in such event, the Administrator shall notify the participant that the option or stock appreciation right shall be fully vested and exercisable for a period of thirty days, and the option or stock appreciation right shall terminate upon the expiration of such period. With respect to options granted to Outside Directors, in the event that the Outside Director is required to terminate his or her position as an Outside Director at the request of the acquiring entity within twelve (12) months following such merger or asset sale, each outstanding option held by such Outside Director shall become fully vested and exercisable, including as to shares as to which it would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise.

In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding restricted stock, restricted stock unit, performance share, performance unit, dividend equivalent and deferred stock unit award (and any related dividend equivalent) shall be assumed or an equivalent award substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the award, the participant shall fully vest in the award, including as to shares (or with respect to dividend equivalents and performance units, the cash equivalent thereof) which would not otherwise be vested.

TAX WITHHOLDING. At the Administrator's discretion, participants may satisfy the minimum statutory tax withholding requirements arising in connection with the exercise, vesting or delivery of their awards by having the Company retain shares with a fair market value equal to the minimum amount required to be withheld.

AMENDMENT AND TERMINATION OF THE 2006 PLAN. The Board may amend, alter, suspend or terminate the 2006 Plan, or any part thereof, at any time and for any reason. However, the Company shall obtain stockholder approval for the 2006 Plan and any amendment to the 2006 Plan to the extent necessary to comply with Section 162(m) and Section 422 of the Code, or any similar rule or statute. No such amendment by the Board or stockholders may alter or impair any award previously granted under the 2006 Plan without the written consent of the participant.

TERM OF THE 2006 PLAN. The 2006 Plan will continue in effect until March 1, 2016.

FEDERAL INCOME TAX CONSEQUENCES

INCENTIVE STOCK OPTIONS. An optionee who is granted an incentive stock option does not recognize taxable income at the time the option is granted or upon its exercise, although the exercise may subject the optionee to the alternative minimum tax. Upon an optionee's sale of the shares (assuming that the sale occurs at least two years after grant of the option and at least one year after exercise of the option), any gain will be taxed to the optionee as long-term capital gain. If the optionee disposes of the shares prior to the expiration of the above holding periods, then the optionee will recognize ordinary income in an amount generally measured as the difference between the exercise price and the lower of the fair market value of the shares at the exercise date or the sale price of the shares. Any gain or loss recognized on such premature sale of the shares in excess of the amount treated as ordinary income will be characterized as capital gain or loss.

NONSTATUTORY STOCK OPTIONS. An optionee does not recognize any taxable income at the time he or she is granted a nonstatutory stock option. Upon exercise, the optionee recognizes taxable income generally measured by the excess of the then fair market value of the shares over the exercise price. Upon a disposition of such shares by the optionee, any difference between the sale price and the optionee's exercise price, to the extent not recognized as taxable income as provided above, is treated as long-term or short-term capital gain or loss, depending on the holding period.

RESTRICTED STOCK. If at the time of purchase, restricted stock is subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Code, the purchaser will not recognize ordinary income at the time of purchase. Instead, the purchaser will recognize ordinary income on the dates when a stock ceases to be subject to a substantial risk of forfeiture. At such times, the purchaser will recognize ordinary income measured as the difference between the purchase price and the fair market value of the stock on the date the stock is no longer subject to a substantial risk of forfeiture.

The purchaser may accelerate to the date of purchase his or her recognition of ordinary income, if any, and the beginning of any capital gain holding period by timely filing an election pursuant to Section 83(b) of the Code. In such event, the ordinary income recognized, if any, is measured as the difference between the purchase price and the fair market value of the stock on the date of purchase, and the capital gain holding period commences on such date. The ordinary income recognized by a purchaser who is an employee will be subject to tax withholding by the Company.

STOCK APPRECIATION RIGHTS. No income will be recognized by a recipient in connection with the grant of a stock appreciation right. When the stock appreciation right is exercised, the recipient will generally be required to include as taxable ordinary income in the year of exercise an amount equal to the sum of the amount of cash received and the fair market value of any Common Stock received upon the exercise.

RESTRICTED STOCK UNITS AND PERFORMANCE SHARES. A participant will not have taxable income upon grant (unless, with respect to restricted stock, he or she elects to be taxed at that time). Instead, he or she will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the vested shares or cash received minus any amount paid for the shares.

DIVIDEND EQUIVALENTS. A participant will recognize taxable income upon the payout of a dividend equivalent.

DEFERRED STOCK UNITS. Typically, a participant will recognize employment taxes upon the vesting of a Deferred Stock Unit and income upon its delivery. The participant may be subject to additional taxation, interest and penalties if the Deferred Stock Unit does not comply with Internal Revenue Code Section 409A.

COMPANY TAX DEDUCTION. The Company generally will be entitled to a tax deduction in connection with an award under the 2006 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to the Chief Executive Officer and to each of the four most highly compensated executive officers. Under Section 162(m) of the Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000. However, the Company can preserve the deductibility of certain compensation in excess of $1,000,000 if the conditions of Section 162(m) are met with respect to awards. These conditions include stockholder approval of the performance goals under the 2006 Plan, setting individual annual limits on each type of award, and certain other requirements. The 2006 Plan has been designed to permit the Administrator to grant certain awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting the Company to receive a federal income tax deduction in connection with such awards.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY UNDER THE 2006 PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF THE EMPLOYEE'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE EMPLOYEE MAY RESIDE.

ACCOUNTING TREATMENT. Under newly effective accounting rules mandating expensing for all compensatory equity awards, including stock options, the Company will recognize compensation expense for all awards granted under the 2006 Plan. This will result in a direct charge to the Company's reported earnings.

A full copy of the 2006 Plan is attached to this proxy statement as Appendix A.

PROPOSAL NO. 3

RATIFICATION OF INDEPENDENT AUDITORS

The Audit Committee of the Board has appointed Ernst & Young LLP, an independent registered public accounting firm, to audit Juniper Networks' consolidated financial statements for the fiscal year ending December 31, 2006. During fiscal 2005, Ernst & Young served as Juniper Networks' independent auditors and also provided certain tax and other audit related services. See "Principal Accountant Fees and Services" on page 36. Representatives of Ernst & Young are expected to attend the annual meeting, where they are expected to be available to respond to appropriate questions and, if they desire, to make a statement.

Our Board recommends a vote FOR the ratification of the appointment of Ernst & Young LLP, an independent registered public accounting firm, as Juniper Networks' auditors for the 2006 fiscal year. If the appointment is not ratified, the Audit Committee will consider whether it should select other independent auditors.

Vote Required

Ratification of the appointment of Ernst & Young LLP, an independent registered public accounting firm, as auditors for fiscal 2006 requires the affirmative vote of a majority of the shares of Juniper Networks common stock present in person or represented by proxy and entitled to be voted at the meeting.

COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of March 1, 2006, concerning:

- beneficial owners of more than 5% of Juniper Networks' common stock;
- beneficial ownership by current Juniper Networks directors and nominees and the named executive officers set forth in the Summary Compensation table on page 26; and
- beneficial ownership by all current Juniper Networks directors and Juniper Networks executive officers as a group.

The information provided in the table is based on Juniper Networks' records, information filed with the Securities and Exchange Commission and information provided to Juniper Networks, except where otherwise noted.

The number of shares beneficially owned by each entity, person, director or executive officer is determined under rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has the sole or shared voting power or investment power and also any shares that the individual has the right to acquire as of April 30, 2006 (60 days after March 1, 2006) through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole voting and investment power (or shares such powers with his spouse) with respect to the shares set forth in the following table. In addition, unless otherwise indicated, all persons named below can be reached at Juniper Networks, Inc., 1194 N. Mathilda Avenue, Sunnyvale, California 94089.

BENEFICIAL OWNERSHIP TABLE

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Holders of Greater Than 5%		
AXA Financial, Inc. 1290 Avenue of the Americas New York, NY 10104	107,169,810(2)	19.0%
FMR Corp. 82 Devonshire Street Boston, MA 02109	43,679,969(3)	7.8%
T Rowe Price Associates 100 E. Pratt Street Baltimore, MD 21202	28,502,187(4)	5.1%
Directors, Nominees and Named Executive Officers:		
Robert M. Calderoni	81,966(5)	*
James A. Dolce, Jr.(19)	399,937(6)	*
Robert Dykes	160,535(7)	
Kenneth Goldman	141,797(8)	*
William R. Hearst III	922,696(9)	*
Scott Kriens	14,724,059(10)	2.6%
Krishna "Kittu" Kolluri(19)	—	*
Kenneth Levy	138,333(11)	*
Frank Marshall	758,251(12)	*
Carol Mills(19)	155,227(13)	*
Stratton Sclavos	186,333(14)	*
Pradeep Sindhu	10,341,372(15)	1.8%

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
William R. Stensrud	1,474,230(16)	*
Robert Sturgeon	273,072(17)	*
All Directors and Executive Officers as a Group (14 persons)	29,757,808(18)	5.2%

* Represents holdings of less than one percent.

(1) Pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934, as amended, "Vested Options" are options that may be exercised as of April 30, 2006 (60 days after March 1, 2006). The percentages are calculated using 563,184,439 outstanding shares of the Company's common stock on March 1, 2006 as adjusted pursuant to Rule 13d-3(d)(1)(i).

(2) Based on information reported on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006. AXA Financial, Inc. is the parent holding company for several entities that hold our common stock as investment advisors, including Alliance Capital Management L.P. Collectively, these entities have shared voting power with respect to 539,693 shares and shared investment power with respect to 113,350 shares.

(3) Based on information reported on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006.

(4) Based on information reported on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006. These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. ("Price Associates") serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(5) Consists of shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(6) Includes 234,493 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(7) Consists of shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(8) Includes 117,444 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(9) Includes 105,000 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(10) Includes 10,481,672 shares held by the Kriens 1996 Trust, of which Mr. Kriens and his spouse are the trustees and 3,830,600 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(11) Consists of shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(12) Includes 235,894 shares held by Big Basin Partners, LP, 88,206 shares held by Timark, LP, of which Mr. Marshall is a general partner; 135,400 shares held by the Frank & Judith Marshall Trust and 104,999 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(13) Includes 154,553 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(14) Includes 178,333 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(15) Includes 2,218,780 shares held by the Sindhu Investments, LP, a family limited partnership; 4,716,634 shares held by the Sindhu Family Trust and 6,867 shares held by Dr. Sindhu's spouse. Also includes 1,806,160 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(16) Includes 1,129,497 shares held in a trust as community property and 158,333 shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(17) Consists of shares which are subject to options that may be exercised within 60 days of March 1, 2006.

(18) Includes all shares referenced in notes 5 through 17 above.

(19) Although each is deemed a "named executive officer" of the Company for 2005 under applicable SEC rules, Mr. Kolluri, Ms. Mills and Mr. Dolce are no longer serving as executive officers of the Company as of the date of this proxy statement.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and holders of more than 10% of Juniper Networks Common Stock to file with the Securities and Exchange Commission reports regarding their ownership and changes in ownership of our securities. We believe that, during fiscal 2005, its directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements, except that Mr. Dolce made a gift transfer of shares of common stock with respect to which the required Form 4 was filed late. In making this statement, we have relied upon examination of the copies of Forms 3, 4 and 5, and amendments thereto, provided to Juniper Networks and the written representations of its directors, executive officers and 10% stockholders.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company reimburses Mr. Kriens for ordinary operating costs relating to his use of a personal aircraft for business purposes up to a maximum amount per year. In 2005 the annual limit was $650,000 and Mr. Kriens received $534,000 in reimbursements. The Compensation Committee has determined that the annual limit will remain at $650,000 for the fiscal year ending December 31, 2006.

EXECUTIVE COMPENSATION

The following table discloses compensation received by Juniper Networks' Chief Executive Officer during fiscal 2005 and Juniper Networks' four other most highly paid executive officers (together with the CEO, the "named executive officers") as of December 31, 2005, as well as their compensation received from Juniper Networks for each of the fiscal years ending December 31, 2004 and December 31, 2003. In addition, the "named executive officers" include Krishna "Kittu" Kolluri who was not an executive officer as of December 31, 2005, but would have been included among the most highly paid executive officers during 2005 but for the fact that he resigned his position during fiscal 2005. Mr. Dolce and Ms. Mills ceased to be executive officers in 2006.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation		
Name and Principal Position	**Year**	**Salary**	**Bonus(1)**	**Other Annual Compensation(19)**	**Restricted Stock Award(s)**	**Securities Underlying Options/SARs**	**All Other Compensation(2)**
Scott Kriens	2005	$470,833	$733,876	$2000	NA	645,000(3)	$ 540
Chairman and Chief	2004	412,500	539,077	2000	NA	750,000(4)	540
Executive Officer	2003	275,000	161,350	2000	NA	800,000(5)	510
Robert Dykes	2005	$400,000	$420,000	$ —	NA	570,000(6)	$ 1,548
Executive Vice President	2004	—	—	—	NA	—	—
Chief Financial Officer	2003	—	—	—	NA	—	—
James A. Dolce, Jr.(18)	2005	$295,833	$312,000	$ —	NA	200,000(3)	$ 360
Former Executive	2004	249,167	319,611	—	NA	300,000(4)	40,978(8)
Vice President, Field Operations	2003	254,581	70,407	—	NA	500,000(5)	125,922(8)
Krishna "Kittu" Kolluri(18)	2005	$272,917	$116,875	$2000	NA	200,000(3)	$574,150(12)
Former General Manager,	2004(9)	249,167	486,288(10)	2000	NA	(11)	282,579(12)
Security Products	2003	—	—	—	NA	—	—
Carol Mills(18)	2005	$275,000	$346,500	$2000	NA	70,000(3)	$ 828
Former General Manager,	2004	38,606	50,000	—	NA	350,000(15)	103
Infrastructure Products	2003	—	—	—	NA	—	—
Robert Sturgeon	2005(13)	$255,434	$ 94,417	$ —	NA	200,000(7)	$137,073(14)
General Manager,	2004	210,000	5,250	—	NA	100,000(16)	169,012(14)
Security Products	2003	200,000	—	—	NA	137,500(17)	163,223(14)

(1) Amounts in this column reflect bonuses earned in 2005, although some amounts were paid in 2006.

(2) Consists of the standard employee benefit portion paid by the Company for all employees for premiums for term life insurance and, in the case of Mr. Dolce, Mr. Kolluri and Mr. Sturgeon, the additional amounts described in footnotes 8, 12 and 14, respectively.

(3) Mr. Kriens was granted an option exercisable for 645,000 shares of our Common Stock, Mr. Dolce was granted an option exercisable for 200,000 shares of our Common Stock, Mr. Kolluri was granted an option exercisable for 200,000 shares of our Common Stock and Ms. Mills was granted an option exercisable to purchase 70,000 shares of our Common Stock on April 29, 2005 at an exercise price of $22.59.

(4) Mr. Kriens was granted an option exercisable for 750,000 shares of our Common Stock and Mr. Dolce was granted an option exercisable for 300,000 shares of our Common Stock on January 29, 2004 at an exercise price of $28.17.

(5) Mr. Kriens was granted an option exercisable for 800,000 shares of our Common Stock and Mr. Dolce was granted an option exercisable for 500,000 shares of our Common Stock on September 26, 2003 at an exercise price of $15.00 per share.

(6) Mr. Dykes was granted an option exercisable for 500,000 shares of our Common Stock on January 1, 2005 at an exercise price of $27.19 and an option exercisable for 70,000 shares of our Common Stock on April 29, 2005 at an exercise price of $22.59.

(7) Mr. Sturgeon was granted an option exercisable for 200,000 shares of our Common Stock on September 9, 2005 at an exercise price of $24.02.

(8) Amounts in 2004 reflect $40,618 in commissions paid. Amounts in 2003 reflect $125,414 in commissions paid.

(9) Mr. Kolluri was elected a named executive officer upon the closing of the acquisition of NetScreen Technologies, Inc. on April 16, 2004. The data shown in the Summary Compensation Table only reflects the amounts he received while an executive officer of Juniper Networks.

(10) Includes a bonus of $200,000 earned in 2004 but paid in 2005 relating to the acquisition of Neoteris Inc. by NetScreen Technologies Inc. Also includes a $50,000 sales bonus committed to Mr. Kolluri prior to the acquisition of NetScreen Technologies, Inc. by the Company.

(11) No options were granted by the Company to Mr. Kolluri in 2004.

(12) Amounts paid in 2005 reflect $573,804.53 in escrowed merger consideration relating to the acquisition by NetScreen Technologies, Inc. of Neoteris, Inc. Amounts paid in 2004 reflect $282,487.55 in escrowed merger consideration relating to the acquisition by NetScreen Technologies Inc. of Neoteris Inc.

(13) Mr. Sturgeon was elected a named executive officer on August 25, 2006.

(14) Amounts in 2005 reflect $136,713 in commissions paid, Amounts in 2004 reflect $159,525 in commissions paid and $9,126 in a relocation allowance. Amounts in 2003 reflect $147,656 in commissions paid and $15,207 in a relocation allowance.

(15) Ms. Mills was granted an option exercisable for 350,000 shares of our Common Stock on November 10, 2004 at an exercise price of $27.17

(16) Mr. Sturgeon was granted an option exercisable for 100,000 shares of our Common Stock on September 17, 2004 at an exercise price of $24.14.

(17) Mr. Sturgeon was granted an option exercisable for 37,500 shares of our Common Stock on April 1, 2003 at an exercise price of $8.16 and an option exercisable for 100,000 shares of our Common Stock on September 26, 2003 at an exercise price of $15.00.

(18) Mr. Kolluri ceased to be an executive officer of the Company on August 25, 2005, Mr. Dolce ceased to be an executive officer of the Company on January 9, 2006 and Ms. Mills ceased to be an executive officer of the Company on January 9, 2006.

(19) In all cases, consists of matching contributions paid under the Company's 401(k) plan.

Option Grants In Last Fiscal Year

The following tables set forth the stock options granted to the Named Executive Officers under the Company's stock option plans and the options exercised by such Named Executive Officers during the fiscal year ended December 31, 2005.

The Option/SAR Grant Table below sets forth hypothetical gains or "option spreads" for the options at the end of their respective ten-year terms, as calculated in accordance with the rules of the Securities and Exchange Commission.

Name	No. of Securities Underlying Options/SARs Granted	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Terms ($)	
					5%	10%
Scott Kriens	645,000	4.35	$22.59	04/29/2015	$9,163,341	$23,221,704
Robert Dykes	500,000	3.37	$27.19	01/01/2015	$8,549,822	$21,666,929
	70,000	0.47	$22.59	04/29/2015	$ 994,471	$ 2,520,185
James A. Dolce, Jr.	200,000	1.35	$22.59	04/29/2015	$2,841,346	$ 7,200,528
Krishna "Kittu" Kolluri	200,000	1.35	$22.59	04/29/2015(1)	$2,841,346	$ 7,200,528
Carol Mills	70,000	0.47	$22.59	04/29/2015(2)	$ 994,471	$ 2,520,185
Robert Sturgeon	200,000	1.35	$24.02	09/09/2015	$3,021,210	$ 7,656,339

(1) Upon termination of service to the Company in 2005 the unvested portion of shares subject to this stock option was cancelled.

(2) Upon termination of service to the Company in 2006 the unvested portion of shares subject to this stock option was cancelled.

Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table shows stock option exercises and the value of unexercised stock options held by the Named Executive Officers during the last fiscal year.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Scott Kriens	0	$ 0	3,479,166	1,465,834	$37,466,229	$3,887,271
Robert Dykes	0	0	0	570,000	0	0
James A. Dolce, Jr.	1,000,000	$17,935,449	1,502,576	575,000	$19,994,765	$1,596,875
Krishna "Kittu" Kolluri	210,115	$ 2,194,766	10,084	0	$ 115,714	0
Carol Mills	0	0	94,791	325,209	0	0
Robert Sturgeon	85,000	$ 1,238,576	246,614	335,886	$ 2,753,879	$ 678,871

(1) The value of in-the-money options is based on the closing price of our Common Stock on December 31, 2005 of $22.30 per share, minus the per share exercise price, multiplied by the number of shares underlying the option.

Employment Agreements

The Company entered into a change of control agreement with Mr. Kriens on October 1, 1996, which provides that he will be entitled to base compensation and benefit payments for a period of three months in the event that his employment is terminated in connection with a change of control of Juniper Networks. Further, Mr. Kriens' restricted stock would be released from any repurchase option and his stock options would become vested and exercisable as to an additional amount equal to that amount which would have vested and become exercisable had Mr. Kriens remained employed for a period of 18 months following the change of control. If his employment continues following a change of control, his stock options will be vested and exercisable at a rate 1.5 times the rate otherwise set forth in the stock option agreement for a period of twelve months following the change of control. Under the employment agreement, Mr. Kriens is entitled to receive three months' base compensation and benefits, regardless of whether there is a change of control, in the event that his employment is involuntarily terminated. Upon involuntary termination, and regardless of whether there has been a change of control, Mr. Kriens' restricted stock and stock options would become immediately vested and exercisable as to an additional amount equal to the number of stock options which would have become vested and exercisable during the three-month period following the involuntary termination had Mr. Kriens remained employed by the Company.

The Company entered into an Amendment and Assumption Agreement with Krishna "Kittu" Kolluri on April 15, 2004 in connection with the Company's acquisition of NetScreen Technologies, Inc. Pursuant to Mr. Kolluri's employment agreement, as amended, Mr. Kolluri was eligible for a bonus of up to 100% of his base salary pursuant to Juniper Networks' Executive Officer Incentive Plan. If Mr. Kolluri was terminated without cause or terminated his employment for good reason (in each case, as defined in the amended employment agreement) within 24 months of the effectiveness of NetScreen's acquisition of Neoteris, he would have been entitled to the continuation of his base salary (payable in accordance with usual payroll practice) and health insurance coverage for a period of six months. Mr. Kolluri resigned from the Company in 2005.

The Company entered into an agreement with Ms. Mills in October 2004, which provided that if Ms. Mills is terminated involuntarily by the Company without "cause", as defined in the agreement, promptly following termination Ms. Mills would be entitled to receive the following severance benefits: (i) an amount equal to six months of her base salary, (ii) an amount equal to half of her annual target bonus for the fiscal year in which termination occurs and (iii) and acceleration of six months of vesting of her initial grant of options to purchase shares of the Company's Common Stock. The agreement also provided that if change of control benefits were granted to any Section 16 reporting officer after October 2004, Ms. Mills would receive the same change of control benefits. Ms. Mills resigned from the Company in 2006.

The Company entered into an agreement with Mr. Dykes on December 13, 2004, which provides that if Mr. Dykes is terminated involuntarily by the Company without "cause", as defined in the agreement, promptly following termination Mr. Dykes will be entitled to receive the following severance benefits: (i) an amount equal to six months of his base salary, (ii) an amount equal to half of his annual at target bonus for the fiscal year in which termination occurs and (iii) and acceleration of six months of vesting of the initial grant of options to purchase shares of the Company's Common Stock. The agreement also provides that if change of control benefits are granted to any Section 16 reporting officer after December 13, 2004, Mr. Dykes will receive the same change of control benefits.

BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Compensation Committee

The Compensation Committee is comprised of three independent, non-employee members of the Board of Directors, as defined by the rules of the NASDAQ National Market. None of the members have interlocking compensation committee relationships as defined by the Securities and Exchange Commission. The Compensation Committee is responsible for reviewing and approving the annual base salary, the annual incentive bonus, including the specific goals and amounts, equity compensation and other benefits or compensation arrangements of the Company's Chief Executive Officer and its other executive officers.

Compensation Philosophy

The Compensation Committee recognizes that in order for the Company to successfully develop, introduce, market and sell products, the Company must be able to attract, retain and reward qualified executive officers who will be able to operate effectively in a high growth, complex environment. In that regard, the Company must offer compensation that (a) is competitive in the industry; (b) motivates executive officers to achieve the Company's strategic business objectives; and (c) aligns the interests of executive officers with the long-term interests of stockholders.

The Company provides its executive officers with a compensation package consisting of base salary, performance-based incentive pay, equity compensation and participation in benefit plans generally available to other employees. The Compensation Committee's intention is to adopt compensation programs that encourage creation of long-term value for stockholders, employee retention, and equity ownership through stock option grants. The Compensation Committee's approach is predicated upon the philosophy that a substantial portion of aggregate annual compensation for executive officers should be contingent upon the Company's overall performance and an individual's contribution to the Company's success in meeting certain critical objectives. In this regard, the Compensation Committee has tended to target base salary at approximately the 50th percentile relative to peer companies. Incentive compensation and long term equity awards are intended to target overall compensation at between the 50th and 75th percentile, although changes in the market price of the Company's Common Stock can result in total compensation outside the target range. As the Compensation Committee applies these compensation philosophies in determining appropriate executive compensation levels and other compensation factors, the Compensation Committee reaches its decisions with a view towards maximizing the Company's overall performance.

The Compensation Committee considers market information about its peer companies from published third-party survey data provided to the Compensation Committee by the Company's human resources staff. The market data consists primarily of base salary and total cash compensation rates, as well as incentive bonus and stock programs of other companies considered by the Compensation Committee to be peers in the Company's industry. In addition, for determining 2005 compensation (including cash and equity compensation), the Compensation Committee retained an executive compensation consultant. The compensation consultant provided data from a selected peer group of 12 computer, networking and telecommunications companies as well as from broad high technology industry companies with revenues of $1 billion to $3 billion.

Executive Officer Compensation

Base Salary. For 2005, the Compensation Committee evaluated the base salaries of the executive officers relative to the peer companies as well as their individual performance. The Compensation Committee determined that, in several cases, the compensation to Juniper Networks executives was below the industry's 50th percentile for base cash compensation. To bring the salary standard into this target range, Mr. Dolce's base salary level was increased by $50,000. With respect to the other executive officers (other than Mr. Kriens, whom is addressed separately below), the Compensation Committee determined that increases in base salary of between $0 and $25,000 were merited.

Management Bonus Incentive Plan. The Company has a bonus incentive plan applicable to the Section 16 reporting officers. Under the 2005 executive incentive plan, Mr. Kriens had a target incentive equal to 150% of base salary and each other participant had a target incentive equal to 100% of base salary. The incentive bonus for Mr. Kriens, Mr. Dykes, and Mr. Sturgeon was primarily based upon the achievement of certain overall Company revenue and operating income targets and revenue and contribution margin targets for each of the Company's Infrastructure and Security Product business teams. The incentive bonus for Ms. Mills was primarily based upon the achievement of certain overall Company revenue and operating income targets and revenue and contribution margin targets for the Company's Infrastructure business team. The incentive bonus for Mr. Kolluri was primarily based upon the achievement of certain overall Company revenue and operating income targets and revenue and contribution margin targets for the Company's Security business team. In each case, below a specified level, no bonus would have been earned. Achievement of revenue, operating income and contribution margins in excess of the targets could result in a greater than target bonus, up to a maximum amount of 200% of base salary. The amount determined based on achievement of the corporate goals was then subject to a further increase or decrease by up to an additional 10 percentage points based on the achievement of individual objectives specified for Mr. Kriens, Mr. Dykes and Mr. Sturgeon and by up to an additional 20 percentage points based on the achievement of individual objectives specified for Mr. Kolluri and Ms. Mills. The amount determined based on achievement of the corporate goals was also subject to a further increase or decrease for Mr. Kriens, Mr. Dykes and Mr. Sturgeon, by up to an additional 20 percentage points based on 2005 revenue growth by the Company compared to the weighted average 2005 revenue growth of a group of nine (9) peer networking and security companies that the Compensation Committee determined was a reasonable group against which to compare revenue growth performance within our core industry. Participants in the executive incentive plan receive a mid-year partial payment calculated only on the achievement of the first half's revenue, operating income and contribution margin targets. A payment following the end of the year is based on the final annual revenue, operating income, contribution targets as well as the individual objectives and peer company revenue growth modifiers.

Based on the Company's actual 2005 financial results, the 2005 Company goal attainment component (consisting of the achievement of overall Company revenue and operating income targets) of the bonus was 85%. Achievement of the business team objectives in 2005 ranged from between 0% and 134%. Achievement of the individual performance objectives in 2005 ranged from between 85% and 98%. The Company's 2005 revenue growth relative to the peer companies resulted in the applicable officers receiving the full 20 percentage point addition. As a result, the payments under the executive incentive plan ranged between 43% and 126% of the annual bonus target.

Equity Compensation. In 2005, the Compensation Committee granted stock options to executive officers based upon each executive officer's relative position, responsibilities, historical and expected contributions to the Company, and the executive officer's existing stock ownership and previous option grants. Stock options were granted at the fair market value on the date of grant and will provide value to the executive officers only when the price of the Company's common stock increases over the exercise price.

Chief Executive Officer Compensation

In 2005, the Compensation Committee determined that Mr. Kriens' base salary was below comparative data, at the targeted 50th percentile level, and required adjustment. As a result, effective for fiscal year 2005, the Compensation Committee increased the base salary of Mr. Kriens to $475,000 with a target incentive bonus of 150% of base salary.

Consistent with the Company's philosophy to provide long-term incentive in the form of equity compensation, Mr. Kriens received two options in 2005 exercisable for a total of 645,000 shares of Company Common Stock at an exercise price of $22.59. The option for 545,000 of the shares granted to Mr. Kriens vests over a four-year period with 25% vesting on the first anniversary of grant and 1/48th vesting monthly thereafter. The option for 100,000 of the shares vests over a total of five years, with 25% vesting on the second anniversary of grant and 1/48th vesting monthly thereafter.

Mr. Kriens executive incentive bonus for 2005 was based on the same criteria as described above. Based on Company performance and achievement of 93% of his individual objectives, Mr. Kriens was awarded a bonus of $733,875, which represented a payout at 103% of his target incentive. The Company also reimburses Mr. Kriens for operating expenses associated with the use of private aircraft for business purposes up to a maximum amount per year, which maximum was set at $650,000 for 2005.

Perquisites

Because the Company tries to maintain an egalitarian culture, the Company does not provide or reimburse its executive officers for club memberships or dues, reserved parking spaces, separate dining facilities or other perquisites of a personal nature. The Company's executive officers participate in the same health care, insurance and other welfare and employee-benefit programs as are offered to all eligible U.S. employees.

New Accounting Rules

Commencing with the Company's 2006 fiscal year, the Company is required to account for its equity compensation awards under FAS 123R. Under FAS 123R the Company is required to record a compensation expense in connection with equity awards to its employees and members of the Board of Directors. The Compensation Committee, in consultation with other member of the Board, discusses the potential impact of the changes in the financial accounting treatment of equity compensation arrangements on the company's reported earnings.

Code Section 162(m)

Since the Company's 2005 Annual Meeting of Stockholders, the Compensation Committee has not structured its compensation arrangements so as to qualify them for deductibility under Section 162(m) of the Internal Revenue Code. However, if Proposal Two is approved by our stockholders, the Compensation Committee will have greater flexibility in structuring equity and cash compensation arrangements to qualify as deductible performance-based compensation under Code Section 162(m).

MEMBERS OF THE COMPENSATION COMMITTEE

William Stensrud, Chairman,
Frank Marshall and
Kenneth Levy

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2005 about our common stock that may be issued under the Company's existing equity compensation plans. The table does not include information with respect to shares subject to outstanding options assumed by the Company in connection with acquisitions of the companies that originally granted those options. Footnote (6) to the table sets forth the total number of shares of the Company's Common Stock issuable upon exercise of assumed options as of December 31, 2005 and the weighted average exercise price of those options. No additional options may be granted under those assumed plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders(1)	47,556,610(3)	$21.93	29,669,222(4)
Equity compensation plans not approved by security holders(2)	22,149,282	$14.64	56,045,740(5)
Total	69,705,892	$19.62	85,714,962

(1) Includes the Amended and Restated 1996 Stock Incentive Plan (the "1996 Plan") and the 1999 Employee Stock Purchase Plan (the "Purchase Plan").

(2) Includes the 2000 Nonstatutory Stock Option Plan (the "2000 Plan"). No options issued under this Plan are held by any directors or executive officers.

(3) Excludes purchase rights accruing under the Purchase Plan, which has a stockholder-approved reserve of 8,168,907 shares.

(4) Consists of shares available for future issuance under the 1996 Plan and the Purchase Plan. As of December 31, 2005, an aggregate of 22,411,922 and 7,257,300 shares of Common Stock were available for issuance under the 1996 Plan and the Purchase Plan, respectively. Under the terms of the 1996 Plan, an annual increase is added on the first day of each fiscal year equal to the lesser of (a) 18,000,000 shares, (b) 5% of the outstanding shares on that date or (c) a lesser amount determined by the Board of Directors. Under the terms of the Purchase Plan, an annual increase is added on the first day of each fiscal year equal to the lesser of (a) 3,000,000 shares, (b) 1% of the outstanding shares on that date or (c) a lesser amount determined by the Board of Directors.

(5) Consists of shares available for future issuance under the 2000 Plan. Under the terms of the 2000 Plan, an annual increase is added on the first day of each fiscal year equal to the greater of (a) 5,000,000 shares, (b) 5% of the outstanding shares on that date or (c) a lesser amount determined by the Board of Directors.

(6) As of December 31, 2005, a total of 15,472,302 shares of the Company's Common Stock were issuable upon exercise of outstanding options under plans assumed in connection with acquisitions. The weighted average exercise price of those outstanding options is $10.20 per share. No additional options may be granted under those assumed plans.

The following supplemental table provides information as of March 31, 2006 about our common stock that may be issued under the Company's existing equity compensation plans, excluding the Company's 1999 Employee Stock Purchase Plan. The table does not include information with respect to shares subject to outstanding options assumed by the Company in connection with acquisitions of the companies that originally granted those options. Footnote (6) to the table sets forth the total number of shares of the Company's Common Stock issuable upon exercise of assumed options as of March 31, 2006 and the weighted average exercise price of those options. No additional options may be granted under those assumed plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders(1)	55,223,086(3)	$ 20.70	13,780,001(4)
Equity compensation plans not approved by security holders(2)	20,298,654	$ 15.01	56,270,363(5)
Total	75,521,740	$19.17(7)	70,050,364

(1) Includes only the Amended and Restated 1996 Stock Incentive Plan (the "1996 Plan").

(2) Includes only the 2000 Nonstatutory Stock Option Plan (the "2000 Plan"). No options issued under this Plan are held by any directors or executive officers.

(3) Includes 2,639,337 shares to be issued upon the vest of restricted stock units under the 1996 Plan.

(4) Consists of shares available for future issuance under the 1996 Plan. Under the terms of the 1996 Plan, an annual increase is added on the first day of each fiscal year equal to the lesser of (a) 18,000,000 shares, (b) 5% of the outstanding shares on that date or (c) a lesser amount determined by the Board of Directors. Under the terms of the Purchase Plan, an annual increase is added on the first day of each fiscal year equal to the lesser of (a) 3,000,000 shares, (b) 1% of the outstanding shares on that date or (c) a lesser amount determined by the Board of Directors.

(5) Consists of shares available for future issuance under the 2000 Plan. Under the terms of the 2000 Plan, an annual increase is added on the first day of each fiscal year equal to the greater of (a) 5,000,000 shares, (b) 5% of the outstanding shares on that date or (c) a lesser amount determined by the Board of Directors.

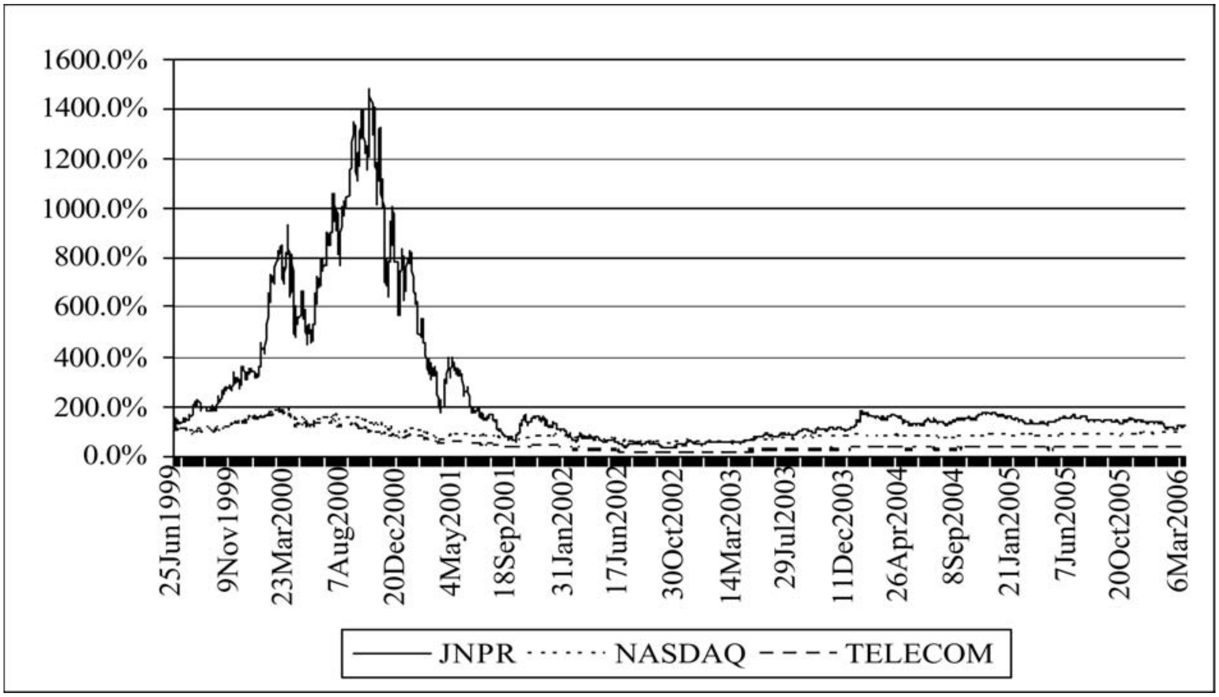
(6) As of March 31, 2006, a total of 11,452,172 shares of the Company's Common Stock were issuable upon exercise of outstanding options under plans assumed in connection with acquisitions. The weighted average exercise price of those outstanding options is $10.38 per share. No additional options may be granted under those assumed plans.

(7) The weighted average exercise price of all outstanding options under the 1996 Plan, 2000 Plan and assumed plans described in footnote 6 above is $18.58 per share as of March 31, 2006.

For a narrative description of the material features of the 2000 Plan, please see Note 10 to the Company's Consolidated Financial Statements included with our Annual Report on Form 10-K for the year ended December 31, 2005.

STOCK PERFORMANCE GRAPH

The graph below shows the cumulative total stockholder return assuming the investment of $100 on June 25, 1999 in each of Juniper Networks common stock, the Nasdaq Composite Index and the Nasdaq Telecommunications Index.



PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee has appointed Ernst & Young LLP, an independent registered public accounting firm, as Juniper Networks' auditors for the fiscal year ending December 31, 2006. Representatives of Ernst & Young are expected to be present at the annual meeting and will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Fees Incurred by Juniper Networks for Ernst & Young LLP

Fees for professional services provided by the Company's independent registered public accounting firm in each of the last two years are:

	2005	2004
Audit fees	$2,847,000	$1,714,000
Audit-related fees	91,000	505,000
Tax fees	658,000	570,000
All other fees	—	—
Total	$3,596,000	$2,789,000

Audit fees are for professional services rendered in connection with the audit of the Company's annual financial statements and the review of its quarterly financial statements. Audit-related fees in 2005 were primarily related to acquisitions completed by the Company during 2005. Audit-related fees in 2004 were primarily related to the Company's acquisition of NetScreen Technologies, Inc. in April 2004. Tax fees are for professional services rendered for tax compliance, tax advice and tax planning.

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent registered public accounting firm. The Audit Committee has delegated such pre-approval authority to the chairman of the committee. The Audit Committee pre-approved all services performed by the Company's independent registered public accounting firm in 2005.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for the audit. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee held 12 meetings during fiscal year 2005.

In this context, the Audit Committee hereby reports as follows:

1. The Audit Committee has reviewed and discussed the audited financial statements with the Company's management.

2. The Audit Committee has discussed with the independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standard, AU 380), SAS 99 (Consideration of Fraud in a Financial Statement Audit) and Securities and Exchange Commission rules discussed in Final Releases Nos. 33-8183 and 338183a.

3. The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committee") and has discussed with the independent auditors the independent auditors' independence.

4. Based on the review and discussion referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in Juniper Networks' Annual Report on Form 10-K for the fiscal year ended December 31, 2005, for filing with the Securities and Exchange Commission.

MEMBERS OF THE AUDIT COMMITTEE

Kenneth Goldman, Chairman,
Robert M. Calderoni and
William R. Hearst III

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JUNIPER NETWORKS, INC.

2006 EQUITY INCENTIVE PLAN

Effective May 18, 2006

1. *Purposes of the Plan.* The purposes of this Equity Incentive Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Service Providers and Outside Directors and to promote the success of the Company's business.

Awards to Service Providers granted hereunder may be Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Shares, Performance Units, Deferred Stock Units or Dividend Equivalents, at the discretion of the Administrator and as reflected in the terms of the written option agreement. This Equity Incentive Plan also provides for the automatic, non-discretionary award of Nonstatutory Stock Options to Outside Directors.

2. *Definitions.* As used herein, the following definitions shall apply:

(a) "Administrator" shall mean the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Annual Revenue" shall mean the Company's or a business unit's net sales for the Fiscal Year, determined in accordance with generally accepted accounting principles.

(c) "Applicable Laws" shall mean the legal requirements relating to the administration of equity incentive plans under California corporate and securities laws and the Code.

(d) "Award" shall mean, individually or collectively, a grant under the Plan of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Shares, Performance Units, Deferred Stock Units or Dividend Equivalents.

(e) "Award Agreement" shall mean the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(f) "Awarded Stock" shall mean the Common Stock subject to an Award.

(g) "Board" shall mean the Board of Directors of the Company.

(h) "Cash Position" shall mean the Company's level of cash and cash equivalents.

(i) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(j) "Common Stock" shall mean the Common Stock of the Company.

(k) "Committee" shall mean the Committee appointed by the Board of Directors or a sub-committee appointed by the Board's designated committee in accordance with Section 4(a) of the Plan, if one is appointed.

(l) "Company" shall mean Juniper Networks, Inc.

(m) "Consultant" shall mean any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services; provided, however, that the term "Consultant" shall not include Outside Directors, unless such Outside Directors are compensated for services to the Company other than through payment of director's fees and Option grants under Section 11 hereof.

(n) "Continuous Status as a Director" means that the Director relationship is not interrupted or terminated.

(o) "Deferred Stock Unit" means a deferred stock unit Award granted to a Participant pursuant to Section 16.

(p) "Director" shall mean a member of the Board.

(q) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(r) "Dividend Equivalent" shall mean a credit, payable in cash, made at the discretion of the Administrator, to the account of a Participant in an amount equal to the cash dividends paid on one Share for each Share represented by an Award held by such Participant. Dividend Equivalents may be subject to the same vesting restrictions as the related Shares subject to an Award, at the discretion of the Administrator.

(s) "Earnings Per Share" shall mean as to any Fiscal Year, the Company's or a business unit's Net Income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding, determined in accordance with generally accepted accounting principles.

(t) "Employee" shall mean any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. An Employee shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

(u) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(v) "Fair Market Value" shall mean, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on a stock exchange, the fair market value per Share shall be the closing price on such exchange, as reported in the Wall Street Journal on the date of determination or, if the date of determination is not a trading day, the immediately preceding trading day;

(ii) If there is a public market for the Common Stock, the fair market value per Share shall be the mean of the bid and asked prices, or closing price in the event quotations for the Common Stock are reported on the National Market System, of the Common Stock on the date of determination, as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation (NASDAQ) System); or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(w) "Fiscal Year" shall mean a fiscal year of the Company.

(x) "Incentive Stock Option" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(y) "Net Income" shall mean as to any Fiscal Year, the income after taxes of the Company for the Fiscal Year determined in accordance with generally accepted accounting principles.

(z) "Nonstatutory Stock Option" shall mean an Option not intended to qualify as an Incentive Stock Option.

(aa) "Officer" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(bb) "Operating Cash Flow" shall mean the Company's or a business unit's sum of Net Income plus depreciation and amortization less capital expenditures plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses, determined in accordance with generally acceptable accounting principles.

(cc) "Operating Income" shall mean the Company's or a business unit's income from operations determined in accordance with generally accepted accounting principles.

(dd) "Option" shall mean a stock option granted pursuant to the Plan.

(ee) "Optioned Stock" shall mean the Common Stock subject to an Option.

(ff) "Outside Director" means a Director who is not an Employee or Consultant.

(gg) "Parent" shall mean a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(hh) "Participant" shall mean an Employee or Consultant who receives an Award.

(ii) "Performance Goals" shall mean the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Committee, the Performance Goals applicable to an Award may provide for a targeted level or levels of achievement using one or more of the following measures: (a) Annual Revenue, (b) Cash Position, (c) Earnings Per Share, (d) Net Income, (e) Operating Cash Flow, (f) Operating Income, (g) Return on Assets, (h) Return on Equity, (i) Return on Sales, and (j) Total Stockholder Return. The Performance Goals may differ from Participant to Participant and from Award to Award. The Administrator shall appropriately adjust any evaluation of performance under a Performance Goal to exclude (i) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial conditions and results of operations appearing in the Company's annual report to shareholders for the applicable year, or (ii) the effect of any changes in accounting principles affecting the Company's or a business units' reported results.

(jj) "Performance Share" shall mean a performance share Award granted to a Participant pursuant to Section 14.

(kk) "Performance Unit" means a performance unit Award granted to a Participant pursuant to Section 15.

(ll) "Plan" shall mean this 1986 Equity Incentive Plan, as amended.

(mm) "Restricted Stock" shall mean a restricted stock Award granted to a Participant pursuant to Section 11.

(nn) "Restricted Stock Unit" shall mean a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 13. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(oo) "Return on Assets" shall mean the percentage equal to the Company's or a business unit's Operating Income before incentive compensation, divided by average net Company or business unit, as applicable, assets, determined in accordance with generally accepted accounting principles.

(pp) "Return on Equity" shall mean the percentage equal to the Company's Net Income divided by average shareholder's equity, determined in accordance with generally accepted accounting principles.

(qq) "Return on Sales" shall mean the percentage equal to the Company's or a business unit's Operating Income before incentive compensation, divided by the Company's or the business unit's, as applicable, revenue, determined in accordance with generally accepted accounting principles.

(rr) "Rule 16b-3" shall mean Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ss) "Section 16(b)" shall mean Section 16(b) of the Exchange Act.

(tt) "Service Provider" means an Employee or Consultant.

(uu) "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 21 of the Plan.

(vv) "Stock Appreciation Right" or "SAR" shall mean a stock appreciation right granted pursuant to Section 9 below.

(ww) "Subsidiary" shall mean a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

(xx) "Total Stockholder Return" shall mean the total return (change in share price plus reinvestment of any dividends) of a share of the Company's common stock.

3. *Stock Subject to the Plan.* Subject to the provisions of Section 21 of the Plan, the maximum aggregate number of shares which may be optioned and sold under the Plan is 64,500,000 shares of Common Stock plus any Shares subject to any options under the Company's 2000 Nonstatutory Stock Option Plan and 1996 Stock Incentive Plan that are outstanding on the date this Plan becomes effective and that subsequently expire unexercised, up to a maximum of an additional 75,000,000 Shares. All of the shares issuable under the Plan may be authorized, but unissued, or reacquired Common Stock.

Any Shares subject to Options or SARs shall be counted against the numerical limits of this Section 3 as one Share for every Share subject thereto. Any Shares subject to Performance Shares, Restricted Stock or Restricted Stock Units with a per share or unit purchase price lower than 100% of Fair Market Value on the date of grant shall be counted against the numerical limits of this Section 3 as two and one-tenth Shares for every one Share subject thereto. To the extent that a Share that was subject to an Award that counted as two and one-tenth Shares against the Plan reserve pursuant to the preceding sentence is recycled back into the Plan under the next paragraph of this Section 3, the Plan shall be credited with two and one-tenth Shares.

If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Performance Shares or Restricted Stock Units, is forfeited to or repurchased by the Company at its original purchase price due to such Award failing to vest, the unpurchased Shares (or for Awards other than Options and SARs, the forfeited or repurchased shares) which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to SARs, when an SAR is exercised, the shares subject to a SAR grant agreement shall be counted against the numerical limits of Section 3 above, as one share for every share subject thereto, regardless of the number of shares used to settle the SAR upon exercise (i.e., shares withheld to satisfy the exercise price of an SAR shall not remain available for issuance under the Plan). Shares that have actually been issued under the Plan under any Award shall not be returned to the Plan and shall not become available for future distribution under the Plan; provided, however, that if Shares of Restricted Stock, Performance Shares or Restricted Stock Units are repurchased by the Company at their original purchase price or are forfeited to the Company due to such Awards failing to vest, such Shares shall become available for future grant under the Plan. Shares used to pay the exercise price of an Option shall not become available for future grant or sale under the Plan. Shares used to satisfy tax withholding obligations shall not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than stock, such cash payment shall not reduce the number of Shares available for issuance under the Plan. Any payout of Dividend Equivalents or Performance Units, because they are payable only in cash, shall not reduce the number of Shares available for issuance under the Plan. Conversely, any forfeiture of Dividend Equivalents or Performance Units shall not increase the number of Shares available for issuance under the Plan.

4. *Administration of the Plan.*

(a) *Procedure.*

(i) *Multiple Administrative Bodies.* If permitted by Applicable Laws, the Plan may be administered by different bodies with respect to Directors, Officers who are not Directors, and Employees who are neither Directors nor Officers.

(ii) *Section 162(m).* To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee consisting solely of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) *Administration With Respect to Officers Subject to Section 16(b).* With respect to Option grants made to Employees who are also Officers subject to Section 16(b) of the Exchange Act, the Plan shall be administered by (A) the Board, if the Board may administer the Plan in compliance with Rule 16b-3, or (B) a committee designated by the Board to administer the Plan, which committee shall be constituted to comply with Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Rule 16b-3.

(iv) *Administration With Respect to Other Persons.* With respect to Award grants made to Employees or Consultants who are not Officers of the Company, the Plan shall be administered by (A) the Board, (B) a committee designated by the Board, or (C) a sub-committee designated by the designated committee, which committee or sub-committee shall be constituted to satisfy Applicable Laws. Once appointed, such Committee shall serve in its designated capacity until otherwise directed by the Board. The Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Applicable Laws.

(v) *Administration With Respect to Automatic Grants to Outside Directors.* Automatic Grants to Outside Directors shall be pursuant to a non-discretionary formula as set forth in Section 11 hereof and therefore shall not be subject to any discretionary administration.

(b) *Powers of the Administrator.* Subject to the provisions of the Plan (including the non-discretionary automatic grant to Outside Director provisions of Section 11), and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value in accordance with Section 2(v) of the Plan;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine whether and to what extent Awards are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each Award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards vest or may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions (subject to compliance with applicable laws, including Code Section 409A), and any restriction or limitation regarding any Award or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine; provided, however, that with respect to Restricted Stock, Performance Shares or Restricted Stock Units or Deferred Stock Units vesting solely based on continuing as a Service Provider, they will vest in full no earlier (except if accelerated pursuant to Section 21 hereof) than the three (3) year anniversary of the grant date; provided, further, that if vesting is not solely based on continuing as a Service Provider, they will vest in full no earlier (except if accelerated pursuant to Section 21 hereof) than the one (1) year anniversary of the grant date;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan;

(ix) to modify or amend each Award (subject to Section 7 and Section 24(c) of the Plan);

(x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xi) to determine the terms and restrictions applicable to Awards;

(xii) to determine whether Awards will be adjusted for Dividend Equivalents and whether such Dividend Equivalents shall be subject to vesting; and

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) *Effect of Administrator's Decision.* All decisions, determinations and interpretations of the Administrator shall be final and binding on all Participants and any other holders of any Awards granted under the Plan.

5. *Eligibility.* Awards may be granted only to Service Providers. Incentive Stock Options may be granted only to Employees. A Service Provider who has been granted an Award may, if he or she is otherwise eligible, be granted an additional Award or Awards. Outside Directors may only be granted Awards as specified in Section 11 hereof.

6. *Code Section 162(m) Provisions.*

(a) *Option and SAR Annual Share Limit.* Subject to Section 7 below, no Participant shall be granted, in any Fiscal Year, Options and Stock Appreciation Rights to purchase more than 2,000,000 Shares; provided, however, that such limit shall be 4,000,000 Shares in the Participant's first Fiscal Year of Company service.

(b) *Restricted Stock, Performance Share and Restricted Stock Unit Annual Limit.* No Participant shall be granted, in any Fiscal Year, more than 1,000,000 Shares in the aggregate of the following: (i) Restricted Stock, (ii) Performance Shares, or (iii) Restricted Stock Units; provided, however, that such limit shall be 2,000,000 Shares in the Participant's first Fiscal Year of Company service.

(c) *Performance Units Annual Limit.* No Participant shall receive Performance Units, in any Fiscal Year, having an initial value greater than $2,000,000, provided, however, that such limit shall be $4,000,000 in the Participant's first Fiscal Year of Company service.

(d) *Section 162(m) Performance Restrictions.* For purposes of qualifying grants of Restricted Stock, Performance Shares, Performance Units or Restricted Stock Units as "performance-based compensation" under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Administrator on or before the latest date permissible to enable the Restricted Stock, Performance Shares, Performance Units or Restricted Stock Units to qualify as "performance-based compensation" under Section 162(m) of the Code. In granting Restricted Stock, Performance Shares, Performance Units or Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

(e) *Changes in Capitalization.* The numerical limitations in Sections 6(a) and (b) shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 16(a).

7. *No Repricing.* The exercise price for an Option or SAR may not be reduced without the consent of the Company's stockholders. This shall include, without limitation, a repricing of the Option or SAR as well as an Option or SAR exchange program whereby the Participant agrees to cancel an existing Option in exchange for an Option, SAR or other Award. If an Option or SAR is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 14), the cancelled Option or SAR as well as any replacement Option or SAR will be counted against the limits set forth in section 6(a) above. Moreover, if the exercise price of an Option or SAR is reduced, the transaction will be treated as a cancellation of the Option or SAR and the grant of a new Option or SAR.

8. *Stock Options.*

(a) *Type of Option.* Each Option shall be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of Shares subject to a Participant's incentive stock options granted by the Company, any Parent or Subsidiary, that become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 8(a), incentive stock options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time of grant.

(b) *Term of Option.* The term of each Option shall be stated in the Notice of Grant; provided, however, that the term shall be seven (7) years from the date of grant or such shorter term as may be provided in the Notice of Grant. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Notice of Grant.

(c) *Exercise Price and Consideration.*

(i) The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(A) In the case of an Incentive Stock Option

(1) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(2) granted to any Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(B) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) Except with respect to automatic stock option grants to Outside Directors, the consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator and may consist entirely of cash; check; delivery of a properly executed exercise notice together with such other documentation as the Committee and the broker, if applicable, shall require to effect an exercise of the option and delivery to the Company of the sale proceeds required; or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Law.

9. *Stock Appreciation Rights.*

(a) *Grant of SARs.* Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Administrator, in its sole discretion. Subject to Section 6(a) hereof, the Administrator shall have complete discretion to determine the number of SARs granted to any Participant.

(b) *Exercise Price and other Terms.* The per share exercise price for the Shares to be issued pursuant to exercise of an SAR shall be determined by the Administrator and shall be no less than 100% of the Fair Market Value per share on the date of grant. Otherwise, subject to Section 6(a) of the Plan, the Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of SARs granted under the Plan; provided, however, that no SAR may have a term of more than seven(=7) years from the date of grant.

(c) *Payment of SAR Amount.* Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the SAR is exercised.

(d) *Payment upon Exercise of SAR.* At the discretion of the Administrator, but only as specified in the Award Agreement, payment for a SAR may be in cash, Shares or a combination thereof. If the Award Agreement is silent as to the form of payment, payment of the SAR may only be in Shares.

(e) *SAR Agreement.* Each SAR grant shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the SAR, the conditions of exercise, whether it may be settled in cash, Shares or a combination thereof, and such other terms and conditions as the Administrator, in its sole discretion, shall determine.

(f) *Expiration of SARs.* A SAR granted under the Plan shall expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement.

10. *Exercise of Option or SAR.*

(a) *Procedure for Exercise; Rights as a Shareholder.* Any Option or SAR granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Participant, and as shall be permissible under the terms of the Plan.

An Option or SAR may not be exercised for a fraction of a Share.

An Option or SAR shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option or SAR by the person entitled to exercise the Option or SAR and, with respect to Options only, full payment for the Shares with respect to which the Option is exercised has been received by the Company. With respect to Options only, full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(d) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 21 of the Plan.

(b) *Termination of Status as a Service Provider.* If an Employee or Consultant ceases to serve as a Service Provider, he or she may, but only within 90 days (or such other period of time as is determined by the Administrator and as set forth in the Option or SAR Agreement) after the date he or she ceases to be a Service Provider, exercise his or her Option or SAR to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise the Option or SAR at the date of such termination, or if he or she does not exercise such Option or SAR (which he or she was entitled to exercise) within the time specified herein, the Option or SAR shall terminate.

(c) *Disability.* If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR within such period of time as is specified in the Award Agreement to the extent the Option or SAR is vested on the date of termination (but in no event later than the expiration of the term of such Option or SAR as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option or SAR shall remain exercisable for twelve (12) months following the Participant's termination. If, on the date of termination, the Participant is not vested as to his or her entire Option or SAR, the Shares covered by the unvested portion of the Option or SAR shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option or SAR within the time specified herein, the Option shall terminate, and the Shares covered by such Option or SAR shall revert to the Plan.

(d) *Death of Participant.* If a Participant dies while a Service Provider, the Option or SAR may be exercised following the Participant's death within such period of time as is specified in the Award Agreement (but in no event may the option be exercised later than the expiration of the term set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option or SAR may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option or SAR is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option or SAR shall remain exercisable for twelve (12) months following Participant's death. If the Option or SAR is not so exercised within the time specified herein, the Option or SAR shall terminate, and the Shares covered by such Option or SAR shall revert to the Plan.

11. *Automatic Stock Option Grants to Outside Directors.*

(a) *Procedure for Grants.* All grants of Options to Outside Directors under this Plan shall be automatic and non-discretionary and shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

(ii) Each Outside Director shall be automatically granted an Option to purchase 50,000 Shares (the "First Option") upon the date on which such person first becomes a Director, whether through election by the stockholders of the Company or appointment by the Board of Directors to fill a vacancy.

(iii) At each of the Company's annual stockholder meetings (A) each Outside Director who was an Outside Director on the date of the prior year's annual stockholder meeting shall be automatically granted an Option to purchase 20,000 Shares, and (B) each Outside Director who was not an Outside Director on the date of the prior year's annual stockholder meeting shall receive an option covering the number of Shares determined by multiplying 20,000 Shares by a fraction, the numerator of which is the number of days since the Outside Director received their First Option, and the denominator of which is 365, rounded down to the nearest whole Share (the "Annual Option").

(iv) Notwithstanding the provisions of subsections (ii) and (iii) hereof, in the event that an automatic grant hereunder would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased upon exercise of Options to exceed the number of Shares available for issuance under the Plan, then each such automatic grant shall be for that number of Shares determined by dividing the total number of Shares remaining available for grant by the number of Outside Directors on the automatic grant date. Any further grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan.

(v) The terms of an Option granted hereunder shall be as follows:

(A) the term of the Option shall be seven (7) years.

(B) the Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in subsection (c) hereof.

(C) the exercise price per Share shall be 100% of the Fair Market Value on the date of grant of the Option.

(D) the First Option shall vest and become exercisable as to 1/36th of the covered Shares each month following the grant date, with the last 1/36th vesting on the day prior to the Company's annual stockholder meeting in the third calendar year following the date of grant, so as to become 100% vested on the approximately three-year anniversary of the grant date, subject to the Participant maintaining Continuous Status as a Director on each vesting date.

(E) the Annual Option shall vest and become exercisable at to 1/12th of the covered Shares each month following the grant date, with the last 1/12th vesting on the day prior to the Company's annual stockholder meeting in the calendar year following the date of grant, so as to become 100% vested on the approximately one year anniversary of the grant date, subject to the Participant maintaining Continuous Status as a Director on each vesting date.

(b) *Consideration for Exercising Outside Director Stock Options.* The consideration to be paid for the Shares to be issued upon exercise of an automatic Outside Director Option shall consist entirely of cash, check, and to the extent permitted by Applicable Laws, delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale proceeds required to pay the exercise price, or any combination of such methods of payment.

(c) *Post-Directorship Exercisability.* If an Outside Director ceases to serve as a Director, (including pursuant to his or her death or Disability) he or she may, but only within 90 days**,** after the date he or she ceases to be a Director of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise an Option at the date of such termination, or if he or she does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

12. *Restricted Stock.*

(a) *Grant of Restricted Stock.* Subject to the terms and conditions of the Plan (including the minimum vesting periods specified in Section 4(b)(vi)), Restricted Stock may be granted to Participants at any time as shall be determined by the Administrator, in its sole discretion. Subject to Section 6(b) hereof, the Administrator shall have complete discretion to determine (i) the number of Shares subject to a Restricted Stock award granted to any Participant, and (ii) the conditions that must be satisfied, which typically will be based principally or solely on continued provision of services but may include a performance-based component, upon which is conditioned the grant, vesting or issuance of Restricted Stock.

(b) *Other Terms.* The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Restricted Stock granted under the Plan; provided that Restricted Stock may only be issued in the form of Shares. Restricted Stock grants shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time the stock or the restricted stock unit is awarded. The Administrator may require the recipient to sign a Restricted Stock Award agreement as a condition of the award. Any certificates representing the Shares of stock awarded shall bear such legends as shall be determined by the Administrator.

(c) *Restricted Stock Award Agreement.* Each Restricted Stock grant shall be evidenced by an agreement that shall specify the purchase price (if any) and such other terms and conditions as the Administrator, in its sole discretion, shall determine; provided; however, that if the Restricted Stock grant has a purchase price, such purchase price must be paid no more than seven (7) years following the date of grant.

13. *Restricted Stock Units.*

(a) *Grant.* Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it shall advise the Participant in writing or electronically of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units and the form of payout, which, subject to Section 6(b) hereof, may be left to the discretion of the Administrator.

(b) *Vesting Criteria and Other Terms.* The Administrator shall set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion.

(c) *Earning Restricted Stock Units.* Upon meeting the applicable vesting criteria, the Participant shall be entitled to receive a payout as specified in the Restricted Stock Unit Award Agreement. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) *Form and Timing of Payment.* Payment of earned Restricted Stock Units shall be made as soon as practicable after the date(s) set forth in the Restricted Stock Unit Award Agreement. The Administrator, in its sole discretion, but only as specified in the Award Agreement, may pay earned Restricted Stock Units in cash, Shares, or a combination thereof. If the Award Agreement is silent as to the form of payment, payment of the Restricted Stock Units may only be in Shares.

(e) *Cancellation.* On the date set forth in the Restricted Stock Unit Award Agreement, all unearned Restricted Stock Units shall be forfeited to the Company.

14. *Performance Shares.*

(a) *Grant of Performance Shares.* Subject to the terms and conditions of the Plan, Performance Shares may be granted to Participants at any time as shall be determined by the Administrator, in its sole discretion. Subject to Section 6(b) hereof, the Administrator shall have complete discretion to determine (i) the number of Shares subject to a Performance Share award granted to any Participant, and (ii) the conditions that must be satisfied, which typically will be based principally or solely on achievement of performance milestones but may include a service-based component, upon which is conditioned the grant or vesting of Performance Shares. Performance Shares shall be granted in the form of units to acquire Shares. Each such unit shall be the equivalent of one Share for purposes of determining the number of Shares subject to an Award. Until the Shares are issued, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the units to acquire Shares.

(b) *Other Terms.* The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Performance Shares granted under the Plan. Performance Share grants shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time the stock is awarded, which may include such performance-based milestones as are determined appropriate by the Administrator. The Administrator may require the recipient to sign a Performance Shares Award Agreement as a condition of the award. Any certificates representing the Shares of stock awarded shall bear such legends as shall be determined by the Administrator.

(c) *Performance Share Award Agreement.* Each Performance Share grant shall be evidenced by an Award Agreement that shall specify such other terms and conditions as the Administrator, in its sole discretion, shall determine.

15. *Performance Units.*

(a) *Grant of Performance Units.* Performance Units are similar to Performance Shares, except that they shall be settled in a cash equivalent to the Fair Market Value of the underlying Shares, determined as of the vesting date. Subject to the terms and conditions of the Plan, Performance Units may be granted to Participants at any time and from time to time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine the conditions that must be satisfied, which typically will be based principally or solely on achievement of performance milestones but may include a service-based component, upon which is conditioned the grant or vesting of Performance Units. Performance Units shall be granted in the form of units to acquire Shares. Each such unit shall be the cash equivalent of one Share of Common Stock. No right to vote or receive dividends or any other rights as a stockholder shall exist with respect to Performance Units or the cash payable thereunder.

(b) *Number of Performance Units.* Subject to Section 6(c) hereof, the Administrator will have complete discretion in determining the number of Performance Units granted to any Participant.

(c) *Other Terms.* The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Performance Units granted under the Plan. Performance Unit grants shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time the grant is awarded, which may include such performance-based milestones as are determined appropriate by the Administrator. The Administrator may require the recipient to sign a Performance Unit agreement as a condition of the award. Any certificates representing the units awarded shall bear such legends as shall be determined by the Administrator.

(d) *Performance Unit Award Agreement.* Each Performance Unit grant shall be evidenced by an agreement that shall specify such terms and conditions as the Administrator, in its sole discretion, shall determine.

16. *Deferred Stock Units.*

(a) *Description.* Deferred Stock Units shall consist of a Restricted Stock, Restricted Stock Unit, Performance Share or Performance Unit Award that the Administrator, in its sole discretion permits to be paid out in installments or on a deferred basis, in accordance with rules and procedures established by the Administrator. Deferred Stock Units shall remain subject to the claims of the Company's general creditors until distributed to the Participant.

(b) *162(m) Limits.* Deferred Stock Units shall be subject to the annual 162(m) limits applicable to the underlying Restricted Stock, Restricted Stock Unit, Performance Share or Performance Unit Award as set forth in Section 6 hereof.

17. *Leaves of Absence.* If as a condition to be granted an unpaid leave of absence by the Company, a Participant agrees that vesting shall be suspended during all or a portion of such leave of absence, (except as otherwise required by Applicable Laws) vesting of Awards granted hereunder shall cease during such agreed upon portion of the unpaid leave of absence and shall only recommence upon return to active service.

18. *Part-Time Service.* Unless otherwise required by Applicable Laws, if as a condition to being permitted to work on a less than full-time basis, the Participant agrees that any service-based vesting of Awards granted hereunder shall be extended on a proportionate basis in connection with such transition to a less than a full-time basis, vesting shall be adjusted in accordance with such agreement. Such vesting shall be proportionately re-adjusted prospectively in the event that the Employee subsequently becomes regularly scheduled to work additional hours of service.

19. *Non-Transferability of Awards.* Except as determined otherwise by the Administrator in its sole discretion (but never a transfer in exchange for value), Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant, without the prior written consent of the Administrator.

20. *Stock Withholding to Satisfy Withholding Tax Obligations.* When a Participant incurs tax liability in connection with the exercise, vesting or payout, as applicable, of an Award, which tax liability is subject to tax withholding under applicable tax laws, and the Participant is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Participant may satisfy the withholding tax obligation by electing to have the Company withhold from the Shares to be issued upon exercise of the Option or SAR or the Shares to be issued upon payout or vesting of the other Award, if any, that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

All elections by a Participant to have Shares withheld for this purpose shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date; and

(b) all elections shall be subject to the consent or disapproval of the Administrator.

In the event the election to have Shares subject to an Award withheld is made by a Participant and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Participant shall receive the full number of Shares with respect to which the Option or SAR is exercised or other Award is vested but such Participant shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

21. *Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.*

(a) *Changes in Capitalization.* Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Award, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per share of Common Stock covered by each such outstanding Award, the annual share limitations under Sections 6(a) and (b) hereof, and the number of Shares subject to ongoing automatic First Option and Annual Option grants to Outside

Directors under Section 11 hereof shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

(b) *Dissolution or Liquidation.* In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion (but not with respect to Options granted to Outside Directors) may provide for a Participant to have the right to exercise his or her Option or SAR until ten (10) days prior to such transaction as to all of the Awarded Stock covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option or forfeiture rights applicable to any Award shall lapse 100%, and that any Award vesting shall accelerate 100%, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised (with respect to Options and SARs) or vested (with respect to other Awards), an Award will terminate immediately prior to the consummation of such proposed action.

(c) *Merger or Asset Sale.*

(i) *Stock Options and SARs.* In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and SAR shall be assumed or an equivalent option or SAR substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or SAR, the Participant shall fully vest in and have the right to exercise the Option or SAR as to all of the Awarded Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or SAR becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or asset sale, the Administrator shall notify the Participant in writing or electronically that the Option or SAR shall be fully vested and exercisable for a period of thirty (30) days from the date of such notice, and the Option or SAR shall terminate upon the expiration of such period. With respect to Options granted to Outside Directors, in the event that the Outside Director is required to terminate his or her position as an Outside Director at the request of the acquiring entity within 12 months following such merger or asset sale, each outstanding Option held by such Outside Director shall become fully vested and exercisable, including as to Shares as to which it would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise.

(ii) *Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Deferred Stock Units and Dividend Equivalents.* In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, Dividend Equivalent and Deferred Stock Unit award (and any related Dividend Equivalent) shall be assumed or an equivalent Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, Dividend Equivalent and Deferred Stock Unit award (and any related Dividend Equivalent) substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, Dividend Equivalent and Deferred Stock Unit award (and any related Dividend Equivalent), the Participant shall fully vest in the Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, Dividend Equivalent and Deferred Stock Unit award (and any related Dividend Equivalent), including as to Shares (or with respect to Dividend Equivalents and Performance Units, the cash equivalent thereof) which would not otherwise be vested. For the purposes of this paragraph, a Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, Dividend Equivalent and Deferred Stock Unit award (and any related Dividend Equivalent) shall be considered assumed if, following the merger or asset sale, the award confers the right to purchase or receive, for each Share (or with respect to Dividend Equivalents and Performance Units, the cash equivalent thereof) subject to the Award immediately prior to the merger or asset sale, the consideration (whether stock, cash, or other securities or property) received in the merger or asset sale by holders of the Company's common stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or asset sale is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received, for each Share and each unit/right to acquire a Share subject to the Award (other than Dividend Equivalents and Performance Units) to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of the Company's common stock in the merger or asset sale.

22. *Time of Granting Awards.* The date of grant of an Award shall, for all purposes, be the date on which the Administrator makes the determination granting such Award. Notice of the determination shall be given to each Employee or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

23. *Term of Plan.* The Plan shall continue in effect until March 1, 2016.

24. *Amendment and Termination of the Plan.*

(a) *Amendment and Termination.* The Board may at any time amend, alter, suspend or terminate the Plan.

(b) *Shareholder Approval.* The Company shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Rule 16b-3 or with Section 422 of the Code (or any successor rule or statute or other applicable law, rule or regulation, including the requirements of any exchange or quotation system on which the Common Stock is listed or quoted). Such shareholder approval, if required, shall be obtained in such a manner and to such a degree as is required by the applicable law, rule or regulation.

(c) *Effect of Amendment or Termination.* No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company.

25. *Conditions Upon Issuance of Shares.* Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise or payout, as applicable, of an Award, the Company may require the person exercising such Option or SAR, or in the case of another Award (other than a Dividend Equivalent or Performance Unit), the person receiving the Shares upon vesting, to render to the Company a written statement containing such representations and warranties as, in the opinion of counsel for the Company, may be required to ensure compliance with any of the aforementioned relevant provisions of law, including a representation that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required.

26. *Reservation of Shares.* The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

Directions to Juniper Networks, Inc.

1220 N. Mathilda Avenue
Building 3, Pacific Conference Room
Sunnyvale, CA 94089

From San Francisco Airport:

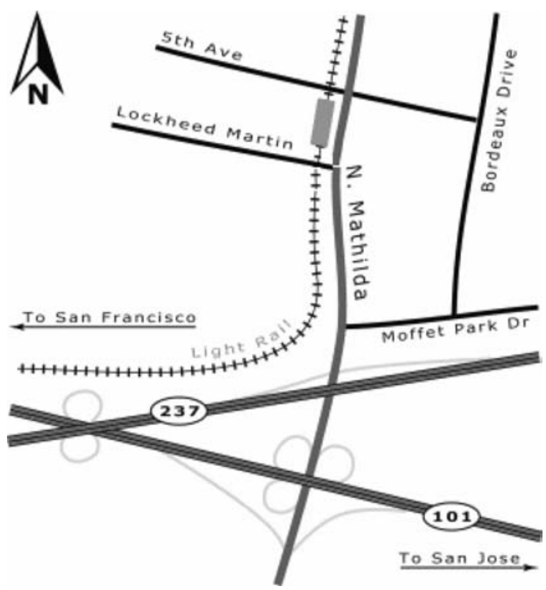
- Travel south on Highway 101.
- Exit Highway 237 east in Sunnyvale.
- Exit Mathilda and turn left onto Mathilda Avenue.
- Juniper Networks Corporate Headquarters and Knowledge Center will be on the right side across from the Lockheed/Martin light rail station.

From San Jose Airport and points south:

- Travel north on Highway 101 to Mathilda Avenue in Sunnyvale.
- Exit Mathilda Avenue north.
- Continue on Mathilda past Highway 237 and Lockheed Martin Avenue.
- Juniper Networks Corporate Headquarters and Knowledge Center will be on the right side across from the Lockheed/Martin light rail station.

From Oakland Airport and the East Bay:

- Travel south on Interstate 880 until you get to Milpitas.
- Turn right on Highway 237 west.
- Continue approximately 10 miles.
- Exit Mathilda Avenue and turn right at the stoplight.
- Juniper Networks Corporate Headquarters and Knowledge Center will be on the right side across from the Lockheed/Martin light rail station.



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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, 2005

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 0-26339

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

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

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

Securities registered pursuant to Section 12(g) of the Act: Common stock, $0.00001 par value

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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filed ☐

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 $9,865,094,000 as of the end of the Registrant's second fiscal quarter, (based on the closing price for the Common Stock on the NASDAQ National Market on June 30, 2005).

As of February 28, 2006 there were approximately 562,852,000 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 2005 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended December 31, 2005.

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PART I

ITEM 1. Business

Overview

We design and sell products and services that together provide our customers with secure and assured Internet Protocol ("IP") networking solutions. Our solutions are incorporated into the global web of interconnected public and private networks across which a variety of media, including voice, video and data, travel to and from end users around the world. Our network infrastructure solutions enable service providers and other network-intensive businesses to support and deliver services and applications on a highly efficient and low cost integrated network.

In 2004, we completed the acquisition of NetScreen Technologies, Inc. ("NetScreen") and in 2005, we completed the following five acquisitions: Kagoor Networks, Inc. ("Kagoor"), Redline Networks, Inc ("Redline"), Peribit Networks, Inc. ("Peribit"), Acorn Packet Solutions, Inc. ("Acorn"), and Funk Software, Inc. ("Funk"). As a result of the these acquisitions, we expanded our customer base and portfolio of products, and now offer two categories of networking products: infrastructure products, which consist predominately of the original Juniper Networks router portfolio and Acorn products, and Service Layer Technologies ("SLT") products, which consist predominately of the former Funk, Peribit, Redline, Kagoor, and NetScreen products.

During 2005, our operations were organized into the following three operating segments: Infrastructure, SLT, and Service. Our Infrastructure segment primarily offers scalable router products that are used to control and direct network traffic. Our SLT segment offers solutions that meet a broad array of our customer's priorities, from protecting the network itself, and protecting data on the network, to maximizing existing bandwidth and acceleration of applications across a distributed network. Together, our secure networking solutions help enable our customers to convert networks that provide commoditized, best efforts services into more valuable assets that provide differentiation and value and increased reliability and security to end users. Our Service segment delivers world-wide services to customers of the Infrastructure and SLT segments. Subsequent to 2005, we re-aligned our product groups and will report Kagoor products in the Infrastructure segment beginning in 2006.

During our fiscal year ended December 31, 2005, we generated net revenues of $2.06 billion and conducted business in approximately 75 countries. See the information in Item 8 for more information on our consolidated financial position as of December 31, 2005 and 2004 and our consolidated results of operations, consolidated statements of shareholders' equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2005.

We were incorporated in California in 1996 and reincorporated in Delaware in 1997. Our corporate headquarters is located in Sunnyvale, California. Our website address is www.juniper.net.

Our Strategy

Our objective and strategy is to provide best-in-class traffic processing technologies that allow our customers to provide a secure and assured network experience for any application on an IP network. Our technological leadership and problem solving abilities combined with our experience and fundamental understanding of the requirements of high performance IP secure networking solutions will help us in meeting our objectives. Key elements of our strategy are described below.

Maintain and Extend Technology Leadership. Our application-specific integrated circuit (ASIC) technology, operating system and network-optimized product architecture have been key elements to establishing our technology leadership. We believe that these elements can be leveraged into future products we are currently developing. We intend to maintain and extend our technological leadership in the network infrastructure and security markets primarily through innovation and continued investment in our research and development departments, supplemented by external partnerships, including strategic alliances, as well as acquisitions that would allow us to deliver a broader range of products and services to customers in target markets.

Leverage Position as Supplier of Purpose-Built Network Infrastructure and Security. From inception we have focused on designing and building IP network infrastructure for service providers and network intensive businesses 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 purpose-built nature of our products provide us with a competitive advantage, which is critical in gaining rapid penetration as one of these selected vendors.

***Be Strategic to Our Customers*.** In developing our infrastructure and SLT solutions, we work very closely with customers to design and build a product specifically to meet their complex needs. Over time, we have expanded our understanding of the challenges facing these customers. That increased understanding has enabled us to subsequently 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 deployment to date. We plan to continue to work very closely with our customers to implement enhancements to current products as well as to design future products that specifically meet their evolving needs.

***Enable New IP-Based Services*.** Our platforms enable network operators to build and secure networks cost-effectively and to offer new differentiated services for their customers more efficiently than legacy network products. We believe that the secure delivery of IP-based services and applications, including 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 secure networking solutions.

***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 build relationships with other industry leaders in a diverse set of networking technologies and services. These relationships ensure that we have access to those technologies and services, whether through joint development, resale, acquisition or other collaboration, in order to better support a broader set of our customers' requirements.

Markets and Customers

We sell our products and services through direct sales and through distributors and value-added resellers to end-users in the following markets:

Service Providers

Service providers include wireline, wireless, cable, and next-generation network operators. Supporting most major service provider networks in the world, our platforms are designed and built for the scale and dependability that service providers demand. Our secure networking solutions 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 revenue 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.

Enterprise

Our secure networking solutions are designed to meet the reliability and scalability demanded by the world's largest and most advanced networks. For this reason, network intensive enterprises, federal, state and local governments, and research and education institutions that rely on their networks for the operation of their business are able to deploy our solutions as a powerful component in delivering the advanced network capabilities needed for their leading-edge applications while:

- Reducing costs through operational efficiencies in implementing and managing the network;

- Driving down capital expenses with sophisticated network intelligence that is robust, secure, and scalable;

- Providing enterprises with the control necessary to deliver a secure and assured user experience to their customers and internal clients; and

- Working as a business partner for the long term with the optimal combination of flexibility, responsiveness, technical know-how and financial strength.

Fundamental Requirements for High Performance Secure Networks

As they work to support growth in IP traffic and seek to offer new revenue-generating or mission-critical services, our customers require secure network solutions that are not only feature rich but also deliver high reliability, high performance and assured user experiences.

At the same time, both service providers and enterprises must focus on detecting and preventing the ever increasing number of security threats facing the network itself and the data that flows across the network. This security must be innate to networking products and must not come at the expense of overall performance or unjustifiable cost.

Feature richness, high reliability, security, high performance, scalability, and cost effectiveness are each fundamental requirements in meeting the needs associated with the growth in IP traffic and the secure and assured delivery of value-added services to end users.

Feature Richness. The importance of increasing revenue streams and decreasing capital and operational costs for our customers is a significant priority in the industry. Service providers want to sell more revenue generating services with better cost efficiencies. Enterprises and other network operators want to provide a secure and assured network experience to their end users on a cost effective but value-generating basis. Each of these goals is ultimately a function of the features and capabilities that can be securely provided on each of the network elements. As networks advance, more and more features are required to sell new services as well as to lower the ongoing costs of operating the network. Next generation networking solutions therefore need to have flexibility to add new capabilities frequently without compromising the performance of the system, which gets increasingly difficult as the network demands increase.

High Reliability. As businesses and consumers increasingly rely on IP networks for mission-critical applications, high network reliability is essential. As a result, those businesses and consumers expect service providers to deliver a high degree of reliability in their networks.

Security. Today's network environment presents an ever-increasing number of challenges regarding network security ranging from simple denial of service attacks to sophisticated, pervasive and malicious intrusions. The importance of security is increasing within all of our customers and we are continually improving and evolving the security capabilities on all of our product solutions. It is extremely important to provide comprehensive network-based security services that are fully integrated, free of performance trade-offs, and scaleable to any customer or market.

High Performance Without Compromising Intelligence. To handle the rapid growth in IP traffic, today's network operators increasingly require secure networking solutions that can operate at higher speeds, while still delivering real-time services such as security and quality-of-service features. The processing of data packets at these high speeds requires sophisticated forwarding technology to inspect each packet and assign it to a destination based on priority, data type and other considerations. Since a large number of IP packets, many of which perform critical administrative functions, are small in size, high performance IP routers need to achieve their specified transmission speeds even for small packet sizes. Since smaller packets increase packet processing demands, routing large numbers of smaller packets tends to be more resource intensive than routing of larger packets. A wire speed router, which achieves its specified transmission rate for any type of traffic passing through it, can accomplish this task. Thus, provisioning of mission-critical services increasingly requires the high performance enabled by wire speed processing.

High Performance Under Stressful Conditions. In a large and complex network, individual components inevitably fail. However, the failure of an individual device or link must not compromise the network as a whole. In a typical network, when a failure occurs, the network loses some degree of capacity and, in turn, a greater load falls on the remaining network routers, which must provide alternate routes. IP infrastructure must quickly adjust to the new state of the network to maintain packet forwarding rates and avoid dropping significant numbers of packets when active routes are lost or when large numbers of routes change. Routing protocols are used to accomplish this convergence, a process that places even greater stress on the router. Given the complexity of IP network infrastructure, the convergence process is complex and places a far greater load on the router, thereby requiring a much more sophisticated device.

Scalability. Due to the rapid growth in IP traffic, service providers must continuously expand their networks, both in terms of increased numbers of access points of presence (PoPs), and also greater capacity per PoP. To facilitate this expansion process, secure networking solutions must be highly scalable. Next generation network appliances therefore need to be flexible and configurable to function within constantly changing networks while incurring minimal downtime.

***High Return on Investment*.** Continued growth in IP traffic, price competition in the telecommunications market and increasing pressure for network operators to attain higher returns on their network infrastructure investments all contribute to our customers' desire for solutions that significantly reduce the capital expenditures required to build and operate their networks. In addition to the basic cost of equipment, network operators incur substantial ancillary costs for the space required to deploy the equipment, power consumed and ongoing operation and maintenance of the equipment. Network operators therefore want to deploy dense and varied equipment configurations in limited amounts of rack and floor space. Therefore, in order to continue to scale their networks toward higher data speeds in a cost effective manner, network operators need the ability to mix and match easily many different speed connections at appropriate densities, without significantly increasing the consumption of space or power and driving costs higher.

These requirements define a clear need for IP infrastructure and security solutions that can support high speeds and offer new IP-based services. At the same time, network operators are eagerly seeking new solutions that increase the level of scalability and reliability within their networks and reduce the cost of their architectures.

Our Technology and Products

Early in our history, we developed, marketed and sold the first commercially available purpose-built IP backbone router optimized for the specific high performance needs 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.

With the acquisition of NetScreen, we added a broad family of network security solutions that deliver high performance, cost-effective security for enterprises, service providers and government entities, including firewall and virtual private network ("VPN") systems and appliances, secure sockets layer ("SSL") VPN appliances, and intrusion detection and prevention ("IDP") appliances. With the acquisitions of Funk, Peribit, Redline, and Kagoor, we added complementary products and technologies to our SLT product family that enable our customers to provide additional IP-based services and enhance the performance and security of their existing networks and applications.

Our infrastructure products offer a full suite of scalable, tested routing protocols, which are used to control and direct network traffic, and are critical to a network routing solution. This control is made more important by the fact that the size and complexity of IP networks are increasing at a time when service providers are looking to differentiate themselves through value-added service offerings. Our firewall and VPN systems are standards-based for easy integration into customer networks, and deliver integrated firewall, VPN and denial of service protection capabilities in a single device. Our IDP appliances incorporate multiple methods of detection, such as attack pattern matching, protocol anomaly detection and backdoor detection, and stop attacks based on known patterns of attack, suspicious traffic or connection requests.

Infrastructure Products

We believe that an overview of the physical nature of our infrastructure products is helpful in understanding the operation of our business.

Although specific designs vary among our product families, our platforms are essentially modular, with the chassis serving as the base of the platform. The chassis contains components that enable and support many of the fundamental functions of the router, such as power supplies, cooling fans, and components that run our JUNOS or JUNOSe operating system, perform high-speed packet forwarding, or keep track of the structure of the network and instruct the packet forwarding components where to send packets. Each 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 router receives incoming packets of data from the network over 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. In some cases, modules do not contain ports or physically receive packets from the network, but rather enhance the overall functionality of the router. We refer to these components as service modules.

Major infrastructure product families are summarized as follows:

- *M-Series and T-Series:* Our M-series platforms are extremely versatile as they can be deployed at the edge of operator networks, in small and medium core networks, and in other applications. The M-series product family includes the M320, M160, M40e, M20, M10i and M7i platforms. Our T-series platforms, T640, T320, and TX Matrix, are primarily designed for core IP infrastructures. The M-series and T-series products leverage our ASIC technology and the same JUNOS operating system to enable continuous and predictable service delivery.

- *E-Series:* Our E-series products are a full featured platform with support for carrier-class routing, broadband subscriber management services and a comprehensive set of IP services. The E-series family includes the ERX-1440, -1410, -710, -705 and -310 platforms and the E320 platform. Leveraging our JUNOSe operating system, the E-Series service delivery architecture enables service providers to easily deploy innovative revenue generating services to their customers and avoid the costly and limiting piecemeal outcomes that result from equipment that delivers inconsistent edge services. All E-Series platforms offer a full suite of routing protocols and provide scalable capacity for tens of thousands of users.

Service Layer Technologies Products

SLT products provide network security solutions and enable our customers to provide additional IP-based services and enhance the performance and security of their existing networks and applications.

Major SLT product families are summarized as follows:

- *Firewall and VPN Systems:* Our NS-5400, -5200, and -500 products and ISG-2000 and -1000 products are high performance security systems designed to provide integrated firewall, VPN and denial of service protection capabilities for enterprise environments and carrier network infrastructures. Our ISG-2000 and -1000 products can also deliver intrusion detection and prevention functionality with the addition of optional security modules to the base ISG chassis. Each of our firewall and VPN systems can be deployed in high bandwidth environments and can be used to deliver managed security services. Our firewall and VPN systems allow unique security policies to be enforced for multiple virtual local area networks, or VLANs, allowing a single system to secure multiple networks. Our security systems also allow for the creation of multiple Virtual Systems, each providing a unique security domain with its own virtual firewall and VPN and dedicated management interface. These features enable enterprises, carriers and government entities to use a single security system to secure multiple networks and enable carriers to deliver security services to multiple customers.

- *Firewall and VPN Appliances*: Our NS-208, -204, -100, -50, -25, -5XT and -5XP security appliances are fixed configuration products of varying performance characteristics that offer integrated firewall, VPN and denial of service protection capabilities. Our Secure Services Gateway 500 Series (SSG) represents a new class of purpose-built security appliance that delivers a mix of high performance, security and LAN/WAN connectivity for regional and branch office deployments. Our security appliances are designed to maximize security and performance while using less physical space than competing products. Our security appliances can be deployed to provide small to medium-sized businesses and enterprise remote locations with secure Internet access and communication.

- *Secure Access Secure Sockets Layer ("SSL") VPN Appliances*: Our Secure Access-6000, -4000 and -2000, and -700 appliances are used to secure remote access for mobile employees, secure extranets for customers and partners, and secure intranets. Our SSL VPN appliances are designed to be used in enterprise environments of all sizes.

- *Intrusion Detection and Prevention ("IDP") Appliances*: Our IDP-1100, -600, -200 and -50 appliances utilize intrusion detection methods to increase the attack detection accuracy and provide the broadest attack detection coverage available. Our IDP appliances 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. Our IDP appliances can also alert the IT staff to respond to the attack. Our IDP appliances can be clustered to provide high availability and reduce risk associated with a single point of failure.

- *Application Acceleration Platforms*: Our WX, WXC, and DX 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.

- *Access Control Appliances*: Our IC-4000 and -6000 appliances combine identity-based policy and end-point intelligence to give enterprises real-time visibility and policy control throughout the network.

See Note 12 in Item 8 for a breakdown of net product revenues by categories of products.

Sales and Marketing

As of December 31, 2005, we employed 1,419 employees in our worldwide sales and marketing organizations. These sales employees operate within their respective regions and generally either engage customers directly or manage customer opportunities through our distribution and reseller relationships. Information concerning our revenues by significant customers and by geographic region can be found in Note 12 to the Consolidated Financial Statements included within this Annual Report on Form 10-K.

Direct Sales Structure

Our direct sales organization is organized into three geographic theaters and within each theater according to the particular needs in that market. Our three geographic theaters are (i) the Americas, (ii) Europe, Middle East and Africa, and (iii) Asia Pacific. Our direct relationships with our customers are governed either by customer purchase orders and our acknowledgement of those orders or by purchase contracts. In instances where we have contracts with our customer, those contracts set forth only general terms of sale and do not require customers to purchase specified quantities of our products.

Global Channel System

In our sales and marketing efforts, we also employ a global network of strategic distribution relationships, as well as theater or country-specific distributors and value added resellers. Value-added resellers include our strategic resellers, which resell our products to end-users around the world. Within each theater, in addition to our direct sales force, we employ sales professionals to assist with the management of our various sales channels.

We have strategic reseller relationships with Ericsson, Lucent Technologies, and Siemens. We believe that each of these companies have significant customer relationships in place and offer products that complement our product offerings. Our arrangements with each of these partners allow them to resell our products on a worldwide, non-exclusive basis, provide for discounts based upon the volume of products sold and specify other general terms of sale. The agreements do not require these partners to purchase specified quantities of our products. Siemens accounted for greater than 10% of our total net revenues in 2005.

In addition to these strategic reseller relationships, we maintain relationships with distributors and value-added resellers in various theaters. These distributors and value-added resellers tend to be focused on particular theaters or particular countries within theaters. For example, we have substantial distribution relationships with Ingram Micro in the Americas and with NEC in Japan. The value-added resellers have expertise in deploying complex networking solutions in their respective markets. Our agreements with these distributors and value-added resellers are generally non-exclusive, limited by theater, and provide product discounts and other ordinary terms of sale. These agreements do not require our distributors or value-added resellers to purchase specified quantities of our products.

Customer Service and Support

As of December 31, 2005, we employed 476 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. In most cases, our customer service and support organization provides front line product support and is the problem resolution interface to our partners and direct end users. We offer the following services: 24x7x365 technical assistance, hardware repair and replacement, unspecified updates, professional services and educational services. We deliver these services directly to major end users and also utilize a multi-tiered support model, leveraging the capabilities of our partners and third party organizations. We also train our channel partners in the delivery of education and support services.

Research and Development

As of December 31, 2005, we employed 1,736 people in our worldwide research and development organization. We have assembled a team of skilled engineers with extensive experience in the fields of high-end computing, network system design, security, routing protocols and embedded operating systems. These individuals have worked in leading computer data networking and telecommunications companies. In addition to building complex hardware and operating systems, the engineering team has experience in delivering highly integrated ASICs and scalable technology.

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 ASIC technology, developing additional network interfaces targeted to our customer applications and continuing to develop next generation 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 research and development 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. This process involves all functional groups and all levels. Following an assessment of market demand, our research and development 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.

Manufacturing and Operations

As of December 31, 2005, we employed 134 employees 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 currently have manufacturing relationships primarily with Celestica and Plexus, under which we have subcontracted the majority of our manufacturing activity. This subcontracting activity 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 conserve the working capital that would be required for funding inventory;
- 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 we could buying components alone; and
- We operate without dedicating significant space to manufacturing operations.

Our contract manufacturers manufacture our products based on rolling forecasts from us about our product demands. Each of the contract manufacturers procures components necessary to assemble the products in our forecast and test the products according to our specifications. Products are then shipped directly to our distributors, value-added resellers or end-users. We generally do not own the components and title to the products transfers from the contract manufacturers to us and immediately to our customers upon shipment. In certain circumstances, we may be liable to our contract manufacturers for carrying and obsolete material charges for excess components purchased based on our forecasts.

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 sources, such as IBM and Toshiba, each of whom is responsible for all aspects of the production of the ASICs using our proprietary designs.

Backlog

We believe that backlog information is not relevant to an understanding of our overall business as our sales are made primarily pursuant to standard purchase orders for delivery of products and industry practice allows customers to cancel or change orders with limited advance notice prior to shipment.

Competition

Competition in the network infrastructure and security markets is intense. Cisco Systems has historically dominated the market, with other companies such as Nortel Networks, Alcatel, CheckPoint Software Technologies, and Huawei Technologies providing competitive 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.

We expect that, over time, large companies with significant resources, technical expertise, market experience, customer relationships and broad product lines, such as Cisco, Nortel, Alcatel, and Huawei Technologies, will introduce new products which are designed to compete more effectively in this market. 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.

Many of our current and potential competitors, such as Cisco, Nortel, Alcatel, and Huawei Technologies 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. Also, 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 reduction, fewer customer orders, reduced gross margins and loss of market share, any of which could seriously harm our operating results.

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 smaller private 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.

Several companies also provide solutions that can substitute for some uses of routers. For example, high bandwidth Asynchronous Transfer Mode ("ATM") switches are used in the core of certain major backbone service providers. ATM switches can carry a variety of traffic types, including voice, video and data, using fixed, 53 byte cells. Companies that use ATM switches are enhancing their products with new software technologies such as Multi-Protocol Label Switching ("MPLS"), which can potentially simplify the task of mixing routers and switches in the same network. These substitutes can reduce the need for large numbers of routers.

Intellectual Property

Our success and ability to compete are substantially dependent upon our internally developed technology and know-how. Our engineering teams have significant expertise in ASIC design and we own all rights to the design of the ASICs, which form the core of many of our products. Our operating systems were developed internally and are protected by United States and other copyright laws.

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 may be required to 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 those other parties will not contest our intellectual property rights.

Employees

As of December 31, 2005, we had 4,145 full-time employees, 379 of whom were in general and administrative functions. We have not experienced any work stoppages and we consider our relations with our employees to be good. Competition for 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. In addition, recently adopted accounting rules will require us to begin treating certain equity incentives traditionally given to employees as a compensation expense. By causing us to record significantly increased compensation costs, such accounting changes will reduce our reported earnings and will require us to reduce the availability and amount of equity incentives provided to employees, which may make it mo re difficult for us to attract, retain and motivate key personnel, and we anticipate that we will experience higher voluntary employee turnover than we have historically.

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 February 1, 2006.

NAME	AGE	POSITION
Scott Kriens	48	Chief Executive Officer and Chairman of the Board
Pradeep Sindhu	53	Chief Technical Officer and Vice Chairman of the Board
Robert R.B. Dykes	56	Executive Vice President, Business Operations and Chief Financial Officer
Edward Minshull	47	Executive Vice President, Field Operations
Kim Perdikou	47	Vice President and Acting General Manager of the Infrastructure Products Group
Robert Sturgeon	44	Executive Vice President and General Manager of the Security Products Group

SCOTT KRIENS has served as Chief Executive Officer and Chairman of the board of directors of Juniper Networks since October 1996. From April 1986 to January 1996, Mr. Kriens served as Vice President of Sales and Vice President of Operations at StrataCom, Inc., a telecommunications equipment company, which he co-founded in 1986. Mr. Kriens received a B.A. in Economics from California State University, Hayward. Mr. Kriens also serves on the board of directors of Equinix, Inc. and Verisign, Inc.

PRADEEP SINDHU co-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.

ROBERT R.B. DYKES joined Juniper Networks in January 2005 from Flextronics where he was Chief Financial Officer and President, Systems Group, from February 1997 to December 2004. Prior to that, Mr. Dykes was Executive Vice President, Worldwide Operations and Chief Financial Officer of Symantec Corporation from October 1988 to February 1997. Mr. Dykes also held Chief Financial Officer roles at industrial robots manufacturer, Adept Technology, and at disc drive controller manufacturer, Xebec. He also held senior financial management positions at Ford Motor Company. Mr. Dykes holds a Bachelor of Commerce in Administration degree from Victoria University, Wellington, New Zealand.

EDWARD MINSHULL joined Juniper Networks in August 2001 as Vice President, EMEA Sales and served in that role until January 2006 when he assumed the role of Executive Vice President, Worldwide Field Operations. From May 2000 to June 2001, Mr. Minshull was at Alcatel where he served as President of Alcatel Northern Europe and from May 1999 to May 2000 Mr. Minshull was at Newbridge Networks where he served as President of the Americas. Mr. Minshull holds a Bachelor of Arts degree in Business Studies from the University of North Staffordshire, England, U.K.

KIM PERDIKOU joined Juniper Networks in August 2000 as Chief Information Officer and served in that role until January 2006 when she assumed the role as the Vice President and Acting General Manager of the Infrastructure Products Group. Prior to Juniper Networks, Ms. Perdikou served as Chief Information Officer at Women.com from June 1999 to August 2000, and held the position of Vice President, Global Networks, at Reader's Digest from March 1992 to April 1998, as well as leadership positions at Knight Ridder from June 1999 to August 2000, and Dun & Bradstreet from August 1989 to March 1992. Ms. Perdikou holds a B.S. in Computing Science with Operational Research from Paisley University, Paisley, Scotland, a Post-Graduate in Education degree from Jordanhill College, Glasgow, Scotland, and a Masters in Information Systems from Pace University, New York.

ROBERT STURGEON joined Juniper Networks in December 2001 as Vice President, Worldwide Customer Service and served in that role until August 2005 when he assumed the role of Executive Vice President and General Manager of the Security Products Group. Prior to December 2001, Mr. Sturgeon was at Lucent Technologies where he served as Vice President, Customer Service from May 2000 to November 2001 and Managing Director, Program Management-Asia Pacific from December 1995 to May 2000. Mr. Sturgeon holds a B.S. in Electrical Engineering from the University of Dayton and a M.B.A from the Kellogg Graduate School of Management at Northwestern University.

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 with the SEC electronically. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, 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 that file electronically with the SEC. The address of that site 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 the day of filing with the SEC on our website at http://www.juniper.net, 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.

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 reflects 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 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.

Fluctuating economic conditions make it difficult to predict revenues for a particular period and a shortfall in revenues 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 previously resulted (for example, in 2001 and 2002), and may in the future result, in decreased revenues and earnings and could also negatively impact our ability to forecast and manage our contract manufacturer relationships. Economic downturns may also lead to restructuring initiatives and associated expenses and impairment of investments. In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses are, 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 economic weakness, customer financial difficulties and reductions in spending on network expansion could have a material adverse effect on demand for our products and consequently on our results of operations and 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, 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 one or more of the expectations of securities analysts and 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 revenue and/or earnings guidance.

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, operating results and financial condition will be adversely affected.

A substantial portion of our business and revenue depends on the growth of 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 and financial results.

A limited number of our customers comprise a significant portion of our revenues and any decrease in revenue 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. Siemens accounted for greater than 10% of our net revenues during the years ended December 31, 2005, 2004 and 2003 and Ericsson accounted for greater than 10% of our net revenues during the year ended December 31, 2003. This customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. Any downturn in the business of our key customers or potential new customers could significantly decrease sales to such customers, which could adversely affect our net revenues and results of operations. In addition, there has been and continues to be consolidation in the telecommunications industry (for example, the acquisitions of AT&T and MCI). This consolidation may cause our customers who are involved in these acquisitions to suspend or indefinitely reduce their purchases of our products or have other unforeseen consequences.

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 IP infrastructure market has historically been dominated by Cisco Systems, Inc., with other companies such as Alcatel S.A., Nortel Networks Corporation, and Huawei Technologies providing products to a smaller segment of the market. In addition, a number of other small public or private companies have products or have announced plans for new products to address the same challenges that our products address.

In the service layer technologies market, we face intense competition from a broader group of companies including appliance vendors such as Cisco Systems, Inc and software vendors such as CheckPoint Software Technologies. In addition, a number of other small public or private companies have products or have announced plans for new products to address the same challenges that our products address.

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, operating results and financial condition.

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 or next-generation networks 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 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.

With the current demand for electronic products, component shortages are possible and the predictability of the availability of such components may be limited. 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. We currently purchase numerous key components, including application-specific integrated circuits (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 impact present and future sales, which would, in turn, adversely affect our business.

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.

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, the 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, the contract manufacturers may have inadequate time or materials and components required to produce our products, which could delay or interrupt manufacturing of our products and result in delays in shipments and deferral or loss of revenues.

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 revenue and damage our customer relationships.

We depend primarily on independent contract manufacturers (each of whom 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 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. Each of these factors could adversely affect our business and financial results.

Integration of past acquisitions and 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 Funk, Acorn, Peribit, Redline, and Kagoor. 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 successfully integrate any businesses, products, technologies or personnel that we might acquire. The integration of businesses that we have acquired has been, and will continue to be, a complex, time consuming and expensive process. For example, although we completed the acquisition of NetScreen in April 2004, integration of the products, operations, and personnel is a continuing activity and will be for the foreseeable future. Acquisitions may also require us to issue common stock that dilutes the ownership of our current stockholders, assume liabilities, record goodwill and non-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 operating results and financial condition.

In addition, if we fail in our 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 and financial condition may be adversely affected.

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

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added reseller and distribution partners. 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. Our competitors may in some cases be effective in incentivizing current or potential resellers and distributors to favor their products or to prevent or reduce sales of our products. If we fail to maintain 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 operating results would suffer.

In addition, we recognize a portion of our revenue 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. 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.

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.

Recent rulemaking by the Financial Accounting Standards Board will require us to expense equity compensation given to our employees and will significantly harm our operating results and may reduce our ability to effectively utilize equity compensation to attract and retain employees.

We historically have used stock options as a significant component of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. The Financial Accounting Standards Board has adopted changes that will require companies to record a charge to earnings for employee stock option grants and other equity incentives. We adopted this standard effective January 1, 2006. By causing us to record significantly increased compensation costs, such accounting changes will reduce our reported earnings and will require us to reduce the availability and amount of equity incentives provided to employees, which may make it more difficult for us to attract, retain and motivate key personnel. Each of these results could materially and adversely affect our business.

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

We are required to annually test, 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 or if the portions of our business related to companies we have acquired fail to grow at expected rates or decline. We cannot accurately predict the amount and timing of any impairment of assets.

Our ability to process orders and ship product is dependent in part on our business systems and upon interfaces with the systems of third parties such as our suppliers or other partners. If our systems, the systems of those third parties or the interfaces between them fail, our business processes could be impacted and our financial results could be harmed.

Some of our business processes depend upon our information technology systems 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 enables them to build and ship our products. If those systems fail, 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.

Our products are highly technical and if they contain undetected errors, our business could be adversely affected and we might have 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 or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business and results of operations. 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 could be harmed.

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 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.

If we do not successfully anticipate market needs and develop products and product enhancements that meet those needs, or if those products 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 or be able to develop new products or product enhancements to meet such needs or to meet them in a timely manner. If we fail to anticipate the market requirements or to develop new products or product enhancements to meet those needs, such failure could substantially decrease market acceptance and sales of our present and future products, which would significantly harm our business and financial results. 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. Any failure of our products to achieve market acceptance could adversely affect our business and financial results.

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 have 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 impact our operating results. In addition, if our products do not interoperate with those of our customers' networks, demand for our products could be adversely affected, orders for our products could be cancelled or our products could be returned. This could hurt our operating results, damage our reputation and seriously harm our business and prospects.

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 exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are relevant to our products. For example, in 2003, Toshiba Corporation filed a lawsuit against us, alleging that our products infringe certain Toshiba patents. 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 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, operating results and financial condition could be materially and adversely affected.

We are a party to lawsuits, which, if determined adversely to us, could require us to pay damages which could harm our business and financial condition.

We and certain of our current and former officers and current and former members of our board of directors are subject to various lawsuits. There can be no assurance that actions that have been brought against us or may be brought against us will be resolved in our favor. Regardless of whether they are 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 or resolve. Such costs of defense and any losses resulting from these claims could adversely affect our profitability and cash flow.

Due to the global nature of our operations, economic or social conditions or changes in a particular country or region could adversely affect our sales or increase our costs and expenses, which could have a material adverse impact on our financial condition.

We conduct significant sales and customer support operations directly and indirectly through our distributors and value-added resellers in countries throughout the world and also depend on the operations of our contract manufacturers and suppliers that are located inside and outside of the United States. Accordingly, our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, political or social unrest, natural disasters, epidemic disease, war, or economic instability in a specific country or region, trade protection measures and 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 and difficulties in staffing and managing international operations. Any or all of these factors could have a material adverse impact on our revenue, costs, expenses, results of operations and financial condition.

We are exposed to fluctuations in currency exchange rates which could negatively affect our financial results and cash flows.

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

The majority of our revenues and expenses are transacted in US Dollars. We also have some transactions that are denominated in foreign currencies, primarily the Japanese Yen, Hong Kong Dollar, British Pound and the Euro, related to our sales and service operations outside of the United States. An increase in the value of the US Dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in US Dollars, and a weakened 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. If our attempts to hedge against these risks are not successful, our net income could be adversely impacted.

Traditional 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.

Traditional telecommunications companies and other large companies, because of their size, generally have had 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 and financial condition.

For example, many customers in this class have purchased products from other vendors who promised certain functionality and failed to deliver such functionality and/or had products that caused problems and 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, would affect our ability to recognize the revenues from such sales, which may negatively affect our business and our financial condition.

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.

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 key executive, engineering, sales, 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 key 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.

Our success depends upon our ability to effectively plan and manage our resources and restructure our business through rapidly fluctuating economic and market conditions. Past restructuring efforts may prove to be inadequate or may impair our ability to realize our current or future business objectives.

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 research and development and other parts of our business. Conversely, during 2001 and 2002, in response to downward trending industry and market conditions, we restructured our business and reduced our workforce. In addition, we expect that we will have to change our facilities in certain locations and we may face difficulties and significant expenses identifying and moving into suitable office space and subleasing or assigning any surplus space. These changes and other similar actions taken to respond to fluctuating market and economic conditions have placed, and our anticipated future operations will continue to place, significant demands on our management resources. This may increase the potential likelihood of other risks, and our business may suffer if we fail to effectively manage changes in the size and scope of our operations.

We may not be able to successfully implement the initiatives we have undertaken in restructuring our business in the past and, even if successfully implemented, these initiatives may not be sufficient to meet the changes in industry and market conditions. Furthermore, our past workforce reductions may impair our ability to realize our current or future business objectives. Lastly, costs actually incurred in connection with restructuring actions may be higher than the estimated costs of such actions and/or may not lead to the anticipated cost savings, all of which could harm our results of operations and financial condition.

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 and results of operations may be negatively affected.

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. As a result of our international operations, we are affected by economic, regulatory and political conditions in foreign countries, including changes in IT spending generally, the imposition of government controls, changes or limitations in trade protection laws, unfavorable changes in tax treaties or laws, natural disasters, labor unrest, earnings expatriation restrictions, misappropriation of intellectual property, acts of terrorism and continued unrest in many regions and other factors, which could have a material impact on our international revenues and operations. In particular, in some countries we may experience reduced intellectual property protection. 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 all of our employees, contractors and agents will not take actions in violations of them. Violations of laws or key control policies by our employees, contractors or agents could result in financial reporting problems, fines, penalties, prohibition on the importation or exportation of our products and could have a material adverse effect on our business.

While we believe that we currently have adequate internal control over financial reporting, we are exposed to risks from recent 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, chief financial officer 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.

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.

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 the 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 Internet Protocol, encryption technology, and access charges for service providers. In addition, regulations have been adopted with respect to environmental matters, such as the Waste Electrical and Electronic Equipment (WEEE) and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (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, operating results and financial condition.

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 adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service 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 operating results and financial condition.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We lease approximately 1.4 million square feet world wide, with nearly 80 percent being in North America. Our corporate headquarters is located in Sunnyvale, California and consists of five buildings totaling approximately 0.6 million square feet. Each building is subject to an individual lease or sublease, which provides various option, expansion and extension provisions. The corporate headquarters leases expire between June 2012 and May 2014. Additionally, we lease an approximately 0.3 million square foot facility in Westford, Massachusetts. The leases expire between January and March 2011. We also lease facilities in other locations and own approximately 80 acres of land adjacent to our leased corporate headquarters location.

In addition to our offices in Sunnyvale and Westford, we also lease offices in various locations throughout the United States, Canada, South America, Europe, the Middle East and the Asia Pacific region, including in China, India, Ireland, Israel, Hong Kong, Japan, the Netherlands, Russia, and the United Kingdom. Our current offices are in good condition and appropriately support our business needs.

ITEM 3. Legal Proceedings

We are 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 we do not expect that such legal claims and litigation will ultimately have a material adverse effect on our consolidated financial position or results of operations, an adverse result in one or more matters could negatively affect our results in the period in which they occur.

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"), our Company and certain of our officers. This action was brought on behalf of purchasers of our common stock in our initial public offering in June 1999 and our secondary offering in September 1999.

Specifically, among other things, this complaint alleged that the prospectus pursuant to which shares of common stock were sold in our initial public offering and our 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, plaintiffs filed a consolidated amended complaint in the action against us, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Defendants in the coordinated proceeding filed motions to dismiss. In October 2002, our 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 us.

In June 2004, a stipulation for the settlement and release of claims against the issuers, including us, was submitted to the Court for approval. The terms of the settlement, if approved, would dismiss and release all claims against participating defendants (including us). In exchange for this dismissal, Directors and Officers insurance carriers would agree to guarantee a recovery by the plaintiffs from the underwriter defendants of at least $1.0 billion, and the issuer defendants would agree to an assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. On August 31, 2005, the Court granted preliminary approval of the settlement. The settlement is subject to a number of conditions, including final court approval. If the settlement does not occur, and litigation continues, we believe we have meritorious defenses and intend to defend the case vigorously.

Federal Securities Class Action Suit

During the quarter ended March 31, 2002, a number of essentially identical shareholder class action lawsuits were filed in the United States District Court for the Northern District of California against us and certain of our officers and former officers purportedly on behalf of those stockholders who purchased our publicly traded securities between April 12, 2001 and June 7, 2001. In April 2002, the court granted the defendants' motion to consolidate all of these actions into one; in May 2002, the court appointed the lead plaintiffs and approved their selection of lead counsel and a consolidated complaint was filed in August 2002. The plaintiffs allege that the defendants made false and misleading statements, assert claims for violations of the federal securities laws and seek unspecified compensatory damages and other relief. In September 2002, the defendants moved to dismiss the consolidated complaint. In March 2003, the court granted defendants motion to dismiss with leave to amend. The plaintiffs filed their amended complaint in April 2003 and the defendants moved to dismiss the amended complaint in May 2003. In March 2004, the court granted defendants motion to dismiss, without leave to amend, and entered final judgment against plaintiffs. Plaintiffs appealed. In December 2005, after complete briefing and oral argument, the United States Court of Appeals for the Ninth Circuit affirmed the district court's dismissal and final judgment.

State Derivative Claim Based on the Federal Securities Class Action Suit

In August 2002, a consolidated amended shareholder derivative complaint purportedly filed on behalf of us, captioned In re Juniper Networks, Inc. Derivative Litigation, Civil Action No. CV 807146, was filed in the Superior Court of the State of California, County of Santa Clara. The complaint alleges that certain of our officers and directors breached their fiduciary duties to us by engaging in alleged wrongful conduct including conduct complained of in the securities litigation described above. We are named solely as a nominal defendant against whom the plaintiffs seek no recovery. After having their previous complaints dismissed with leave to amend, Plaintiffs lodged a third amended complaint in August 2004. Defendants demurred to the third amended complaint. On November 18, 2004, the Court sustained defendants' demurrer without leave to amend and entered an order of final judgment against plaintiffs. Plaintiffs appealed to the California Court of Appeal, Sixth District. The appeal has been fully briefed by the parties. Oral argument has not yet been scheduled.

Toshiba Patent Infringement Litigation

On November 13, 2003, Toshiba Corporation filed suit in the United States District Court in Delaware against us, alleging that certain of our products infringe four Toshiba patents and seeking an injunction and unspecified damages. We filed an answer to the complaint in February 2004. Toshiba amended its complaint to add two patents, and we answered the amended complaint in July 2004. The case is in the discovery phase, and trial is scheduled for August 2006.

IRS Notices of Proposed Adjustments

The Internal Revenue Service (IRS) has concluded an audit of our federal income tax returns for fiscal years 1999 and 2000. During 2004, we received a Notice of Proposed Adjustment (NOPA) from the IRS. While the final resolution of the issues raised in the NOPA is uncertain, we do not believe that the outcome of this matter will have a material adverse effect on our consolidated financial position or results of operations. We are also under routine examination by certain state and non-US tax authorities. We believe that we have adequately provided for any reasonably foreseeable outcome related to these audits.

In conjunction with the IRS income tax audit, certain of our US payroll tax returns are currently under examination for fiscal years 1999 — 2001, and we received a second NOPA in the amount of $11.7 million for employment tax assessments primarily related to the timing of tax deposits related to employee stock option exercises. We responded to this NOPA in February 2005, and intend to dispute this assessment with the IRS. An initial appeals conference was held on January 31, 2006. We currently do not believe that a liability can be reasonably estimated at this time. In the event that this issue is resolved unfavorably to us, there exists the possibility of a material adverse impact on our results of operations for the period in which an unfavorable outcome becomes probable and reasonably estimable.

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

(a) Our common stock has been quoted on the NASDAQ National Market under the symbol "JNPR" since June 25, 1999. Prior to that time, there was no public market for the common stock. All stock information has been adjusted to reflect the three-for-one split, effected in the form of a stock dividend to each stockholder of record as of December 31, 1999 and a two-for-one split, effected in the form of a stock dividend to each stockholder of record as of May 15, 2000. Juniper Networks has never paid cash dividends on its common stock and has no present plans to do so. There were approximately 1,650 stockholders of record at January 31, 2006 and we believe we have a substantially larger number of beneficial owners. The following table sets forth the high and low closing bid prices as reported on NASDAQ:

2004	High	Low
First quarter	$ 30.39	$ 19.68
Second quarter	$ 27.55	$ 19.90
Third quarter	$ 25.72	$ 20.20
Fourth quarter	$ 29.08	$ 23.66
2005		
First quarter	$ 26.82	$ 20.75
Second quarter	$ 27.12	$ 19.75
Third quarter	$ 26.53	$ 22.33
Fourth quarter	$ 24.60	$ 21.31

(b) None

(c) None

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."

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. Reclassifications have been made to prior year balances to conform to the current year presentation. For a complete description of matters affecting the results in the tables below, including acquisitions by the Company during 2005 and 2004, see "Notes to the Consolidated Financial Statements" in Item 8.

Consolidated Statements of Operations Data (in millions, except per share data)

	Year Ended December 31,				
	2005 (a)	**2004 (b)**	**2003 (c)**	**2002 (d)**	**2001 (e)**
Net revenues	$ 2,064.0	$ 1,336.0	$ 701.4	$ 546.5	$ 887.0
Gross margin	1,411.1	922.6	444.1	315.4	513.8
Operating income (loss)	445.7	203.2	57.0	(127.0)	40.9
Net income (loss)	354.0	135.7	39.2	(119.7)	(13.4)
Net income (loss) per share:					
Basic	$ 0.64	$ 0.28	$ 0.10	$ (0.34)	$ (0.04)
Diluted	$ 0.59	$ 0.25	$ 0.09	$ (0.34)	$ (0.04)
Shares used in computing net income (loss) per share:					
Basic	554.2	493.1	382.2	350.7	319.4
Diluted	598.9	542.6	413.8	350.7	319.4

(a) Includes the following significant pre-tax items: in-process research and development 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, and a charge of $5.9 million from the impairment of certain purchased intangible assets, partially offset by a reversal of acquisition related reserves of $6.6 million.

(b) Includes the following significant pre-tax items: in-process research and development charges of $27.5 million, integration costs of $5.1 million, loss on redemption of the convertible subordinated notes of $4.1 million, an investment write-down charge of $2.9 million, and a credit of $5.1 million from changes in restructuring estimates.

(c) Includes the following significant pre-tax items: restructuring charges of $14.0 million and gains on the sale of investments of $8.7 million.

(d) Includes the following significant pre-tax items: restructuring charges of $20.2 million, in-process research and development charges of $83.5 million, integration charges of $2.5 million, gains on the retirement of convertible subordinated notes of $62.9 million and an investment write-down charge of $50.5 million.

(e) Includes the following significant pre-tax items: restructuring charges of $12.3 million, in-process research and development charges of $4.2 million, goodwill amortization of $46.6 million and an investment write-down charge of $53.6 million.

Consolidated Balance Sheet Data (in millions)

	As of December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Cash, cash equivalents and short-term investments	$ 1,428.8	$ 1,117.8	$ 581.5	$ 578.5	$ 989.6
Working capital	1,191.1	917.6	425.4	438.9	883.8
Goodwill	4,904.2	4,427.9	983.4	987.7	208.8
Total assets	8,026.6	6,999.7	2,411.1	2,614.7	2,389.6
Total long-term liabilities	499.5	510.8	583.3	942.1	1,150.0
Total stockholders' equity	6,899.7	5,992.7	1,562.4	1,430.5	997.4

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 our 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,' '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 Securities and Exchange Commission ("SEC"), specifically the most recent reports on Form 10-Q. 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, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingencies. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, sales returns, 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, tax, 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.

Overview of the Results of Operations

To aid in understanding our operating results for each of the three years in the period ended December 31, 2005, we believe an overview of the significant events that affected those periods and a discussion of the nature of our operating expenses is helpful.

Significant Events

Business Acquisitions

We completed a total of six acquisitions in the three years ended December 31, 2005. The main purposes of these acquisitions were to expand our product portfolio and customer base. The results of the following acquisitions have been included in our consolidated statements of operations beginning on their respective acquisition dates.

The following is a summary of our acquisitions:

Year Ended December 31, 2005:

- Funk Software, Inc. ("Funk") acquired on December 1, 2005: Developed and sold products designed to protect the integrity of the network by verifying users and devices that meet an organization's security policies before granting network access.

- Acorn Packet Solutions, Inc. ("Acorn") acquired on October 20, 2005: Developed and sold products that enable migration from circuit based networks to more flexible and cost-effective IP networks.

- Peribit Networks, Inc. ("Peribit") acquired on July 1, 2005: Developed and sold products that enhance wide-area network ("WAN") optimization and application delivery.

- Redline Networks, Inc. ("Redline") acquired on May 2, 2005: Developed and sold application front end platforms for enterprise data centers and public web sites.

- Kagoor Networks, Inc. ("Kagoor") acquired on May 1, 2005: Developed and sold session border control products to enhance voice-over-Internet Protocol networking for communication carriers.

Year Ended December 31, 2004:

- NetScreen Technologies, Inc. ("NetScreen") acquired on April 16, 2004: Developed and sold a broad array of integrated network security solutions for enterprises, carriers, and government entities.

Acquisition Related Liabilities

In connection with our acquisitions, we recorded liabilities associated with severance, future lease, and other obligations. The initial liabilities were recorded as part of the acquisitions and did not impact the Statements of Operations. The following is a summary of these liabilities:

- In 2005, we recorded liabilities of $4.5 million for the five acquisitions of that year, primarily related to future lease, severance, and other contractual obligations. As of December 31, 2005, there was $2.6 million remaining to be paid primarily related to future lease, severance, and other contractual obligations.

- At the time of the NetScreen acquisition in 2004, we accrued $21.3 million primarily related to professional services, severance and facility charges. There is approximately $3.1 million remaining to be paid, primarily for facility leases that extend through 2008.

- At the time of the acquisition of Unisphere Networks, Inc. ("Unisphere") in 2002, we accrued $14.8 million primarily related to professional services, severance and facility charges. There is approximately $1.2 million remaining to be paid, primarily for facility leases that extend through March 2011.

Segments

As a result of these six acquisitions, we now offer two categories of products as well as services organized into the following three operating segments:

- Infrastructure: Products consist of the original Juniper Networks router portfolio and Acorn products.

- Service Layer Technologies ("SLT"): Products include the Funk, Peribit, Redline, Kagoor, and NetScreen products.

- Service: Delivers world-wide services to customers of the Infrastructure and SLT segments.

Acceleration of Unvested and "Out-of-the-Money" Employee Stock Options

On December 16, 2005, our Board of Directors approved the acceleration of the vesting of certain unvested and "out-of-the-money" stock options that had an exercise price per share equal to or greater than $22.00, all of which were previously granted under our stock option plans and that were outstanding on December 16, 2005. Options to purchase approximately 21.2 million shares of common stock or 49.3% of our total outstanding unvested options on December 16, 2005 were accelerated. The options accelerated excluded options previously granted to certain employees, including all of our executive officers and our directors.

In addition, the acceleration of the unvested and "out-of-the-money" options was accompanied by restrictions imposed on any shares purchased through the exercise of accelerated options. Those restrictions will prevent the sale of any such shares prior to the date such shares would have originally vested had the optionee been employed on such date, whether or not the optionee is actually an employee at that time.

The purpose of the acceleration was to enable us to avoid recognizing compensation expense associated with these options in future periods in our Statements of Operations pursuant to Financial Accounting Standards Board Statement No. 123R ("SFAS 123R"). Under SFAS 123R, we will apply the expense recognition provisions relating to stock options beginning in the first quarter of fiscal 2006. In approving the acceleration, our Board considered its impact on future financial results, stockholder value and employee retention. We believe that the acceleration of the unvested and "out-of-the-money" options was in the best interest of stockholders as it will reduce our reported compensation expense in future periods in light of these accounting regulations. As a result of the acceleration, we expect to reduce the pre-tax stock option expense we otherwise would have been required to record by approximately $153 million subsequent to the adoption of SFAS 123R beginning in 2006. The acceleration of the vesting of these options did not result in a charge to our results of operations in 2005.

The rules regarding option expensing are relatively recent. It is possible that changes to existing rules, adoption of new rules or the promulgation of rulings or interpretations by the Securities and Exchange Commission or other bodies, could cause the ultimate accounting treatment of our options to vary from our current expectations, and if applied to periods prior to such changes or rulings, could result in changes to historically reported financial information.

Restructuring and Other Related Charges

Restructuring Reserves

We initiated restructuring plans to eliminate certain duplicative activities, focus on strategic product and customer bases, reduce cost structure and better align product and operating expenses with existing general economic conditions. The following is a summary of our restructuring plans charged to operating expenses in the Statements of Operations:

- In 2004, we implemented a restructuring plan at the time of the acquisition of NetScreen. We initially recorded a charge of approximately $0.4 million primarily related to workforce reduction costs, which has been completely paid out as of December 31, 2005.

- In 2003, we implemented a restructuring plan, under which we announced that we would no longer develop our G-series CMTS products and recorded a charge that was comprised of workforce reduction costs, non-inventory asset impairment, costs associated with vacating facilities and terminating contracts and other related costs. We initially recorded a charge of approximately $14.0 million that was comprised of workforce reduction costs, non-inventory asset impairment, vacating facilities costs, the costs associated with termination of contracts and other related costs. As of December 31, 2005, approximately $1.4 million remained unpaid primarily for a facility lease that extends through July 2008.

- In 2002, we implemented a restructuring plan at the time of the Unisphere acquisition. We initially recorded a charge of $14.9 million, of which approximately $0.7 million remained unpaid as of December 31, 2005, primarily for facility leases that extend through April 2009.

During 2005 and 2004, we adjusted our restructuring reserves primarily due to changes in lease and sublease assumptions as our needs changed as a result of our recent acquisitions and as the real estate markets changed.

See Note 5 in Item 8 for a complete description of all restructuring charges and the amounts remained to be paid.

Impairment Charges

We evaluate long-lived assets 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 undiscounted future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment charge to be recognized is measured by the amount by which the carrying amount of the asset exceeds its estimated fair value. We assess the recoverability of our long-lived and intangible assets by determining whether the unamortized balances can be recovered through 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. In December 2005, we recorded an impairment charge of $5.9 million related to certain Kagoor purchased intangibles as a result of a significant reduction in our forecasted revenue associated with Kagoor products.

Debt Retirement

Through December 31, 2004, we paid a total of $937.0 million to retire all of our remaining 4.75% Convertible Subordinated Notes due March 15, 2007 (“Subordinated Notes”). These transactions affected our cash and cash equivalents, investments, interest income and interest expense.

Tax Repatriation

We repatriated $225.0 million under the American Jobs Creation Act (“Jobs Act”) in 2005. We recorded a net tax benefit in 2005 of $19.7 million related to this repatriation dividend. The net tax benefit consists of a federal and state tax provision, net of federal benefit, of $9.7 million, offset by a tax benefit of $29.4 million related to an adjustment of deferred tax liabilities on un-repatriated earnings.

Nature of Expenses

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 2005 and 2004.

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 the standard product costs. The independent contract manufacturers produce our products using design specifications, quality assurance programs and standards that we establish. Controls around manufacturing, engineering and documentation are conducted at our facilities in Sunnyvale, California and Westford, Massachusetts. Our independent contract manufacturers have facilities primarily in Canada, China, Malaysia, and the United States. 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.

Employee related costs have historically been the primary driver of our operating expenses and we expect this trend to continue. Employee related costs include items such as wages, commissions, bonuses, vacation, benefits and travel. We added over 420 and 900 employees in 2005 and 2004, respectively, across all functions as a result of acquisitions. We had 4,145, 2,948, and 1,553 employees as of December 31, 2005, 2004, and 2003, respectively.

Facility and information technology departmental costs are allocated to other departments based on headcount. These departmental costs have increased each of the last two years due to increases in headcount and facility leases resulting from acquisitions and additional infrastructure systems to support our growth. We expect these costs to stabilize in 2006.

Research and development expenses include:

- the costs of developing our products from components to prototypes to finished products,
- outside services for such services as certifications of new products, and
- expenditures associated with equipment used for testing.

Several components of our research and development 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 research and development costs as they are incurred. We plan to increase our investment in research and development during 2006 compared to 2005 to further advance our competitive advantage.

Sales and marketing expenses include costs for promoting our products and services, demonstration equipment and advertisements. These costs vary quarter-to-quarter depending on revenues, product launches and marketing initiatives. We plan to further develop our distribution channel in 2006 in an effort to expand and grow our presence in new markets, serving both private and public networks with a full portfolio of networking products.

General and administrative expenses include professional fees, bad debt provisions and other corporate expenses. Professional fees include legal, audit, tax, accounting and certain corporate strategic services.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions. We base our estimates and assumptions on current facts, historical experience and various other factors 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. The actual results experienced by us may differ materially and adversely from management's estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

- ***Revenue Recognition.*** We recognize revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Evidence of an arrangement generally consists of customer purchase orders and, in certain instances, sales contracts or agreements. Shipping terms and related documents, or written evidence of customer acceptance, when applicable, are used to verify delivery or performance. We assess whether the sales price is fixed or determinable based on payment terms and whether the sales price is subject to refund or adjustment. We assess collectibility based on the creditworthiness of the customer as determined by credit checks and the customer's payment history to us.

  On arrangements where products and services are bundled, we determine whether the deliverables are separable into multiple units of accounting. We allocate the total fee on such arrangements to the individual deliverables either based on their relative fair values or using the residual method, as circumstances dictate. We then recognize revenue on each deliverable in accordance with its policies for product and service revenue recognition. 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 and value-added resellers, 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. For our end-users and value-added resellers, there are no significant obligations for future performance such as rights of return or pricing credits. A portion of our sales are made through distributors under agreements allowing for pricing credits and/or rights of return. We recognize product revenue on sales made through these distributors upon sell-through as reported to us by the distributors. We recognize revenue from service contracts as services are completed or ratably over the period of the obligation.

  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. Additional reductions to revenue would result if actual product returns or pricing adjustments exceed our estimates.

- ***Allowance for Doubtful Accounts.*** We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of any of our customers was to deteriorate, resulting in an impairment of its ability to make payments, additional allowances could be required.

- ***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 reserves for carrying charges and obsolete material charges for excess components purchased based on historical trends. If the actual component usage and product demand are significantly lower than forecast, which may be caused by factors outside of our control, we have contractual liabilities and exposures with the independent contract manufacturers, such as carrying costs and obsolete material exposures, which would have an adverse impact on our gross margins and profitability.

- ***Warranty Reserve.*** 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 establish reserves for estimated product warranty costs at the time revenue is recognized. Although we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, use of materials and technical labor costs and associated overhead incurred in correcting any product failure. Should actual product failure rates, use of materials or service delivery costs differ from our estimates, additional warranty reserves could be required, which could reduce gross margins.

- ***Goodwill and Purchased Intangible Assets.*** Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The amounts and useful lives assigned to other intangible assets impact the amount and timing of future amortization, and the amount assigned to in-process research and development is expensed immediately. 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 decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) significant slowdown in the worldwide economy or the networking industry or (iv) failure to meet the performance projections included in our forecasts of future operating results. We evaluate these assets on an annual basis as of November 1 or more frequently if we believe indicators of impairment exist. In the process of our annual impairment review, we use the income approach methodology of valuation that includes the discounted cash flow method as well as the market approach to determine the fair value of our intangible assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. 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.

- ***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. Deferred tax assets attributable to tax deductions related to stock options are not considered realizable prior to their utilization on tax returns, at which point a current tax savings results and equity is credited for such savings. 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 under SFAS 109, *"Accounting for Income Taxes,"* and record a valuation allowance to reduce our deferred tax assets to the amount that we believe to be more likely than not realizable. We believe it is more likely than not that forecasted income together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be 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 a positive adjustment to earnings or a decrease in goodwill 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 potential liabilities based on our estimate of 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.

- ***Litigation and Settlement Costs.*** 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 we cannot assure you that these actions or other third party claims against us will be resolved without 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 impact gross margins in future periods. If any of those events were to occur, our business, financial condition and results of operations could be materially and adversely affected. We record a charge equal to at least the minimum estimated liability for litigation costs or a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the 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. However the actual liability in any such litigation may be materially different from our estimates, which could result in the need to record additional expenses.

- ***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 regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

Results of Operations

The increases in revenues, cost of expenses, and operating expenses in 2005 compared to 2004 are attributable to, to a certain extent, the inclusion of the results of operations from Funk, Acorn, Peribit, Redline, and Kagoor for part of 2005, and NetScreen for the full year in 2005. Revenues, cost of revenues, and operating expenses were significantly greater during 2004 compared to 2003 due to the NetScreen acquisition.

Net Revenues

The following table shows net revenues and net revenues as a percentage of total net revenues (in millions, except percentages):

	Year Ended December 31,					
	2005		2004		2003	
Product net revenues	$ 1,771.0	86%	$ 1,162.9	87%	$ 602.5	86%
Service net revenues	293.0	14%	173.1	13%	98.9	14%
Total net revenues	$ 2,064.0	100%	$ 1,336.0	100%	$ 701.4	100%

Our total net revenues increased to $2,064.0 million in 2005 and represents a growth of 54% from 2004. Our total net revenues increased to $1,336.0 million in 2004 and represents a growth of 90% from 2003.

Product Net Revenues

The $608.1 million or 52% increase in our net product revenue from 2004 to 2005 was primarily a result of the adoption and expansion of IP networks by our customers in order to reduce total operating costs and to be able to offer multiple services over a single network and as a result of the expansion of our product portfolio through acquisitions and internal development. During 2005, we recognized $32.7 million of product revenue from product shipments made to end-users and value-added resellers that were deferred as of December 31, 2004.

Infrastructure products accounted for $1,367.8 million or 77% of our total product net revenues during 2005. Infrastructure product net revenue grew by 40% from 2004 to 2005, primarily due to the increase in revenues from service providers and enterprises.

SLT products accounted for $403.2 million or 23% of our total product net revenues during 2005. Our SLT product revenue was primarily driven by the increased demand by the enterprise market. Our higher net revenues in 2005 as compared to 2004 primarily due to the revenue growth from Security products. Additionally, the acquisitions made in 2005 enabled us to cross sell infrastructure, security, and application acceleration products to existing customer bases. An analysis of the change in revenue by Infrastructure and SLT segments, and the change in units, can be found below in the section titled "Segment Information."

Net product revenue increased from 2003 to 2004 primarily as a result of the increase in Infrastructure product shipments to meet the customers' capital expenditures demands, and to a lesser extent, due to SLT net revenue related to the NetScreen acquisition.

Service Net Revenues

Net service revenues increased $119.9 million or 69% from 2004 to 2005 primarily due to the growth in support services and, to a lesser degree, the growth in professional services. The growth in the support services was largely due to improved renewal rates and our growing installed base. We recognize revenue from service contracts as the services are completed or ratably over the period of the obligation. A majority of our service revenue is earned from customers who purchase our products and enter into service contracts that are typically for one-year renewable periods.

Net service revenues increased from 2003 to 2004 primarily as a result of the increase in installed base of customers and products.

Total Net Revenues

The following table shows net revenue by geographic region (in millions, except percentages):

	Year Ended December 31,					
	2005		2004		2003	
Americas:						
United States	$ 879.0	43%	$ 561.5	42%	$ 268.2	38%
Other	53.9	2%	47.6	4%	28.0	4%
Total Americas	932.9	45%	609.1	46%	296.2	42%
Europe, Middle East, and Africa (EMEA)	610.1	30%	380.5	28%	186.4	27%
Asia Pacific:						
Japan	204.8	10%	155.7	12%	102.4	15%
Other	316.2	15%	190.7	14%	116.4	16%
Total Asia Pacific	521.0	25%	346.4	26%	218.8	31%
Total	$ 2,064.0	100%	$ 1,336.0	100%	$ 701.4	100%

We continue to experience varying distribution of revenue among our three geographic theaters, and we expect this trend to continue. Net revenue in the United States as a percentage of total net revenue increased in 2005 compared to 2004 primarily due to the growth driven by increased demand within the service provider and enterprise markets. Net revenue in EMEA as a percentage of total net revenue increased in 2005 compared to 2004 primarily due to strength across the region, including Finland, Greece, Italy, Poland, and the United Kingdom. Net revenue in Japan as a percentage of total net revenue decreased in 2005 compared to 2004 primarily due to completion by customers of several network expansion projects and a pause in the build out of their next generation network, or NGN. Net revenue in other Asia Pacific countries as a percentage of total net revenue remained fairly consistent with prior years.

In 2004, net revenue in the Americas region grew as a percentage of total net revenue due to the improvement in customer spending in the United States.

Siemens accounted for greater than 10% of our net product and service revenues for the years ended December 31, 2005, 2004, and 2003. Ericsson accounted for greater than 10% of our net revenues for the year ended December 31, 2003. We expect that our largest customers, as well as key strategic partners, will continue to account for a substantial portion of our net revenue in 2006 and for the foreseeable future.

Cost of Revenues

The following table shows cost of product and service revenues and the related gross margin ("GM") percentages (in millions, except percentages):

	Year Ended December 31,					
	2005	GM%	2004	GM%	2003	GM%
Cost of product revenues	$ 506.1	71%	$ 318.1	73%	$ 200.6	67%
Cost of service revenues	146.8	50%	95.3	45%	56.7	43%
Total cost of revenues	$ 652.9	68%	$ 413.4	69%	$ 257.3	63%

Reclassifications have been made to product costs in 2004 and 2003 to include related stock compensation expense to conform to the current year presentation.

The two percentage points decrease in product gross margins from 2004 to 2005 was primarily due to increasing competition as certain of our products have become more mature in their product cycles. As we have expanded our market share and entered more markets since 2004, we have begun to experience increased price competition. This price competition has been limited to date, as evidenced by our increase in revenue dollars compared to the year-ago period as well as relatively comparable product gross margins from year to year. We expect to see increasing price competition and downward pressure on our product gross margins in the future. Nevertheless, higher product revenue volume contributed to the increased gross margin by $420.1 million, or 50% in 2005 when compared to 2004.

The six percentage points increase in product gross margins from 2003 to 2004 was primarily due to cost-cutting initiatives that resulted in standard costs and manufacturing support costs increasing at a lesser rate than product net revenues in terms of absolute dollars for the same periods. In addition, the standard margins on the original NetScreen products are more favorable than the standard margins on the Infrastructure products and NetScreen's acquisition in 2004 contributed to the increases compared to prior year. The improvement in gross margins was also a result of a $16.0 million reduction in carrying and obsolescence charges from 2003 to 2004 as our historical charges paid to the contract manufacturers decreased. The increase in gross margins was partially offset by acquisition charges related to the NetScreen acquisition, which increased cost of product revenues by $5.5 million, for an inventory fair value adjustment and the amortization of the order backlog intangible asset.

Service gross margins increased five percentage points from 2004 to 2005 and was primarily attributable to a larger revenue increase when compared to the increase in headcount, outside services, and spares purchases, all of which were needed to support the growing installed base. Total employee related expenses as a percentage of service revenue for 2005 decreased to 22% compared to 26% for 2004. Nevertheless, in absolute dollars, total service related costs increased in 2005 compared to 2004: employee related expenses increased $20.2 million, and outside service expenses increased by $17.5 million as a result of increased headcount during 2005. In addition, expense associated with spares increased by $7.1 million.

Service gross margins increased two percentage points from 2003 to 2004 as a result of improved efficiencies and economies of scale that were a direct result of a larger installed base, and thus a more leveraged service organization. This increased leverage was evidenced by the fact that total employee related expenses decreased as a percentage of service revenue: 26% for 2004 and 27% for 2003; however, in absolute dollars, employee related expenses increased $18.5 million from 2003 to 2004. The increases in absolute dollars were due to the NetScreen acquisition. In addition, in absolute dollars, outside services costs increased $9.3 million from 2003 to 2004, primarily due to the NetScreen acquisition. Finally, the costs associated with spare parts decreased as a percent of service revenue from 2003 to 2004 and remained approximately the same in terms of absolute dollars.

Research and Development, Sales and Marketing and General and Administrative Expenses

The following table shows research and development, sales and marketing, and general and administrative expenses amounts and as a percentage of total net revenues (in millions, except percentages):

	Year Ended December 31,					
	2005		2004		2003	
Research and development	$ 355.4	17%	$ 259.9	19%	$ 178.0	25%
Sales and marketing	439.6	21%	320.0	24%	146.0	21%
General and administrative	74.8	4%	55.2	4%	28.4	4%

Reclassifications were made to the 2004 and 2003 amounts to include related stock compensation expense to conform to the current year presentation.

Research and development expenses increased $95.5 million in 2005 compared to 2004, but decreased as a percent of total net revenues. The increase in absolute dollars was primarily due to increases in personnel related expenses of $66.4 million, facility related expenses of $14.1 million, engineering and testing expenses of $12.6 million, equipment related expenses of $8.5 million, and depreciation of $5.1 million. The increases in personnel related expenses in 2005 were primarily due to additional hires in the engineering organization, including those from the five acquisitions. The increase is partially offset by the decrease in stock compensation expense of $11.6 million compared to 2004 as a result of forfeitures of unvested options in 2005. We continue to invest in both stand-alone as well as integrated products in order to satisfy our customer needs. In addition, we invested and expanded on our global research and development efforts, specifically in China and India.

Research and development expenses increased $81.9 million in 2004 compared to 2003, but decreased as a percent of total net revenues. The increase in absolute dollars was primarily due to employee related expenses increasing $42.4 million year-over-year as a result of the NetScreen acquisition. The increase in research and development expenses was also the result of a $6.5 million increase in expensed equipment primarily used in test activities and a $5.6 million increase in prototype expense. The increase in expensed equipment was due to additional research and development requirements resulting from the NetScreen acquisition. Prototype expenses are closely tied to product launches because of the testing and certification needed before a product can be offered to the public, and the amounts reported in a given period can vary depending on the product being developed and the timing of the release. Stock compensation expense increased by $19.6 million due to the additional amortization of stock options assumed from the NetScreen acquisition.

Sales and marketing expenses increased $119.6 million in 2005 compared to 2004 and decreased as a percent of total net revenues. The increase in absolute dollars was primarily due to increases in personnel related expenses of $97.3 million, increases in marketing related activities of $10.9 million, and increases in equipment related expenses of $2.6 million. Personnel related expenses increased in 2005 primarily due to additional hires, including acquisitions, to support the expansion of our distribution channels and customer base, as well as to support the larger portfolio of products. Marketing related activities increased primarily as a result of specific activities designed to expand and improve our distribution channels, introduction of new products, and increase awareness of our existing products to a broader range of customers. The increase was partially offset by a decrease in stock compensation expense of $12.9 million compared to 2004 due primarily to the forfeitures of unvested options in 2005.

Sales and marketing expenses increased $174.0 million in 2004 compared to 2003 and increased as a percent of total net revenues. The increase in absolute dollars was primarily due to employee related expenses increasing $104.7 million year-over-year as a result of the NetScreen acquisition and the increase in revenue. Marketing related expenses increased $22.3 million due to the NetScreen acquisition, the branding of the combined companies and the development of a distribution channel and channel sales. Outside services increased $7.0 million due to professional services related to marketing activities. In addition, demonstration equipment increased $6.4 million due to the NetScreen acquisition and the related purchase of Security demonstration products for our direct sales force and resellers. Demonstration equipment is expensed immediately and is closely tied to product launches. Stock compensation expense increased by $17.5 million due to the additional amortization of stock options assumed from the NetScreen acquisition.

General and administrative expenses increased $19.6 million in 2005 compared to 2004 and remained at 4% of total net revenues. The increase in absolute dollars was driven by increases in personnel related expenses of $10.6 million and a $10.0 million patent related expense. The $10.0 million patent expense pertained to an agreement we entered into with a third-party to avoid future disputes. The increase was partially offset by a decrease in stock compensation expense of $0.9 million compared to 2004 due primarily to the forfeitures of unvested options in 2005.

General and administrative expenses increased $26.8 million in 2004 compared to 2003 and remained at 4% of total net revenues. The increase in absolute dollars was driven by a $13.6 million increase in professional services and a $9.3 million increase in employee related expenses. Stock compensation expense increased by $2.0 million due to the additional amortization of stock options assumed from the NetScreen acquisition.

Other Operating Expenses

The following table shows other operating expenses (in millions):

	Year Ended December 31,		
	2005	2004	2003
Amortization of purchased intangible assets	$ 85.2	$ 56.8	$ 20.7
In-process research and development	11.0	27.5	—
Restructuring, impairments, and special charges, net	(0.6)	(5.1)	14.0
Integration costs	—	5.1	—

Amortization of Purchased Intangibles

The amortization expense of intangible assets increased $28.4 million in 2005 compared to 2004 primarily due to the additional intangible assets from the five acquisitions completed in 2005. In addition, we recognized less than a full year of amortization expense for the intangible assets associated with the NetScreen acquisition in 2004.

The amortization expense of intangible assets increased $36.1 million in 2004 compared to 2003 due to the intangible assets purchased in the NetScreen acquisition.

See Note 3 in Item 8 for more information on our purchased intangible assets.

In-Process Research and Development

In 2005, a total of $11.0 million was charged to IPR&D expense in connection with three of our five acquisitions during the year. Of the total Funk purchase price, $5.3 million was allocated to in-process research and development ("IPR&D"). Of the total Peribit purchase price, $3.8 million was allocated to IPR&D. Of the total Kagoor purchase price, $1.9 million was allocated to IPR&D. None of the Acorn or Redline purchase prices were allocated to IPR&D. In 2004, $27.5 million was allocated to IPR&D from the NetScreen acquisition and was expensed during the year.

Projects that qualify as IPR&D represent those that have not yet reached technological feasibility and which have no alternative future use. Technological feasibility is defined as being equivalent to a beta-phase working prototype in which there is no remaining risk relating to the development. At the time of acquisition, Funk, Peribit, Kagoor, and NetScreen had multiple IPR& D efforts under way for certain current and future product lines.

For Funk, these efforts included development of new versions for the Steel-Belted Radius ("SBR"), SBR High Availability ("HA"), and Mobile IP Module ("MIM") II products — all related to the Radius product offering. IPR&D as of the acquisition date also included development of new versions for Endpoint Assurance, Proxy (Remote Control), and Odyssey product families. At the time of the Funk acquisition, it was estimated that these development efforts will be completed over the next four months at an estimated cost of approximately $0.9 million.

For Peribit, these efforts included the development of next versions of software for the Sequence Reducer ("SR") family, Sequence Mirror ("SM") family, the Central Management System ("CMS") products, as well as a hardware program for both the SR and SM families. At the time of the Peribit acquisition, it was estimated that these development efforts would be completed over the next twelve months at an estimated cost of approximately $2.3 million.

For Kagoor, these efforts included a variety of signaling protocols and next generation products and operating systems. At the time of the Kagoor acquisition, it was estimated that these development efforts would be completed over the next eight months at an estimated cost of approximately $0.8 million.

As of December 31, 2005, the estimated costs to complete the above research and development efforts were approximately $2.0 million.

For NetScreen, these efforts included integrating secure routers with embedded encryption chips, as well as other functions and features such as next generation Internet Protocol ("IP"), wireless and digital subscriber line connectivity and voice over IP capability. We utilized the discounted cash flow ("DCF") method to value the IPR&D, using rates ranging from 20% to 25%, depending on the estimated useful life of the technology. In applying the DCF method, the value of the acquired technology was estimated by discounting to present value the free cash flows expected to be generated by the products with which the technology is associated, over the remaining economic life of the technology. To distinguish between the cash flows attributable to the underlying technology and the cash flows attributable to other assets available for generating product revenues, adjustments were made to provide for a fair return to fixed assets, working capital, and other assets that provide value to the product lines. At the time of the NetScreen acquisition, it was estimated that these development efforts would be completed over the next eighteen months at an estimated cost of approximately $25 million. As of December 31, 2005, there was no remaining costs associated with these research and development efforts

Restructuring, Impairments, and Special Charges

We implemented several restructuring plans from 2002 to 2004 as a result of product discontinuation and the acquisitions of Unisphere and NetScreen. Restructuring, impairments, and special charges in 2005 included adjustments of $6.6 million primarily related to our restructuring accruals when we re-occupied a portion of the former NetScreen facility previously included in the acquisition related reserve. The credit was partially offset by a $5.9 million charge associated with the impairment of our purchased intangible assets related to Kagoor.

Integration Costs

We incurred immaterial integration expenses for the five 2005 acquisitions and approximately $5.1 million for the NetScreen acquisition in 2004. Integration expenses are incremental costs directly related to the integration of the two companies. The integration expenses consisted principally of facility related expenses, workforce related expenses and professional fees. We estimate that the majority of the integration costs related to our 2005 and 2004 acquisitions have been incurred and that there will be an immaterial amount of additional integration costs for these acquisitions in the foreseeable future.

Other Income and Expenses

The following table shows other income and expenses (in millions):

	Year Ended December 31,		
	2005	2004	2003
Interest and other income	$ 59.1	$ 28.2	$ 33.4
Interest and other expense	(3.9)	(5.4)	(39.1)
Write-down of equity investments	(0.4)	(2.9)	—
Loss on redemption of convertible subordinated notes	—	(4.1)	(1.1)
Gain on sale of equity or available-for-sale investments	1.7	—	8.7

Interest and other income increased $30.9 million from 2004 to 2005 as a result of higher cash, cash equivalents and investment balances, and an increase in rates of return realized from our investments.

Interest and other income decreased $5.2 million from 2003 to 2004. The decreases were the result of lower rates of return realized from our investments and less realized gains.

Interest and other expenses decreased $1.5 million from 2004 to 2005 primarily due to the retirement of the subordinated notes during 2004, resulting in savings of $2.5 million, which was partially offset by foreign exchange related losses from balance sheet revaluation and bank fees.

Interest expense decreased $33.7 million from 2003 to 2004, almost entirely due to interest saved from the retirement of our Subordinated Notes.

We have certain minority equity investments in privately held companies that are carried at cost, adjusted for any impairment, as we do not have a controlling interest and do not have the ability to exercise significant influence over these companies. We wrote-down these investments by $0.4 million and $2.9 million in 2005 and 2004, respectively, for changes in market value that we believed were other than temporary.

In 2005, we recorded a gain of $1.7 million in connection with a business combination transaction of a privately held company in our investment portfolio. Our cost basis of this equity investment was $1.0 million.

During 2003, we sold some of our marketable equity securities classified as available-for-sale, which had a cost basis of $4.3 million, and recognized gains of $8.7 million.

We spent $145.0 million, and $792.0 million during 2004 and 2003, respectively, to retire our Subordinated Notes. We recognized net losses of $4.1 million and $1.1 million during 2004 and 2003, respectively. The losses were a result of the difference between the carrying value of the Subordinated Notes at the time of their retirement, including unamortized debt costs, and the amount paid to extinguish such notes.

Provision for Income Taxes

Provision for income taxes increased to $148.2 million in 2005 from $83.3 million in 2004. The 2005 effective rate was 29.5% and differs from the federal statutory rate of 35% due primarily to the benefit of tax credits and a reduction in deferred tax liabilities related to the repatriation dividend under the American Jobs Creation Act of 2004. We repatriated $225.0 million in 2005. We recorded a net tax benefit in 2005 of $19.7 million related to this repatriation dividend. The net tax benefit consists of a federal and state tax provision, net of federal benefit, of $9.7 million, offset by a tax benefit of $29.4 million related to an adjustment of deferred tax liabilities on un-repatriated earnings.

Provision for income taxes increased to $83.3 million in 2004 from $19.8 million in 2003. The 2004 effective rate was 38% and reflects taxes payable in certain foreign jurisdictions, the benefit of tax credits and the inability to benefit certain charges and losses.

Segment Information

A description of the products and services for each segment can be found in Note 12 to the Consolidated Financial Statements. We began to track financial information by our three operating segments during 2005 as our management structure and responsibilities began to measure the business based on management operating income. We have included segment financial data for each of the three years in the period ended December 31, 2005 for comparative purposes.

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

	Year Ended December 31,		
	2005	2004	2003
Net Revenues:			
Infrastructure	$ 1,367.8	$ 975.7	$ 602.5
Service Layer Technologies	403.2	187.2	—
Service	293.0	173.1	98.9
Total net revenues	$ 2,064.0	$ 1,336.0	$ 701.4
Operating Income:			
Management operating income:			
Infrastructure	$ 483.2	$ 297.9	$ 76.1
Service Layer Technologies	13.4	1.0	—
Service	72.3	32.6	17.6
Total management operating income	568.9	331.5	93.7
Amortization of purchased intangible assets	(85.2)	(56.8)	(20.7)
Stock-based compensation expense related to acquisitions	(17.6)	(44.0)	(2.0)
IPR&D	(11.0)	(27.5)	—
Restructuring, impairments, and special charges, net	0.6	5.1	(14.0)
Patent expense	(10.0)	—	—
Integration costs	—	(5.1)	—
Total operating income	$ 445.7	$ 203.2	$ 57.0

Infrastructure Operating Segment

Infrastructure segment net revenues increased from 2004 to 2005 and from 2003 to 2004 due to the adoption and expansion of IP networks by our customers in order to reduce total operating costs and to be able to offer multiple services over a single network. The following table shows infrastructure revenue units recognized and ports shipped:

	Years Ended December 31,		
	2005	2004	2003
Infrastructure chassis revenue units	9,828	7,102	4,785
Infrastructure ports shipped	153,763	114,543	73,471

We track infrastructure revenue units recognized and ports shipped to analyze customer trends and indicate areas of potential network growth. Our infrastructure product platforms are essentially modular, with the chassis serving as the base of the platform. Each 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 router 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.

Management operating income increased from 2004 to 2005 and from 2003 to 2004 primarily due to increases in revenue as evident by the increase in chassis revenue units. The increase was partially offset by higher personnel related costs primarily related to support product innovation and the expansion of our sales channels.

Service Layer Technologies Operating Segment

SLT segment net revenues increased from 2004 to 2005 and from 2003 to 2004 primarily due to the NetScreen acquisition in 2004, and to a lesser extent, the Funk, Peribit, Redline, and Kagoor acquisitions and increases in the sales of firewall products in 2005.

Management operating income increased from 2004 to 2005 and from 2003 to 2004 primarily due to increases in net revenue, partially offset by increased expenses primarily related to product innovation and the expansion of our sales channels. Additionally, the purchase accounting adjustments related to the NetScreen acquisition negatively impacted the revenue and management operating results in 2004.

Service Operating Segment

Net service revenues increased in 2005 compared to 2004 primarily due to the growth in support services and, to a lesser degree, the growth in professional services. The growth in the support services was largely due to improved renewal rates and our growing installed base. Service management operating income increased as a result of the revenue growth experienced in the Infrastructure segment and the SLT segment, partially offset by increases in operating costs, primarily due to personnel related costs. However, in absolute dollars, employee related expenses increased as a result of increased headcount. Expenses associated with spares also increased as a result of revenue growth.

Liquidity and Capital Resources

Overview

We have funded our business by issuing securities and through our operating activities. The following table shows our capital resources (in millions):

	As of December 31, 2005	As of December 31, 2004
Cash and cash equivalents	$ 918.4	$ 713.2
Short-term investments	510.4	404.7
Long-term investments	618.3	595.2
Restricted cash	66.1	31.2
Working capital	1,191.1	917.6

Working capital increased $273.5 million from 2004 to 2005 due to cash provided by operations of $642.9 million, partially offset by net cash used in investing activities. 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.

Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures, commitments and other liquidity requirements associated with our existing operations through at least the next 12 months. In addition, there are no transactions, arrangements, and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources.

Cash Requirements and Contractual Obligations

The following table summarizes our principal contractual obligations at December 31, 2005 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in millions):

	Total	Less Than 1 Year	1 — 3 Years	3 — 5 Years	More than 5 Years
Operating leases, net of committed subleases (a)	$ 191.6	$ 37.7	$ 61.4	$ 45.1	$ 47.4
Senior Notes (b)	400.0	—	400.0	—	—
Purchase commitments (c)	78.1	78.1	—	—	—
Other contractual obligations (d)	41.9	26.6	15.3	—	—
Total	$ 711.6	$ 142.4	$ 476.7	$ 45.1	$ 47.4

(a) We occupy approximately 1.4 million square feet world wide 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 May 2014.

(b) Our principal commitment as of December 31, 2005 was our outstanding Zero Coupon Convertible Senior Notes due June 15, 2008 ("Senior Notes"). The Senior Notes were issued in June 2003 and are senior unsecured obligations, rank on parity in right of payment with all of our existing and future senior unsecured debt, and rank senior to all of our existing and future debt that expressly provides that it is subordinated to the notes. The Senior Notes bear no interest, but are convertible into shares of our common stock, subject to certain conditions, at any time prior to maturity or their prior repurchase by Juniper Networks. The conversion rate is 49.6512 shares per each $1,000 principal amount of convertible notes, subject to adjustment in certain circumstances. The carrying value of the Senior Notes as of December 31, 2005 was $400.0 million.

(c) We do not have firm purchase commitments with our contract manufacturers. In order to reduce manufacturing lead times and ensure adequate component supply, the contract manufacturers place non-cancelable, non-returnable ("NCNR") orders, which were valued at $78.1 million as of December 31, 2005, based on our build forecasts. We do not take ownership of the components and the NCNR orders do not represent firm purchase commitments pursuant to our agreements with the contract manufacturers. The components are used by the contract manufacturers to build products based on purchase orders we have received from our customers. We do not incur a liability for products built by the contract manufacturer until it fulfills our customer's order and the order ships. However, if the components go unused, we may be assessed carrying charges or obsolete charges. As of December 31, 2005, we had accrued $21.6 million based on our estimate of such charges.

(d) Other Contractual obligations consist of the following:

- Escrow amount of $12.2 million related to the Funk acquisition for indemnity obligations. One-half of the indemnity obligations will expire in January 2007 and the remaining one-half will expire in June 2007. Also included is a contingent bonus payable, based on certain milestones, of $5 million, which will be earned over a period of one year.

- Escrow amount of $1.5 million related to the Acorn acquisition for indemnity obligations. The indemnity obligations will expire in May 2007. Also included is a contingent earn-out payable to former Acorn stockholders, based on certain milestones, of up to $2.2 million, and bonus payable to employees related to continued employment of up to $1.0 million. Earn-out and bonuses will be earned over a period of two years.

- Escrow amount related to the Redline and Kagoor acquisitions of $13.2 million and $6.8 million, respectively, for indemnity obligations. The indemnity obligations will expire in May 2006.

In connection with the Peribit acquisition, 1.6 million shares of our common stock, with a fair value of $35.2 million as of acquisition date, have been held in escrow for indemnity obligations. We did not include this obligation in the above table since it is a non-cash item. One-half of the indemnity obligations will expire in July 2006 and the remaining one-half will expire in January 2007.

Operating Activities

Net cash provided by operating activities was $642.9 million, $439.4 million, and $178.6 million for the years ended December 31, 2005, 2004 and 2003, respectively. The cash provided by operating activities for each period was due to our net income adjusted by:

- Non-cash charges of $304.0 million, $246.5 million, and $76.8 million for 2005, 2004 and 2003, respectively, primarily for depreciation and amortization expenses, stock-based compensation, tax benefit of employee stock option plans, in-process research and development from acquisitions, debt issuance costs, loss on disposal of property and equipment, restructuring expense, and impairment charges associated with Kagoor's purchased intangible assets. Non-cash charges in 2005 also included a benefit from the reversal of NetScreen's acquisition related liabilities and a loss due to the impairment of an equity investment, partially offset by gains associated with available-for-sale investments. In 2004, non-cash charges also included a loss from the redemption of the Subordinated Notes and a loss due to the write-down of equity investments. In 2003, non-cash charges also included a loss from the redemption of the Subordinated Notes, offset by a gain from the sale of equity investment.

- Changes in operating assets and liabilities of $(15.1) million, $57.2 million, and $62.5 million for 2005, 2004 and 2003, respectively, were in the normal course of business. Net cash used during the twelve months ended December 31, 2005 was primarily attributable to increases in net accounts receivable of $68.0 million, prepaid expenses, other current assets, and other long-term assets of $26.2 million, decreases in accrued warranty of $3.7 million, and decreases in other accrued liabilities of $42.6 million, partially offset by increases in deferred revenue of $64.3 million, accounts payable of $50.3 million, and accrued compensation of $10.9 million. Net cash provided during the twelve months ended December 31, 2004 was primarily attributable to increases in deferred revenue of $93.6 million, accrued compensation of $40.3 million, other accrued liabilities of $27.9 million, accounts payable of $29.4 million, and accrued warranty of $3.6 million, partially offset by increases in net accounts receivable of $81.4 million, and prepaid expenses, other current assets, and other long-term assets of $56.3 million. Net cash used during the twelve months ended December 31, 2003 was primarily attributable to increases in deferred revenue of $29.2 million, accrued compensation of $17.5 million, accounts payable of $13.0 million, accrued warranty of $3.0 million, and other accrued liabilities of $2.5 million, partially offset by decreases in prepaid expenses, other current assets, and other long-term assets of $3.1 million. Deferred revenue increased during the twelve months ended December 31, 2005 primarily due to increases in deferred service revenue as a result of the growth in the Service business, partially offset by revenue recognized from deferred product revenue. Deferred revenue increased during the twelve months ended December 31, 2004 primarily due to increases in deferred product revenue, and to a lesser degree, increases in deferred service revenue.

Investing Activities

Net cash used in investing activities was $583.7 million for the year ended December 31, 2005. Net cash used in investing activities was $58.5 million for the year ended December 31, 2004. Net cash provided by investing activities was $300.1 million for the year ended December 31, 2003. Investing activities included capital expenditures and the purchases and sale or maturities of available-for-sale securities, the purchase and sale of equity investments, and the acquisitions of businesses. Capital expenditures increased from 2004 to 2005 mainly due to new product developments and overseas expansions, and business acquisitions. Capital expenditures increased from 2003 to 2004 due to our business growth. Other investing activities include:

- $309.9 million of cash used in the acquisitions of Funk, Acorn, Peribit, Redline, and Kagoor during 2005, $34.8 million of restricted cash funded to escrow accounts in relation to the Funk, Acorn, Redline, and Kagoor acquisitions, and $9.8 million of investment in a private equity company during 2005;

- $40.9 million of cash and cash equivalents acquired in connection with the NetScreen acquisition during 2004, and;

- $30.8 million of restricted cash funded during 2003 to establish a trust to secure our indemnification obligations to certain directors and officers.

Financing Activities

Net cash provided in financing activities was $146.0 million for the year ended December 31, 2005. Net cash used in financing activities was $33.4 million and $307.5 million for the years ended December 31, 2004 and 2003, respectively. Cash was provided during all periods from the issuance of common stock related to employee option exercises and stock purchase plans. We spent $145.0 million, and $792.0 million during 2004 and 2003, respectively, to retire our Subordinated Notes. We spent $63.6 million during 2004 to retire 2.9 million shares of our common stock. During 2003, we received net proceeds of $392.8 million from the issuance of the Senior Notes. In January and February of 2006, we repurchased 10,071,000 shares of common stock at an average price of $18.51 per share as part of our Common Stock Repurchase Program. The repurchase did not have a material impact on our liquidity.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment,* which is a revision of FASB Statement No. 123 ("SFAS 123"), *Accounting for Stock Issued to Employees.* SFAS 123R supersedes APB Opinion No. 25 ("APB 25"), *Accounting for Stock Issued to Employees,* and amends FASB Statement No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. We adopted SFAS 123R on January 1, 2006.

SFAS 123R permits public companies to adopt its requirements using one of two methods: modified prospective method or modified retrospective method. We plan to adopt SFAS 123R using the modified prospective method, in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. We will recognize in our results of operations the compensation cost for stock-based awards issued after December 31, 2005 on a straight-line basis over the requisite service period for the entire award. For stock-based awards issued prior to January 1, 2006, we amortize the related compensation costs using the graded-vesting method.

As permitted by SFAS 123, we currently account for share-based payments to employees using APB 25 intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. The adoption of the SFAS 123R fair value method will have a significant adverse impact on our reported results of operations because the stock-based compensation expense will be charged directly against our reported earnings. The pre-tax balance of unearned stock-based compensation to be expensed in the period 2006 through 2010 related to share-based awards unvested as of December 31, 2005, as previously calculated under the disclosure-only requirements of SFAS 123, was approximately $98 million. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase, or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or assume unvested securities in connection with any acquisitions, our stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. We anticipate we will grant additional employee stock options and restricted stock units in 2006. The fair value of these grants is not included in the amount above, as the impact of these grants cannot be predicted at this time because it depends on the number of share-based payments granted and the then current fair values.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current standard. This requirement will likely reduce net operating cash flow and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future as they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized in prior periods for such excess tax deductions were $129.5 million, $66.0 million, and $10.8 million in 2005, 2004, and 2003, respectively.

In November 2005, the FASB issued FSP FAS 123R-3, *Transition Election and Accounting for Tax Effects.* The guidance provides a simplified method to calculate the Additional Paid-In Capital (APIC) pool for the beginning balance of excess tax benefits and the method of determining the subsequent impact on the pool of option awards that are outstanding and fully or partially vested upon the adoption of SFAS No. 123R, *Share-Based Payment,* beginning on January 1, 2006. In addition, this FSP addresses that when the alternative APIC pool calculation is used, tax benefits related to certain employee awards should be included as a cash flow from financing activities and a cash outflow from operating activities within the statements of cash flows. The FSP allows companies up to one year from the later of the adoption date of SFAS 123R or November 10, 2005 to evaluate the available transition alternatives and make a one-time election. We are in the process of evaluating the impact of the new method provided by this guidance.

ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

We maintain an investment portfolio of various holdings, types and maturities. These securities are generally classified as available-for-sale and, consequently, are recorded on the 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, declines in interest rates could have a material impact on interest earnings of our investment portfolio. We do not currently hedge these interest rate exposures.

The following table presents hypothetical changes in fair value of the financial instruments held at December 31, 2005 that are sensitive to changes in interest rates (in millions):

	Valuation of Securities Given an Interest Rate Decrease of X Basis Points (BPS)			Fair Value as of	Valuation of Securities Given an Interest Rate Increase of X BPS		
	(150 BPS)	(100 BPS)	(50 BPS)	December 31, 2005	50 BPS	100 BPS	150 BPS
Government treasury and agencies	$ 304.7	$ 302.9	$ 301.1	$ 299.3	$ 297.6	$ 295.8	$ 294.0
Corporate bonds and notes	646.4	643.2	640.2	637.1	633.9	630.8	627.7
Asset backed securities and other	372.8	372.2	371.5	370.9	370.2	369.6	368.9
Total	$ 1,323.9	$ 1,318.3	$ 1,312.8	$ 1,307.3	$ 1,301.7	$ 1,296.2	$ 1,290.6

The following table presents hypothetical changes in fair value of the financial instruments held at December 31, 2004 that are sensitive to changes in interest rates (in millions):

	Valuation of Securities Given an Interest Rate Decrease of X Basis Points (BPS)			Fair Value as of	Valuation of Securities Given an Interest Rate Increase of X BPS		
	(150 BPS)	(100 BPS)	(50 BPS)	December 31, 2004	50 BPS	100 BPS	150 BPS
Government treasury and agencies	$ 247.0	$ 245.6	$ 244.3	$ 242.9	$ 241.6	$ 240.2	$ 238.9
Corporate bonds and notes	538.7	535.5	532.3	529.1	525.8	522.6	519.4
Asset backed securities and other	354.2	353.8	353.4	353.0	352.6	352.2	351.8
Total	$ 1,139.9	$ 1,134.9	$ 1,130.0	$ 1,125.0	$ 1,120.0	$ 1,115.0	$ 1,110.1

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

It is our policy to use derivatives to partially offset our market exposure to fluctuations in foreign currencies. We do not enter into derivatives for speculative or trading purposes.

We uses foreign currency forward contracts to mitigate transaction gains and losses generated by certain foreign currency denominated monetary assets and liabilities. These derivatives are carried at fair value with changes recorded in other income (expense). Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. These foreign exchange contracts have maturities between one and two months.

Periodically, we use foreign currency forward and/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, and upon occurrence of the forecasted transaction, is subsequently reclassified into the consolidated statements of operations line item to which the hedged transaction relates. We record any ineffectiveness of the hedging instruments, which was immaterial during the years ended December 31, 2005, 2004, and 2003, in other income (expense) in our results of operations.

ITEM 8. Consolidated Financial Statements and Supplementary Data

Management’s Annual Report on Internal Control Over Financial Reporting

Juniper Networks Inc.’s management is responsible for establishing and maintaining adequate internal control over the company’s financial reporting. We assessed the effectiveness of the company’s internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on our assessment using those criteria, we concluded that, as of December 31, 2005, Juniper Networks Inc.’s internal control over financial reporting was effective.

Juniper Networks Inc.’s independent registered public accounting firm, Ernst & Young LLP, audited the financial statements included in this Annual Report on Form 10-K and have issued an audit report on management’s assessment of the company’s internal control over financial reporting. This report appears on page 44 of this Annual Report on Form 10-K.

Please note that there are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further because of changes in conditions, the effectiveness of internal control may vary over time.

Sunnyvale, California
March 3, 2006

Index to Consolidated Financial Statements

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, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, 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, present 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), the effectiveness of Juniper Networks, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
March 3, 2006

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Juniper Networks, Inc. maintained effective internal control over financial reporting as of December 31, 2005, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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, management's assessment that Juniper Networks, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Juniper Networks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2005 consolidated financial statements of Juniper Networks, Inc. and our report dated March 3, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
March 3, 2006

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

	Year Ended December 31,		
	2005	2004	2003
Net revenues:			
Product	$ 1,770,988	$ 1,162,928	$ 602,455
Service	292,969	173,091	98,938
Total net revenues	2,063,957	1,336,019	701,393
Cost of revenues:			
Product(1)	506,112	318,149	200,588
Service(1)	146,754	95,275	56,728
Total cost of revenues	652,866	413,424	257,316
Gross margin	1,411,091	922,595	444,077
Operating expenses:			
Research and development(1)	355,417	259,856	178,029
Sales and marketing(1)	439,596	320,030	145,989
General and administrative(1)	74,756	55,188	28,402
Amortization of purchased intangibles	85,174	56,782	20,661
In-process research and development	11,000	27,500	—
Restructuring, impairments, and special charges, net	(582)	(5,058)	13,985
Integration costs	—	5,087	—
Total operating expenses	965,361	719,385	387,066
Operating income	445,730	203,210	57,011
Interest and other income	59,144	28,233	33,428
Interest and other expense	(3,925)	(5,379)	(39,099)
Write-down of equity investments	(448)	(2,939)	—
Loss on redemption of convertible subordinated notes	—	(4,107)	(1,085)
Gain on sale of equity or available-for-sale investments	1,698	—	8,739
Income before income taxes	502,199	219,018	58,994
Provision for income taxes	148,170	83,272	19,795
Net income	$ 354,029	$ 135,746	$ 39,199
Net income per share:			
Basic	$ 0.64	$ 0.28	$ 0.10
Diluted	$ 0.59	$ 0.25	$ 0.09
Shares used in computing net income per share:			
Basic	554,223	493,073	382,180
Diluted	598,907	542,625	413,821
(1) Amortization (benefit) of deferred stock compensation included in the following cost and expense categories by period:			
Cost of revenues — Product	$ 848	$ 533	$ (33)
Cost of revenues — Service	1,118	2,317	—
Research and development	9,894	21,493	1,925
Sales and marketing	4,761	17,685	205
General and administrative	1,016	1,927	(60)
Total	$ 17,637	$ 43,955	$ 2,037

See accompanying Notes to Consolidated Financial Statements

Juniper Networks, Inc.
Consolidated Balance Sheets
(in thousands, except share data and par values)

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 918,401	$ 713,182
Short-term investments	510,364	404,659
Accounts receivable, net of allowances for doubtful account of $7,730 for 2005 and $10,184 for 2004	268,907	187,306
Deferred tax assets	74,108	66,010
Prepaid expenses and other current assets	46,676	42,576
Total current assets	1,818,456	1,413,733
Property and equipment, net	319,885	275,612
Investments	618,342	595,234
Restricted cash	66,074	31,226
Goodwill	4,904,239	4,427,930
Purchased intangible assets, net	269,921	241,879
Other long-term assets	29,682	14,100
Total assets	$ 8,026,599	$ 6,999,714
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 165,172	$ 113,890
Accrued compensation	97,738	82,946
Accrued warranty	28,187	32,254
Deferred revenue	213,482	159,750
Income taxes payable	56,360	29,794
Other accrued liabilities	66,461	77,536
Total current liabilities	627,400	496,170
Deferred revenue	39,330	22,700
Other long-term liabilities	60,200	88,107
Long-term debt	399,959	400,000
Commitments and contingencies		
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; 568,243 and 540,526 shares issued and outstanding at December 31, 2005 and 2004, respectively	6	5
Additional paid-in capital	6,431,954	5,888,215
Deferred stock compensation	(15,582)	(32,394)
Accumulated other comprehensive loss	(8,324)	(716)
Retained earnings	491,656	137,627
Total stockholders' equity	6,899,710	5,992,737
Total liabilities and stockholders' equity	$ 8,026,599	$ 6,999,714

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2005	2004	2003
OPERATING ACTIVITIES:			
Net income	$ 354,029	$ 135,746	$ 39,199
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	138,904	97,625	64,387
Stock-based compensation	17,637	43,955	2,037
Non-cash portion of debt issuance costs and disposal of property and equipment	1,735	4,094	3,616
Restructuring, impairments, and special charges	5,620	321	3,621
In-process research and development	11,000	27,500	—
(Gain) loss on sale or write-down of investments	(364)	2,939	(8,739)
Loss on redemption of convertible subordinated notes	—	4,107	1,085
Tax benefit of employee stock option plans	129,492	65,988	10,813
Changes in operating assets and liabilities:			
Accounts receivable, net	(68,053)	(81,398)	537
Prepaid expenses, other current assets and other long-term assets	(26,201)	(56,253)	(3,092)
Accounts payable	50,310	29,390	12,963
Accrued compensation	10,901	40,296	17,528
Accrued warranty	(3,723)	3,597	2,966
Other accrued liabilities	(42,624)	27,893	2,467
Deferred revenue	64,280	93,648	29,166
Net cash provided by operating activities	642,943	439,448	178,554
INVESTING ACTIVITIES:			
Purchases of property and equipment	(98,192)	(63,185)	(19,388)
Purchases of available -for-sale investments	(936,031)	(739,437)	(734,679)
Maturities and sales of available-for-sale investments	805,047	704,740	1,085,929
Increase in restricted cash	(34,848)	(249)	(30,837)
Minority equity investments	(9,823)	(1,225)	(900)
Acquisition of businesses, net of cash and cash equivalents acquired	(309,889)	40,889	—
Net cash (used in) provided by investing activities	(583,736)	(58,467)	300,125
FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	146,029	175,172	91,755
Redemption of convertible subordinated notes	—	(144,967)	(792,013)
Retirement of common stock	(17)	(63,610)	—
Proceeds from issuance of convertible senior notes	—	—	392,750
Net cash provided by (used in) financing activities	146,012	(33,405)	(307,508)
Net increase in cash and cash equivalents	205,219	347,576	171,171
Cash and cash equivalents at beginning of period	713,182	365,606	194,435
Cash and cash equivalents at end of period	$ 918,401	$ 713,182	$ 365,606
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ —	$ 4,424	$ 45,864
Cash paid for taxes	27,764	7,340	3,156
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Common stock issued in connection with business combinations	$ 221,221	$ 3,651,226	$ —
Stock options assumed in connection with business combinations	65,185	520,503	—
Deferred stock compensation	19,035	93,558	—
Common stock issued in connection with the retirement of convertible subordinated notes	—	—	2
Common stock issued in connection with conversion of the Zero Coupon Convertible Senior Notes	41	—	—

See accompanying Notes to Consolidated Financial Statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2002	374,331	$ 4	$ 1,461,906	$ (11,113)	$ 17,052	$ (37,318)	$ 1,430,531
Issuance of common stock in connection with the Employee Stock Purchase Program	1,475	—	9,946	—	—	—	9,946
Issuance of common stock in connection with retirement of the 4.75% Convertible Subordinated Notes	—	—	2	—	—	—	2
Exercise of stock options by employees, net of repurchases	14,466	—	81,809	—	—	—	81,809
Compensation charge in connection with the restructuring activity	—	—	744	—	—	—	744
Amortization of deferred stock compensation, net of effect of former employees	—	—	(7,848)	9,885	—	—	2,037
Tax benefit from employee stock option plans	—	—	10,813	—	—	—	10,813
Other comprehensive income:							
Change in unrealized gain on available-for-sale securities	—	—	—	—	(14,986)	—	(14,986)
Foreign currency translation gains, net	—	—	—	—	2,348	—	2,348
Net income	—	—	—	—	—	39,199	39,199
Comprehensive income	—	—	—	—	—	—	26,561
Balance at December 31, 2003	390,272	4	1,557,372	(1,228)	4,414	1,881	1,562,443
Issuance of common stock in connection with the Employee Stock Purchase Program	769	—	11,791	—	—	—	11,791
Exercise of stock options by employees, net of repurchases	20,236	—	163,381	—	—	—	163,381
Issuance of common stock in connection with the acquisition of NetScreen	132,118	1	4,171,730	(93,558)	—	—	4,078,173
Retirement of common stock	(2,869)	—	(63,610)	—	—	—	(63,610)
Amortization of deferred stock compensation, net of effect of former employees	—	—	(18,437)	62,392	—	—	43,955
Tax benefit from employee stock option plans	—	—	65,988	—	—	—	65,988
Other comprehensive income:							
Change in unrealized gain on available-for-sale securities	—	—	—	—	(7,335)	—	(7,335)
Foreign currency translation gains, net	—	—	—	—	2,205	—	2,205
Net income	—	—	—	—	—	135,746	135,746
Comprehensive income	—	—	—	—	—	—	130,616
Balance at December 31, 2004	540,526	5	5,888,215	(32,394)	(716)	137,627	5,992,737
Issuance of common stock in connection with the Employee Stock Purchase Program	912	—	18,262	—	—	—	18,262
Exercise of stock options by employees, net of repurchases	15,466	1	127,765	—	—	—	127,766
Issuance of common stock in connection with business acquisitions	11,345	—	286,406	(19,035)	—	—	267,371
Issuance of common stock in connection with conversion of the Zero Coupon Convertible Senior Notes	2	—	41	—	—	—	41
Retirement of common stock	(8)	—	(17)	—	—	—	(17)
Amortization of deferred stock compensation, net of effect of former employees	—	—	(18,210)	35,847	—	—	17,637
Tax benefit from employee stock option plans	—	—	129,492	—	—	—	129,492
Other comprehensive income:							
Change in unrealized loss on available-for-sale securities	—	—	—	—	(3,983)	—	(3,983)
Foreign currency translation losses, net	—	—	—	—	(3,625)	—	(3,625)
Net income	—	—	—	—	—	354,029	354,029
Comprehensive income	—	—	—	—	—	—	346,421
Balance at December 31, 2005	568,243	$ 6	$ 6,431,954	$ (15,582)	$ (8,324)	$ 491,656	$ 6,899,710

See accompanying Notes to Consolidated Financial Statements

Juniper Networks, Inc.
Notes to Consolidated Financial Statements

Note 1. Description of Business

Juniper Networks, Inc. ("Juniper Networks" or the "Company") was founded in 1996 to develop and sell products that would be able to meet the stringent demands of service providers. Today the Company designs and sells products and services that together provide its customers with secured and assured Internet Protocol ("IP") secure networking solutions. The Company's solutions are incorporated into the global web of interconnected public and private networks across which a variety of media, including voice, video and data, travel to and from end users around the world. The Company's network infrastructure solutions enable service providers and other network-intensive businesses to support and deliver services and applications on a highly efficient and low cost integrated network. The Company's Service Layer Technologies ("SLT") solutions meet a broad array of its customer's priorities, from protecting the network itself, and protecting data on the network, to maximizing existing bandwidth and acceleration of applications across a distributed network. Together, the Company's secure networking solutions enable its customers to convert networks that provide commoditized, best efforts services into more valuable assets that provide differentiation and value and increased reliability and security to end users. The Company sells and markets its products through its direct sales organization, value-added resellers and distributors.

In 2005 the Company completed the acquisitions of Funk Software, Inc. ("Funk"), Acorn Packet Solutions, Inc. ("Acorn"), Peribit Networks, Inc. ("Peribit"), Redline Networks, Inc ("Redline"), and Kagoor Networks, Inc. ("Kagoor"). In 2004 the Company completed its acquisition of NetScreen Technologies, Inc. ("NetScreen"). As a result of the these acquisitions, the Company expanded its customer base and portfolio of products, and now offers two categories of networking products: infrastructure products, which consist predominately of the original Juniper Networks router portfolio and Acorn products, and SLT products, which consist predominately of the former Funk, Peribit, Redline, Kagoor, and NetScreen products.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Estimates are used for revenue recognition, allowance for sales returns, allowance for doubtful accounts, allowance for contract manufacturer obligations, allowance for warranty costs, goodwill and other impairments, income taxes, litigation and settlement costs, and other loss contingencies. The Company bases its estimates on historical experience and also on assumptions that it believes are standard and reasonable. Actual results experienced by the Company may differ materially from management's estimates.

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, balances with banks, and highly liquid investments in money market funds, commercial paper, government securities, certificates of deposit, and corporate debt securities.

Investments

Management determines the appropriate classification of securities at the time of purchase and reevaluates such classification as of each balance sheet date. 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's investments in publicly traded equity securities are classified as available-for-sale. Available-for-sale investments are initially recorded at cost and periodically adjusted to fair value through comprehensive income.

Equity Investments

Juniper Networks has 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 Juniper Networks 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.

Fair Value of Financial Instruments

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 Juniper Networks to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable. Juniper Networks maintains its cash and cash equivalents and investments in fixed income securities with high-quality institutions and only invests in high quality credit instruments. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, 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. Juniper Networks performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. Juniper Networks maintains reserves for potential credit losses and historically such losses have been within management's expectations. One customer accounted for 14% and 15% of total net revenues during 2005 and 2004, respectively. Two customers individually accounted for 15% and 13% of total net revenues in 2003.

The Company relies on sole suppliers for certain of its components such as ASICs and custom sheet metal. Additionally, Juniper Networks relies primarily on two significant independent contract manufacturers for the production of all of its products. The inability of any supplier or manufacturer to fulfill supply requirements of Juniper Networks 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 three to five years, or the lease term of the respective assets. The land that was acquired in January 2001 is not being depreciated.

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 and 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 a fair-value based test. Future goodwill impairment tests could result in a charge to earnings. Purchased intangibles with finite lives are amortized on a straight-line basis over their respective estimated useful lives ranging from two to twelve 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 measured by the amount by which the carrying amount of the asset exceeds its fair market value. The Company assesses the recoverability of our long-lived and intangible assets by determining whether the unamortized balances can be recovered through 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, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying value of the reporting unit exceeds the fair value, goodwill is considered impaired and a second step is performed to measure the amount of the impairment loss, if any. Juniper Networks conducted its annual impairment test as of November 1, 2005 and determined that goodwill was not impaired. There were no events or circumstances from that date through December 31, 2005 that would impact this assessment.

Revenue Recognition

Juniper Networks sells products and services through its direct sales force or through its strategic distribution relationships and value-added resellers. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Evidence of an arrangement generally consists of customer purchase orders and, in certain instances, sales contracts or agreements. Shipping terms and related documents, or written evidence of customer acceptance, when applicable, are used to verify delivery or performance. The Company assesses whether the sales price is fixed or determinable based on payment terms and whether the sales price is subject to refund or adjustment. Collectibility is assessed based on the creditworthiness of the customer as determined by credit checks and the customer's payment history to the Company.

On arrangements where products and services are bundled, the Company determines whether the deliverables are separable into multiple units of accounting. The Company allocates the total fee on such arrangements to the individual deliverables either based on their relative fair values or using the residual method, as circumstances dictate. The Company then recognizes revenue on each deliverable in accordance with its policies for product and service revenue recognition.

For sales to direct end-users and value-added resellers, the Company recognizes product revenue upon transfer of title and risk of loss, which is generally upon shipment. It is the Company's practice to identify an end-user prior to shipment to a value-added reseller. For the end-users and value-added resellers, the Company has no significant obligations for future performance such as rights of return or pricing credits. A portion of the Company's sales are made through distributors under agreements allowing for pricing credits and/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.

The Company records reductions to revenue for estimated product returns and pricing adjustments, such as rebates and price protection, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns and price protection credits, specific criteria included in rebate agreements, and other factors known at the time.

Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenues. The Company's resellers and distributors participate in various cooperative marketing and other programs, and it maintains estimated accruals and allowances for these programs.

Services include maintenance, training and consulting. Service maintenance includes contracts for 24-hour technical support, hardware repair and replacement parts, and unspecified upgrades on a when and if available basis. Service maintenance is offered under renewable, fee-based contracts. Revenue from customer support contracts is deferred and recognized ratably over the contractual support period, generally one year. Revenue from training and consulting is recognized as the services are completed or ratably over the contractual period.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectibility of customer accounts. Juniper Networks regularly reviews the allowance 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.

Warranties

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 warranty generally includes parts and labor obtained through the Company's 24-hour service center. On occasion, the specific terms and conditions of those warranties vary. The Company accrues for warranty costs based on estimates of the costs that may be incurred under its warranty obligations, including material costs, technical support labor costs and associated overhead. The warranty accrual is included in the Company's cost of revenues and is recorded at the time revenue is recognized. Factors that affect the Company's warranty liability include the number of installed units, its estimates of anticipated rates of warranty claims, costs per claim and estimated support labor costs and the associated overhead. The Company periodically assesses the adequacy of our recorded warranty liabilities and adjusts the amounts as necessary.

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. Its 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 accrued liabilities, included in other current accrued liabilities on the accompanying consolidated balance sheets, for carrying charges and obsolete material charges for excess components purchased based on historical trends.

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, Juniper Networks' 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 $6.6 million, $7.9 million, and $1.3 million, for 2005, 2004, and 2003, respectively.

Litigation and Settlement Costs

From time to time, the Company is involved in disputes, litigation and other legal actions. The Company records a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the 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. However the actual liability in any such litigation may be materially different from the Company's estimates, which could result in the need to record additional expenses.

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. It considers the likelihood of loss or impairment of 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 regularly evaluates current information available to its management to determine whether such accruals should be adjusted and whether new accruals are required.

Stock-Based Compensation

The Company's stock option plans are accounted for under the intrinsic value recognition and measurement principles of APB Opinion No. 25 ("APB 25"), *Accounting for Stock Issued to Employees*, and related interpretations. As the exercise price of all options granted under these plans was equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation cost, other than acquisition-related compensation cost, was recognized in net income.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 ("SFAS 123"), *Accounting for Stock-Based Compensation*, to employee stock benefits, including shares issued under the stock option plans and under the Company's Stock Purchase Plan. Pro forma information, net of the tax effect, follows (in millions, except per share amounts):

	Year Ended December 31,		
	2005	2004*	2003
Net income as reported	$ 354.0	$ 135.7	$ 39.2
Add: amortization of deferred stock compensation included in reported net income, net of tax	10.9	27.3	1.2
Deduct: total stock-based employee compensation expense determined under fair value based method, net of tax	(204.5)	(114.2)	(60.3)
Pro forma net income (loss)	$ 160.4	$ 48.8	$ (19.9)
Basic net income (loss) per share:			
As reported	$ 0.64	$ 0.28	$ 0.10
Pro forma	$ 0.29	$ 0.10	$ (0.05)
Diluted net income (loss) per share:			
As reported	$ 0.59	$ 0.25	$ 0.09
Pro forma	$ 0.27	$ 0.08	$ (0.05)

*During the preparation of the notes to consolidated financial statements for 2005, the Company determined that the calculation of the pro forma stock-based compensation expense disclosed under SFAS 123 for 2004, as reported, inadvertently did not include the proper fair value for options assumed in the acquisition in 2004. Accordingly, the amount of the pro forma stock-based compensation expense presented in the table above for 2004 has been revised. For 2004, the previously reported pro forma net income was $69.3 million, the previously reported pro forma basic net income per share was $0.14, and the previously reported pro forma diluted net income per share was $0.13. This revision had no effect on the Company's previously reported consolidated results of operations or financial condition.

Derivatives

It is the Company's policy to use derivatives to partially offset its market exposure to fluctuations in foreign currencies. The Company does not enter into derivatives for speculative or trading purposes. Juniper Networks uses foreign currency forward contracts to mitigate transaction gains and losses generated by certain foreign currency denominated monetary assets and liabilities. These derivatives are carried at fair value with changes recorded in other income (expense). Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. These foreign exchange contracts have maturities between one and two months.

Periodically, the Company uses foreign currency forward and/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, and upon occurrence of the forecasted transaction, is subsequently reclassified into the consolidated statements of operations line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during 2005, 2004, and 2003, in other income (expense) on its Consolidated Statements of Operations.

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. Deferred tax assets attributable to tax deductions related to stock options are not considered realizable prior to their utilization on tax returns, at which point a current tax savings results and equity is credited for such savings. 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 under SFAS 109, *"Accounting for Income Taxes,"* and records a valuation allowance to reduce its deferred tax assets to the amount that it believes to be more likely than not realizable. The Company believes it is more likely than not that forecasted income together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be 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 a positive adjustment to earnings or a decrease in goodwill in the period such determination is made. In addition, the calculation of its 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.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period from non-owner sources. The Company has presented its comprehensive income as part of the Consolidated Statements of Stockholders' Equity. Other comprehensive income includes net unrealized losses on available-for-sale securities and net foreign currency translation gains (losses) that are excluded from net income.

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 average exchange rates for the period. Foreign currency translation gains and losses were not material for the years ended December 31, 2005, 2004 and 2003. The effect of exchange rate changes on cash balances held in foreign currencies were immaterial in the years presented.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment,* which is a revision of SFAS 123, *Accounting for Stock Issued to Employees.* SFAS 123R supersedes APB 25, and amends FASB Statement No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS 123R permits public companies to adopt its requirements using one of two methods: modified prospective method or modified retrospective method. The Company plans to adopt SFAS 123R using the modified prospective method, in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. The Company will recognize in its results of operations the compensation cost for stock-based awards issued after December 31, 2005 on a straight-line basis over the requisite service period for the entire award. For stock-based awards issued prior to January 1, 2006, the Company amortizes the related compensation costs using the graded-vesting method.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25 intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The adoption of the SFAS 123R fair value method will have a significant adverse impact on the Company's reported results of operations because the stock-based compensation expense will be charged directly against the Company's reported earnings. The pre-tax balance of unearned stock-based compensation to be expensed in the period 2006 through 2010 related to share-based awards unvested as of December 31, 2005, as previously calculated under the disclosure-only requirements of SFAS 123, is approximately $98 million. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase, or cancel any remaining unearned stock-based compensation expense. To the extent that the Company grants additional equity securities to employees or assumes unvested securities in connection with any acquisitions, its stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. The Company anticipates that it will grant additional employee stock options and restricted stock units in 2006. The fair value of these grants is not included in the amount above, as the impact of these grants cannot be predicted at this time because it depends on the number of share-based payments granted and the then current fair values.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current standard. This requirement will likely reduce net operating cash flow and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future as they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized in prior periods for such excess tax deductions were $129.5 million, $66.0 million, and $10.8 million in 2005, 2004, and 2003, respectively.

In November 2005, the FASB issued FSP FAS 123R-3, *Transition Election and Accounting for Tax Effects.* The guidance provides a simplified method to calculate the Additional Paid-In Capital (APIC) pool for beginning balance of excess tax benefits and the method of determining the subsequent impact on the pool of option awards that are outstanding and fully or partially vested upon the adoption of SFAS 123R beginning on January 1, 2006. In addition, this FSP addresses that when the alternative APIC pool calculation is used, tax benefits related to certain employee awards should be included as a cash flow from financing activities and a cash outflow from operating activities within the statements of cash flows. The FSP allows companies up to one year from the later of the adoption date of SFAS 123R or November 10, 2005 to evaluate the available transition alternatives and make a one-time election. The Company is in the process of evaluating the impact of the new method provided by this guidance.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year's presentation.

Note 3. Business Acquisitions

Juniper Networks completed six purchase acquisitions during the three years ended December 31, 2005. In 2005, the Company acquired Funk, Acorn, Peribit, Redline, and Kagoor. In 2004, the Company acquired NetScreen. The total purchase price for each acquisition, as of their respective acquisition dates, is outlined below (in millions):

	2005						2004
	Funk	Acorn	Peribit	Redline	Kagoor	Total	NetScreen
Cash	$ 110.2	$ 4.0	$ 50.3	$ 97.5	$ 58.2	$ 320.2	$ —
Common stock	—	—	221.2	—	—	221.2	3,651.2
Pre-acquisition loan	—	—	—	3.0	—	3.0	—
Fair value of stock options	—	—	36.4	21.1	7.6	65.1	520.5
Assumed liabilities	—	—	—	1.0	—	1.0	—
Acquisition direct costs	1.1	0.3	4.1	0.5	0.5	6.5	13.4
Total purchase price	$ 111.3	$ 4.3	$ 312.0	$ 123.1	$ 66.3	$ 617.0	$ 4,185.1

The total purchase price for certain acquisitions could increase upon the release of the amounts held in escrow for indemnity obligations and upon additional contingent payments.

Allocation of Initial Purchase Consideration

The Company allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed, including IPR&D, based on their fair values. The excess purchase price over those fair values is recorded as goodwill. Goodwill is subject to change due to the release of the amounts held in escrow for indemnity obligations, additional contingent payments, and changes in acquisition related assets and liabilities. The fair values assigned to intangible assets acquired are based on valuations prepared by independent third party appraisal firms using estimates and assumptions provided by management. A summary of the purchase price allocations for each acquisition is as follows (in millions):

	2005						2004
	Funk	Acorn	Peribit	Redline	Kagoor	Total	NetScreen
Net tangible assets assumed	$ 3.9	$ 0.2	$ 3.6	$ —	$ 1.9	$ 9.6	$ 367.8
Amortizable intangible assets:							
Existing technology	18.8	2.9	26.1	17.2	6.9	71.9	165.2
Patents and core technology	2.3	0.8	6.5	4.9	2.1	16.6	45.7
Maintenance agreements	—	0.1	1.7	—	0.1	1.9	5.9
Customer relationships	2.6	0.5	6.3	3.5	2.4	15.3	24.8
Trademark	0.6	0.1	—	—	—	0.7	8.3
Non-compete agreement	0.7	—	—	—	—	0.7	—

Order backlog	—	0.1	0.2	—	0.1	0.4	2.5
Total	25.0	4.5	40.8	25.6	11.6	107.5	252.4
In-process research and development	5.3	—	3.8	—	1.9	11.0	27.5
Deferred compensation related to unvested stock options	—	—	13.2	3.8	2.0	19.0	93.5
Goodwill	77.1	(0.4)	250.6	93.7	48.9	469.9	3,443.9
Total purchase price	$ 111.3	$ 4.3	$ 312.0	$ 123.1	$ 66.3	$ 617.0	$ 4,185.1

Purchased Intangible Assets

The following table presents details of the purchased intangible assets acquired (in millions, except years):

	Technologies and Patents		Customer Relationships		Other		Total
Acquisitions	Estimated Useful Life (in years)	Amount	Estimated Useful Life (in years)	Amount	Estimated Useful Life (in years)	Amount	Amount
Funk	4	$ 21.1	6	$ 2.6	2 — 5	$ 1.3	$ 25.0
Acorn	4	3.7	5	0.5	0.5 — 5	0.3	4.5
Peribit	4	32.6	5	6.3	<0.5 — 8	1.9	40.8
Redline	4	22.1	5	3.5	—	—	25.6
Kagoor	6	9.0	7	2.4	<0.5 — 6	0.2	11.6
2005 Total		$ 88.5		$ 15.3		$ 3.7	$ 107.5
NetScreen — 2004 Total	4	$ 210.9	5 — 7	$ 24.8	<0.5 — 5	$ 16.7	$ 252.4

Existing technology consists of products that have reached technological feasibility and includes products in the acquired product lines. Existing technology was valued using the discounted cash flow ("DCF") method. This method calculates the value of the intangible asset as being the present value of the after tax cash flows potentially attributable to it, net of the return on fair value attributable to tangible and other intangible assets.

Maintenance agreements represent the revenue generated by contracts with customers who pay for annual maintenance and support. The income approach was used to estimate the fair value of the maintenance agreements, which includes estimating the ongoing, after-tax income expected from maintenance agreements in place at the time of each acquisition, including expected renewals.

Patents and core technology represent a combination of processes, patents, and trade secrets that were used for existing and in-process technology. The value of the trade name and trademarks is represented by the benefit of owning these intangible assets rather than paying royalties for their use. Both of these intangible assets were valued using the royalty savings method. This method estimates the value of these intangible assets by capitalizing the royalties saved because the Company owns the assets.

Relationships with customers represent the rights granted to the VAR or distributor to resell certain products. The VAR and distributor relationships were valued using the avoided cost method, which takes into account the cost of establishing each relationship.

2005 Acquisitions

Pro forma results of operations are not presented for the 2005 acquisitions as the effects of these acquisitions are not material to Juniper on either an individual or an aggregate annual basis.

Funk Acquisition: On December 1, 2005, the Company completed its acquisition of Funk. Funk, a leading provider of standards-based network access security solutions, developed products and technologies that protect the integrity of the network by ensuring both the user and the device meet an organization's security policies before granting access. The purchase price for Funk included a cash payment of $110.2 million. Currently excluded from the aggregate purchase price of $111.3 million is a balance of $12.2 million held in escrow for indemnity obligations, of which one-half will expire in January 2007 and the remaining one-half in June 2007. In addition, the Company may be required to pay certain additional amounts of up to $5.0 million contingent upon achieving certain agreed-upon conditions over the next 13 months after the close of the acquisition. Contingent payments associated with future employment conditions will be recorded as compensation expense when incurred. At the close of the acquisition, the Company recorded a liability of $0.3 million associated with future lease, severance, and other contractual obligations, which remained to be paid as of December 31, 2005.

Acorn Acquisition: On October 20, 2005, the Company completed its acquisition of Acorn. Acorn's products and technologies provide a smooth migration path of more flexible and cost-effective by connecting legacy Time Division Multiplexing (TDM) and other circuit-based applications across next-generation IP networks. The purchase price for Acorn included a cash payment of $4.0 million. Currently excluded from the aggregate purchase price of $4.3 million is a balance of $1.5 million held in escrow for indemnity obligations, which will expire on May 30, 2007. In addition, the Company may be required to pay certain additional amounts of up to $2.2 million contingent upon achieving certain agreed-upon conditions over the next 24 months after the close of the acquisition. Depending on the contingency, any additional payments will be recorded as either compensation expense or additional purchase price. Additionally, the Company may be required to pay an additional amount of up to $1.0 million over a two-year period contingent upon future services from former Acorn employees. Contingent payments associated with future employment conditions will be recorded as compensation expense when incurred. Future lease and other contractual obligations were immaterial at the time of the acquisition.

Peribit Acquisition: On July 1, 2005, the Company completed its acquisition of Peribit. The acquisition enabled the Company to secure and assure the delivery and performance of applications over an IP network through premium traffic processing. The acquisition of Peribit will further expand the Company's customer base and portfolio of products. The acquisition resulted in the issuance of 11.3 million shares of the Company's common stock with a fair value of approximately $256.4 million to the former shareholders of Peribit, of which, approximately 1.6 million shares with a fair value of $35.2 million, established as of the acquisition date, are being held in escrow for indemnity obligations prescribed by the merger agreement. This escrow amount is excluded from the total purchase price of $312.0 million. One-half of the indemnity obligations expire on the first anniversary of the closing date and the remaining one-half expires 18 months after the closing date of July 1, 2005. The common stock issued in the acquisition was valued using the average closing price of the Company's common stock over a five-day trading period beginning two days before and ending two days after the date the transaction was announced on April 26, 2005. The Company also assumed all of the outstanding Peribit stock options with a fair value of approximately $36.4 million. Such options were valued using Black-Scholes option pricing model with the volatility assumption of 41%, expected life of 1.8 years, risk-free interest rate of 3.6%, and a market value of the Company's common stock of $22.62 per share, which was determined as described above. At the close of the acquisition, the Company recorded a liability of $3.0 million associated with future lease, severance, and other contractual obligations through March 2009. As of December 31, 2005, $1.7 million remained to be paid, of which $0.9 million is payable over the next 12 months.

Redline Acquisition: On May 2, 2005, the Company completed its acquisition of Redline. Redline was a pioneer in the development of Application Front End ("AFE") technology and designed network solutions that improve the performance, flexibility, and scalability of web-enabled enterprise data centers and public web sites. The purchase price for Redline included a cash payment of $97.5 million, a $3.0 million pre-acquisition loan from the Company to Redline which was forgiven, and assumed stock options with an aggregate fair value of $21.1 million. The stock options were valued using the Black-Scholes option pricing model with the inputs of 43% for volatility, 1.56 years for expected life, 3.5% for risk-free interest rate and a market value of Juniper Networks common stock of $22.62 per share, which was determined by using the average closing price of the Company's common stock over a five-day trading period beginning two days before and ending two days after the date the transaction was announced on April 26, 2005. The Company also assumed $1.0 million in net liabilities. Currently excluded from the aggregate purchase price of $123.1 million is an escrow payment of $13.2 million related to Redline's indemnity obligations which will expire on May 2, 2006. At the close of the acquisition, the Company recorded a liability of $0.8 million associated with future lease and other contractual obligations, of which $0.5 million remained to be paid as of December 31, 2005.

Kagoor Acquisition: On May 1, 2005, the Company completed its acquisition of Kagoor. Kagoor was a leading provider of session border control products for voice-over-Internet Protocol (VoIP) networking. The purchase price for Kagoor included $58.2 million in cash and assumed stock options with an aggregate fair value of $7.6 million. The stock options were valued using the Black-Scholes option pricing model with the inputs of 43% for volatility, 1.58 years for expected life, 3.5% for risk-free interest rate and a market value of Juniper Networks common stock of $21.64 per share, which was determined by using the average closing price of the Company's common stock over a five-day trading period beginning two days before and ending two days after the date the transaction was announced on March 29, 2005. Currently excluded from the aggregate purchase price of $66.3 million is an escrow payment of $6.8 million related to Kagoor's indemnity obligations which will expire on May 1, 2006. At the close of the acquisition, the Company recorded a liability of $0.4 million associated with future lease and other contractual obligations, of which $0.1 million remained to be paid as of December 31, 2005.

In-Process Research & Development: The Company's methodology for allocating the purchase price for purchase acquisitions to in-process research and development ("IPR&D") is determined through established valuation techniques in the high-technology communications equipment industry. Projects that qualify as IPR&D represent those that have not yet reached technological feasibility and have no alternative future use. IPR&D is expensed upon acquisition. For the year ended December 31, 2005, total IPR&D expense was $11.0 million in connection with the Funk, Peribit and Kagoor acquisitions. There was no IPR&D for the Acorn and Redline acquisitions.

For Funk, these efforts pertained to the development of Radius products including Steel-Belted Radius ("SBR"), SBR High Availability ("HA"), and Mobile IP Module ("MIM") II products. Funk's IPR&D as of the acquisition date also included development of the new versions for Endpoint Assurance, for Proxy (Remote Control), and Odyssey product families. At the time of the acquisition, it was estimated that these development efforts will be completed over the next four months at an estimated cost of approximately $0.9 million.

For Peribit, these efforts included the development of the next versions of software for the Sequence Reducer ("SR") family, Sequence Mirror ("SM") family, the Central Management System ("CMS") products, as well as a hardware program for both the SR and SM families. At the time of the acquisition, it was estimated that these development efforts will be completed over the next twelve months at an estimated cost of approximately $2.3 million.

For Kagoor, these efforts included a variety of signaling protocols and next generation products and operating systems. At the time of the acquisition, it was estimated that these development efforts will be completed over the next eight months at an estimated cost of approximately $0.8 million.

As of December 31, 2005, the estimated costs of completing the research and development efforts relating to the above acquisitions approximated $2.0 million.

Deferred Stock-Based Compensation: Unvested stock options valued at $13.2 million, $3.8 million, and $2.0 million were issued for the Peribit, Redline, and Kagoor acquisitions, respectively. The unvested portion of the intrinsic value of the replacement stock options, established as of the acquisition date, has been allocated to deferred compensation in the purchase price allocation and are being amortized to expense using the graded-vesting method over the remaining vesting period.

2004 Acquisition

NetScreen Acquisition: On April 16, 2004, Juniper Networks completed its acquisition of NetScreen. The acquisition resulted in the issuance of approximately 132 million shares of the Company's common stock with a fair value of approximately $3,651.2 million to the former stockholders of NetScreen. The common stock issued in the acquisition was valued using the average closing price of the Company's common stock over a five-day trading period beginning two days before and ending two days after the date the transaction was announced. Juniper Networks also assumed all of the outstanding NetScreen stock options with a fair value of approximately $520.5 million. The options were valued using the Black-Scholes option pricing model with the inputs of 0.8 for volatility, 3 years for expected life, 2.5% for the risk-free interest rate and a market value of Juniper Networks common stock of $27.64 per share, which was determined as described above. The Company also incurred direct costs associated with the acquisition of approximately $13.4 million. After the initial purchase price allocation, the Company decreased the net tangible assets acquired and increased goodwill by $6.1 million. The change was due to the recognition of a pre-acquisition contingency of $12.0 million, partially offset by a number of reductions in the valuation of certain pre-acquisition accruals. In 2005, the Company paid an additional $6.0 million related to a pre-acquisition contingency and recorded an expense in its results of operations.

The Company accrued for acquisition charges of $21.3 million primarily related to severance and facility charges. Ninety-four former NetScreen employees were identified for termination at the time of the acquisition all related severance has been paid. The remaining restructuring change consists primarily of facility charges that will be paid through the end of the lease terms, which extend through 2008. In 2005, the Company reversed $6.9 million of this acquisition accrual primarily due to re-occupation of the former NetScreen facilities. As of December 31, 2005, $3.0 million remained to be paid, of which $1.5 million is recorded in other long-term liabilities in Consolidated Balance Sheets.

Order backlog represents the value of the standing orders for both products and services. The order backlog was valued using the avoided cost method, which estimates the avoided selling expenses due to the fact that NetScreen had firm purchase orders in place at the time of acquisition. Juniper Networks amortized the fair value of acquired order backlog in 2004 to cost of revenues.

Of the total purchase price, $27.5 million was allocated to in-process research and development ("IPR&D") and was expensed in 2004. Projects that qualify as IPR&D represent those that have not yet reached technological feasibility and which have no alternative future use. Technological feasibility is defined as being equivalent to a beta-phase working prototype in which there is no remaining risk relating to the development. At the time of acquisition, NetScreen had multiple IPR&D efforts under way for certain current and future product lines. These efforts included developing and integrating secure routers with embedded encryption chips, as well as other functions and features such as next generation Internet Protocol ("IP"), wireless and digital subscriber line connectivity and voice over IP capability. The Company utilized the DCF method to value the IPR&D, using rates ranging from 20% to 25%, depending on the estimated useful life of the technology. In applying the DCF method, the value of the acquired technology was estimated by discounting to present value the free cash flows expected to be generated by the products with which the technology is associated, over the remaining economic life of the technology. To distinguish between the cash flows attributable to the underlying technology and the cash flows attributable to other assets available for generating product revenues, adjustments were made to provide for a fair return to fixed assets, working capital, and other assets that provide value to the product lines. At the time of the NetScreen acquisition, it was estimated that these development efforts would be completed over the next eighteen months at an estimated cost of approximately $25 million. As of December 31, 2005, there was no remaining costs associated with these research and development efforts.

Unvested stock options and restricted stock valued at $93.5 million have been allocated to deferred compensation in the purchase price allocation and are being amortized to expense using the graded-vesting method over the remaining vesting period. The value represented the unvested portion of the intrinsic value of the replacement stock options and restricted stock established as of the acquisition date, Options assumed in conjunction with the acquisition had exercise prices ranging from $0.09 to $27.11 per share, with a weighted average exercise price of $12.48 per share and a weighted average remaining contractual life of approximately 8 years. Juniper Networks assumed approximately 5.9 million vested options and approximately 20.5 million unvested options and restricted stock.

The following unaudited pro forma financial information presents the combined results of operations of Juniper Networks and NetScreen as if the acquisition had occurred as of the beginning of the periods presented. The information in the 2004 unaudited amounts was derived from the audited statement of operations of Juniper Networks for the year ended December 31, 2004 and the unaudited statement of operations of NetScreen for the three and a half months ended April 15, 2004. The information in the 2003 unaudited amounts was derived from the audited statements of operations of Juniper Networks for the year ended December 31, 2003 and the audited statement of operations of NetScreen for the fiscal year ended September 30, 2003. Adjustments of $0.6 million and $86.8 million have been made to the combined results of operations for the years ended December 31, 2004 and 2003, respectively, reflecting the elimination of amortization of purchased intangibles and deferred stock compensation, charges to cost of goods sold for inventory write-ups and the valuation of the order backlog, IPR&D and the net tax impact. The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations of Juniper Networks that would have been reported had the acquisition been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations of the Company.

	Year Ended December 31,	
(in millions, except per share amounts)	**2004**	**2003**
Net revenues	$ 1,440.6	$ 946.7
Net income	$ 130.7	$ 4.0
Basic income per share	$ 0.25	$ 0.01
Diluted income per share	$ 0.23	$ 0.01

The pro forma financial information for 2004 and 2003 above includes the following material, non-recurring charges in each period presented (in millions):

Inventory write-up	$ 3.0
Order backlog	$ 2.5
In-process research and development	$ 27.5
Restructuring	$ 0.4
Integration	$ 5.1

Note 4. Goodwill and Purchased Intangible Assets

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

	Gross	Accumulated Amortization	Net
As of December 31, 2005			
Technologies and patents	$ 382.4	$ (156.3)	$ 226.1
Other	69.5	(25.7)	43.8
Total	$ 451.9	$ (182.0)	$ 269.9
As of December 31, 2004			
Technologies and patents	$ 286.6	$ (82.4)	$ 204.2
Other	52.1	(14.4)	37.7
Total	$ 338.7	$ (96.8)	$ 241.9

Amortization expense related to finite-lived purchased intangible assets was $85.2 million, $56.8 million, and $20.7 million in 2005, 2004, and 2003, respectively. During 2005, the Company recorded an impairment charge to operating expense of $5.9 million due to a significant decrease in forecasted revenues associated with Kagoor's products.

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

Year Ending December 31,	Amount
2006	$ 97.6
2007	92.0
2008	46.9
2009	18.6
2010	4.9
Thereafter	9.9
Total	$ 269.9

The changes in the carrying amount of goodwill during 2005 are as follows (in millions):

Balance as of December 31, 2004	$ 4,427.9
Goodwill acquired during the period	469.9
Additions to existing goodwill	6.4
Balance as of December 31, 2005	$ 4,904.2

The net additions to existing goodwill in 2005 was primarily due to the recognition of a pre-acquisition contingency of $6.0 million related to the NetScreen acquisition. In addition, pre-acquisition tax adjustments of $0.6 million and $0.5 million were made to the Redline and Peribit related goodwill amounts, respectively, which increased goodwill. These adjustments were partially offset by a pre-acquisition tax adjustment of $0.4 million related to NetScreen. Of the total goodwill acquired in 2005, $47.1 million associated with Funk's goodwill could be tax deductible.

The Company performed its annual impairment analysis as of November 1, 2005 and determined that there was no impairment of existing goodwill at that time. The Company will continue to evaluate goodwill whenever events and changes in circumstances indicate that there may be a potential impairment indicator.

Note 5. Restructuring and Other Operating Charges

The following restructuring charges were based on Juniper Networks' restructuring plans that were committed to by management. Any changes to the estimates of executing the approved plans will be reflected in Juniper Networks' results of operations.

Restructuring In Connection With The NetScreen Acquisition

In connection with the NetScreen acquisition in 2004, the Company recorded a restructuring charge of $0.4 million for the termination of 13 employees to eliminate certain duplicative activities. These employees were from all functions and all geographic theaters and were in addition to the ninety-four former NetScreen employees that were also terminated. All severance payments were paid as of December 31, 2004.

Restructuring In Connection With The Discontinuance Of The CMTS Products

In 2003, the Company announced that it would no longer develop its G-series CMTS products and recorded a charge, to operating expense, of $14.0 million that was comprised of workforce reduction costs, an asset impairment charge, costs associated with vacating facilities, costs associated with termination of contracts and other related costs.

All of the workforce reduction severance for seventy-six employees was paid in 2003. The asset impairment charge was primarily for long-lived assets that were no longer needed as a result of the Company's decision to cease further development of the G-series CMTS product line. Facility charges consisted primarily of the cost of vacating facilities that were dedicated to the development of the G-series CMTS products and the impairment cost of certain leasehold improvements. The net present value of the facility charge was calculated using the Company's risk-adjusted borrowing rate. Amounts related to the net facility charge are included in other accrued liabilities and will be paid over the respective lease term through July 2008. The difference between the actual future rent payments and the net present value will be recorded as operating expenses when incurred. Other contractual commitments and other charges consisted primarily of carrying and obsolete material charges from the Company's contract manufacturers and suppliers for on-hand and on-order material related to the G-series CMTS products and costs to satisfy end-of-life commitments in certain customer contracts.

The following table shows changes in the restructuring liability during 2005 (in millions):

	Remaining liability as of December 31, 2004	Cash payments	Adjustment	Remaining liability as of December 31, 2005
Facilities	$ 2.2	$ (0.8)	$ —	$ 1.4
Contractual commitments and other charges	0.1	(0.1)	—	—
Total	$ 2.3	$ (0.9)	$ —	$ 1.4

Restructuring In Connection With The Unisphere Acquisition

During 2004, the Company adjusted a restructuring reserve established in 2002 by $0.9 million primarily for changes in its facilities sublease assumptions and recorded the adjustment as a credit to Restructuring, Impairments, and Special Charges in the Consolidated Statements of Operations. In 2005, the Company further adjusted this reserve by an immaterial amount due to the additional facilities sublease income. The Company's estimated costs to exit these facilities were based on available commercial rates for potential subleases. As of December 31, 2005, $0.7 million unpaid balance pertained to leases of consolidated facilities with respective lease terms through 2009.

Note 6. Investments

The following is a summary of investments as of December 31, 2005 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 8.0	$ —	$ —	$ 8.0
Government securities	322.4	—	(2.8)	319.6
Corporate debt securities	706.6	0.1	(6.0)	700.7
Asset-backed securities and equity securities	96.1	—	(0.6)	95.5
Other	4.3	0.6	—	4.9
Total	$ 1,137.4	$ 0.7	$ (9.4)	$ 1,128.7
Reported as:				
Short-term investments	$ 513.0	$ 0.6	$ (3.2)	$ 510.4

Long-term investments	624.4	0.1	(6.2)	618.3
Total	$ 1,137.4	$ 0.7	$ (9.4)	$ 1,128.7
Due within one year	$ 513.0	$ 0.6	$ (3.2)	$ 510.4
Due between one and two years	366.8	—	(4.3)	362.5
Due after two years	257.6	0.1	(1.9)	255.8
Total	$ 1,137.4	$ 0.7	$ (9.4)	$ 1,128.7

The following is a summary of investments as of December 31, 2004 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 51.6	$ —	$ —	$ 51.6
Government securities	339.3	—	(1.3)	338.0
Corporate debt securities	548.3	0.1	(3.2)	545.2
Asset-backed securities	65.3	0.1	(0.3)	65.1
Total	$ 1,004.5	$ 0.2	$ (4.8)	$ 999.9
Reported as:				
Short-term investments	$ 405.2	$ 0.1	$ (0.7)	$ 404.6
Long-term investments	599.3	0.1	(4.1)	595.3
Total	$ 1,004.5	$ 0.2	$ (4.8)	$ 999.9
Due within one year	$ 405.2	$ 0.1	$ (0.7)	$ 404.6
Due between one and two years	374.5	—	(2.9)	371.6
Due after two years	224.8	0.1	(1.2)	223.7
Total	$ 1,004.5	$ 0.2	$ (4.8)	$ 999.9

Realized gains (losses) from the sale of available-for-sale securities of $(0.9) million, $(0.3) million, and $12.0 million in 2005, 2004 and 2003, respectively.

The Company aggregated its investment by category and length of time the securities have been in a continuous unrealized loss position. The following table shows a summary of the fair value and unrealized losses of our investments as of December 31, 2005 (in millions):

	Securities with Unrealized Loss Positions for Less Than 12 Months		Securities with Unrealized Loss Positions for Over 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government	$ 52.7	$ (0.5)	$ 28.2	$ (0.5)	$ 80.9	$ (1.0)
Agency	169.5	(1.1)	63.5	(0.7)	233.0	(1.8)
Corporate	421.0	(3.0)	256.3	(3.0)	677.3	(6.0)
Asset Backed	43.0	(0.4)	23.0	(0.3)	66.0	(0.6)
Total	$ 686.2	$ (5.0)	$ 371.0	$ (4.5)	$ 1,057.2	$ (9.4)

The unrealized losses were primarily caused by interest rate increases. 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. Given that the Company has the ability and intent to hold each of these investments until a recovery of the fair values, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired as of December 31, 2005.

Note 7. Long-Term Debt

In 2003, Juniper Networks received $392.8 million of net proceeds from an offering of $400.0 million aggregate principal amount of Zero Coupon Convertible Senior Notes due June 15, 2008 (the "Senior Notes"). The Senior Notes are senior unsecured obligations, rank on parity in right of payment with all of the Company's existing and future senior unsecured debt, and rank senior to all of the Company's existing and future debt that expressly provides that it is subordinated to the notes. The Senior Notes are convertible into shares of Juniper Networks common stock, subject to certain conditions, at any time prior to maturity or their prior repurchase by Juniper Networks. The conversion rate is 49.6512 shares per each $1,000 principal amount of convertible notes, subject to adjustment in certain circumstances.

The carrying amounts and fair values of the Senior Notes were (in millions):

	December 31,	
	2005	2004
Carrying amount	$ 400.0	$ 400.0
Fair value	$ 475.5	$ 592.0

During 2005, an immaterial amount of the Company's Senior Notes was converted into common shares. During 2004 and 2003, the Company paid $145.0 million and $792.0 million, respectively, to retire its outstanding 4.75% Convertible Subordinated Notes due March 15, 2007. These retirements resulted in a net loss of $4.1 million during 2004 and a net loss of $1.1 million during 2003. The loss or gain represents the difference between the carrying value of the Subordinated Notes at the time of their retirement, including unamortized debt issuance costs, and the amount paid to extinguish such Subordinated Notes.

Note 8. Other Financial Information

Property and Equipment

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

	As of December 31,	
	2005	2004
Computers and equipment	$ 182.8	$ 154.5
Purchased software	25.3	23.6
Leasehold improvements	70.1	48.5
Furniture and fixtures	10.6	7.3
Land	192.4	192.4
Property and equipment, gross	481.2	426.3
Accumulated depreciation	(161.3)	(150.7)
Property and equipment, net	$ 319.9	$ 275.6

Depreciation expense was $53.6 million, $40.8 million, and $43.7 million in 2005, 2004, and 2003, respectively.

Restricted Cash

Restricted cash as of December 31, 2005 relates to the Funk, Acorn, Redline, and Kagoor acquisitions, as well as the establishment of a trust in the amount of $25.0 million and deposits for standby letters of credits for facility leases. Juniper Networks established a trust to secure its indemnification obligations to certain directors and officers arising from their activities as such in the event that the Company does not provide or is financially incapable of providing indemnification. No amounts have been accrued or paid in conjunction with this trust for each of the three years ended December 31, 2005.

Equity Investments

As of December 31, 2005 and 2004, the carrying values of the Company's minority equity investments in privately held companies were $13.2 million and $3.8 million, respectively.

In 2005, the Company invested a total of $11.0 million in privately held companies. In addition, the Company recognized a gain of $1.7 million due to a business combination of one of its portfolio companies with a cost basis of $1.0 million and wrote down $0.4 million against its investment in one of the privately held companies.

In addition to the equity investments in privately held companies, the Company held certain marketable equity securities classified as available-for-sale. During 2003, the Company sold certain of these available-for-sale investments, which had a cost basis of approximately $4.3 million, and recognized a gain of approximately $8.7 million.

Deferred Revenue

Amounts billed in excess of revenue recognized are included as deferred revenue and accounts receivable in the accompanying consolidated balance sheets. Product deferred revenue includes shipments to end-users, value-add resellers, and distributors. Below is a breakdown of the Company's deferred revenue (in millions):

	As of December 31,	
	2005	2004
Service	$ 201.7	$ 119.9
Product	51.1	62.6
Total	$ 252.8	$ 182.5
Reported as:		
Current	$ 213.5	$ 159.8
Non-current	39.3	22.7
Total	$ 252.8	$ 182.5

Warranties

Changes in the Company's warranty reserve are as follows (in millions):

	Year Ended December 31,	
	2005	2004
Beginning balance	$ 38.9	$ 35.3
Amount acquired from acquisitions	0.3	1.7
Provisions made	30.1	28.2
Changes in estimates	(3.2)	(1.9)
Actual costs incurred	(30.8)	(24.4)
Ending balance	$ 35.3	$ 38.9
Current portion of warranty reserve	$ 28.2	$ 32.2
Non-current portion of warranty reserve	7.1	6.7
Ending balance	$ 35.3	$ 38.9

Other Comprehensive Income

The activity of other comprehensive income was as follows (in millions):

	Year Ended December 31,		
	2005	2004	2003
Change in net unrealized losses on investments	$ (4.9)	$ (7.6)	$ (9.2)
Net gains (losses) on investments realized and included in net income	0.9	0.3	(5.8)
Change in foreign currency translation adjustment	(3.6)	2.2	2.4
Net change for the year	$ (7.6)	$ (5.1)	$ (12.6)

The components of accumulated other comprehensive loss were as follows (in millions):

	As of December 31,	
	2005	2004
Accumulated net unrealized loss on available-for-sale investments	$ (8.6)	$ (4.6)
Accumulated foreign currency translation adjustment	0.3	3.9
Total accumulated other comprehensive loss	$ (8.3)	$ (0.7)

Restructuring, Impairments, and Special Charges

Restructuring, impairments, and special charges recognized for the three years ended December 31, 2005 were as follows (in millions):

	Year Ended December 31,		
	2005	2004	2003
Restructuring and acquisition related benefits (expenses)	$ 6.5	$ 5.1	$ (14.0)
Impairment charge	(5.9)	—	—
Total restructuring, impairments, and special charges	$ 0.6	$ 5.1	$ (14.0)

Note 9. Commitments and Contingencies

Commitments

The following table summarizes the Company's principal contractual obligations as of December 31, 2005 (in millions):

	Total	2006	2007	2008	2009	2010	Thereafter
Operating leases, net of committed subleases	$ 191.6	$ 37.7	$ 33.7	$ 27.7	$ 23.4	$ 21.7	$ 47.4
Senior Notes	400.0	—	—	400.0	—	—	—
Purchase Commitments	78.1	78.1	—	—	—	—	—
Other Contractual Obligations	41.9	26.6	15.3	—	—	—	—
Total	$ 711.6	$ 142.4	$ 49.0	$ 427.7	$ 23.4	$ 21.7	$ 47.4

Operating Leases

Juniper Networks leases its facilities under operating leases that expire at various times, the longest of which expires in 2014. Rental expense for 2005, 2004 and 2003, was approximately $36.4 million, $29.8 million, and $26.5 million, respectively. Future minimum payments under the noncancellable operating leases totaled $191.6 million as of December 31, 2005. Rent and related expenses paid to a related party was $4.4 million, $3.3 million, and none for 2005, 2004, and 2003, respectively.

Senior Notes

As of December 31, 2005, there was a carrying value of $400.0 million Zero Coupon Convertible Senior Notes due June 15, 2008 ("Senior Notes") outstanding.

Purchase Commitments

The Company does not have firm purchase commitments with its contract manufacturers. In order to reduce manufacturing lead times and ensure adequate component supply, the contract manufacturers place non-cancelable, non-returnable ("NCNR") orders, which were valued at $78.1 million as of December 31, 2005, based on the Company's build forecasts. The Company does not take ownership of the components and the NCNR orders do not represent firm purchase commitments pursuant to Juniper Networks' agreements with the contract manufacturers. The components are used by the contract manufacturers to build products based on purchase orders the Company has received from its customers. The Company does not incur a liability for products built by the contract manufacturers until they fulfill its customer's order and the order ships. However, if the components go unused, the Company may be assessed carrying charges or obsolete charges. As of December 31, 2005, the Company had accrued $21.6 million based on our estimate of such charges.

Other Contractual Obligations

As of December 31, 2005, other contractual obligations consisted of the following:

- Escrow amount related to Funk acquisition of $12.2 million for indemnity obligations. One-half of the indemnity obligations will expire in January 2007 and the remaining one-half will expire in June 2007. Also included is a contingent bonus payable, based on certain milestones, of $5 million. Bonus will be earned over a period of one year and recorded as compensation expense.

- Escrow amount related to Acorn acquisition of $1.5 million for indemnity obligations. The indemnity obligations will expire in May 2007. Also included is contingent earn-out payable to stockholders, based on certain milestones, of up to $2.2 million, and bonus payable to employees related to continued employment of up to $1.0 million. Earn-out and bonuses will be earned over a period of two years and recorded as additional purchase consideration or compensation expense, based on the contingencies.

- Escrow amounts related to Redline and Kagoor acquisitions of $13.2 million and $6.8 million, respectively, for indemnity obligations. The indemnity obligations will expire in May 2006.

In addition, the 1.6 million shares of the Company's common stock with a fair value of $35.2 million established as of the acquisition date, held in escrow associated with the acquisition of Peribit for indemnity obligations is not included in the above table. One-half of the indemnity obligations will expire in July 2006 and the remaining one-half will expire in January 2007.

Guarantees

The Company has entered into agreements with some of its 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 performance and standby letters of credits for certain lease facilities. The Company has not recorded a liability related to these indemnification and guarantee provisions and its guarantees and indemnification arrangements have not had any significant impact on the Company's financial position, results of operations, or cash flows.

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 we do not expect that such legal claims and litigation will ultimately have a material adverse result, however, an adverse result in one or more matters could negatively affect our results in the period in which they occur.

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"), the Company and certain of the Company's officers. This action was brought on behalf of purchasers of the Company's common stock in the Company's initial public offering in June 1999 and its secondary offering in September 1999.

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 its 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, 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. 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 for the settlement and release of claims against the issuers, including the Company, was submitted to the Court for preliminary approval. The terms of the settlement, if approved, would dismiss and release all claims against participating defendants (including the Company). In exchange for this dismissal, Directors and Officers insurance carriers would agree to guarantee a recovery by the plaintiffs from the underwriter defendants of at least $1.0 billion, and the issuer defendants would agree to an assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. On August 31, 2005, the Court granted preliminary approval of the settlement. The settlement is subject to a number of conditions, including final court approval. If the settlement does not occur, and litigation continues, the Company believes it has meritorious defenses and intends to defend the case vigorously.

Federal Securities Class Action Suit

During the quarter ended March 31, 2002, a number of essentially identical shareholder class action lawsuits were filed in the United States District Court for the Northern District of California against the Company and certain of its officers and former officers purportedly on behalf of those stockholders who purchased the Company's publicly traded securities between April 12, 2001 and June 7, 2001. In April 2002, the court granted the defendants' motion to consolidate all of these actions into one; in May 2002, the court appointed the lead plaintiffs and approved their selection of lead counsel and a consolidated complaint was filed in August 2002. The plaintiffs allege that the defendants made false and misleading statements, assert claims for violations of the federal securities laws and seek unspecified compensatory damages and other relief. In September 2002, the defendants moved to dismiss the consolidated complaint. In March 2003, the court granted defendants motion to dismiss with leave to amend. The plaintiffs filed their amended complaint in April 2003 and the defendants moved to dismiss the amended complaint in May 2003. In March 2004, the court granted defendants motion to dismiss, without leave to amend, and entered final judgment against plaintiffs. Plaintiffs appealed. In December 2005, after complete briefing and oral argument, the United States Court of Appeals for the Ninth Circuit affirmed the district court's dismissal and final judgment.

State Derivative Claim Based on the Federal Securities Class Action Suit

In August 2002, a consolidated amended shareholder derivative complaint purportedly filed on behalf of the Company, captioned In re Juniper Networks, Inc. Derivative Litigation, Civil Action No. CV 807146, was filed in the Superior Court of the State of California, County of Santa Clara. The complaint alleges that certain of the Company's officers and directors breached their fiduciary duties to the Company by engaging in alleged wrongful conduct including conduct complained of in the securities litigation described above. The Company is named solely as a nominal defendant against whom the plaintiffs seek no recovery. After having their previous complaints dismissed with leave to amend, Plaintiffs lodged a third amended complaint in August 2004. Defendants demurred to the third amended complaint. On November 18, 2004, the Court sustained defendants' demurrer without leave to amend and entered an order of final judgment against plaintiffs. Plaintiffs appealed to the California Court of Appeal, Sixth District. The appeal has been fully briefed by the parties. Oral argument has not yet been scheduled.

Toshiba Patent Infringement Litigation

On November 13, 2003, Toshiba Corporation filed suit in the United States District Court in Delaware against the Company, alleging that certain of the Company's products infringe four Toshiba patents, and seeking an injunction and unspecified damages. The Company filed an answer to the complaint in February 2004. Toshiba amended its complaint to add two patents, and the Company answered the amended complaint in July 2004. The case is in the discovery phase, and trial is scheduled for August 2006.

IRS Notices of Proposed Adjustments

The Internal Revenue Service (IRS) has concluded an audit of the Company's federal income tax returns for fiscal years 1999 and 2000. During 2004, the Company received a Notice of Proposed Adjustment (NOPA) from the IRS. While the final resolution of the issues raised in the NOPA is uncertain, the Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position or results of operations. The Company is also under routine examination by certain state and non-US tax authorities. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to these audits.

In conjunction with the IRS income tax audit, certain of the Company's US payroll tax returns are currently under examination for fiscal years 1999 — 2001, and the Company received a second NOPA in the amount of $11.7 million for employment tax assessments primarily related to the timing of tax deposits related to employee stock option exercises. The Company responded to this NOPA in February 2005, and intend to dispute this assessment with the IRS. An initial appeals conference was held on January 31, 2006. The Company currently does not believe that a liability can be reasonably estimated at this time. In the event that this issue is resolved unfavorably to Juniper Networks, there exists the possibility of a material adverse impact on its results of operations for the period in which an unfavorable outcome becomes probable and reasonably estimable.

Note 10. Stockholders' Equity

Stock Option Plans

Amended and Restated 1996 Stock Option Plan

The Company's Amended and Restated 1996 Stock Option Plan (the "1996 Plan") provides for the granting of incentive stock options to employees and nonstatutory stock options to employees, directors and consultants. Incentive stock options are granted at an exercise price of not less than the fair value per share of the common stock on the date of grant. Nonstatutory stock options may be granted at an exercise price of not less than 85% of the fair value per share on the date of grant; however, no nonstatutory stock options have been granted for less than fair market value on the date of grant. Vesting and exercise provisions are determined by the Board of Directors or a committee of the Board of Directors. Options granted under the 1996 Plan generally become exercisable over a four-year period beginning on the date of grant. Options granted under the 1996 Plan have a maximum term of ten years. Options granted to consultants are in consideration for the fair value of services previously rendered, are not contingent upon future events and are expensed in the period of grant. Juniper Networks has authorized 164,623,000 shares of common stock for issuance under the 1996 Plan. At December 31, 2005, 22,411,922 shares were available for future option grants or stock sales under the 1996 Plan.

The 1996 Plan also provides for the sale of restricted shares of common stock to employees and consultants. Shares issued to consultants are for the fair value of services previously rendered and are not contingent upon future events. Shares sold to employees are made pursuant to restricted stock purchase agreements containing provisions established by the Board of Directors or a committee of the Board of Directors. These provisions give Juniper Networks the right to repurchase the shares at the original sales price upon termination of the employee. This right expires at a rate determined by the Board of Directors, generally at the rate of 25% after one year and 2.0833% per month thereafter. At December 31, 2005, zero shares were subject to repurchase rights under the 1996 Plan and 3,905,000 shares had been repurchased under the 1996 Plan in connection with employee terminations.

Since its adoption in 1996, the 1996 Plan has permitted the Company to make grants of restricted stock. In the case of such an award, the entire number of shares subject to a restricted stock award would be issued at the time of grant. Such shares could be subject to vesting provisions based on time or other conditions specified by the Board of Directors or an authorized committee of the Board. The Company would have the right to repurchase unvested shares subject to a restricted stock award if the grantee's service to the Company terminated prior to full vesting of the award. Until repurchased, such unvested shares would be considered outstanding for dividend, voting and other purposes. No shares of restricted stock were issued under the 1996 Plan in 2005, 2004, and 2003.

On November 3, 2005, the Board of Directors (the "Board") of Juniper Networks, Inc. (the "Company") adopted an amendment to the Juniper Networks, Inc. 1996 Stock Plan (the "Plan") to add the ability to issue Restricted Stock Units ("RSUs") under the Plan. Unlike restricted stock awards, RSU represents an obligation of the Company to issue unrestricted shares of common stock to the grantee only when and to the extent that the vesting criteria of the award are satisfied. As in the case of restricted stock awards, vesting criteria for RSUs can be based on time or other conditions specified by the Board or an authorized committee of the Board. However, until vesting occurs, the grantee is not entitled to any stockholder rights with respect to the unvested shares. During 2005, the Company issued 4,000 RSUs with an average intrinsic value of $21.9 per share.

2000 Nonstatutory Stock Option Plan

In July 2000, the Board of Directors adopted the Juniper Networks 2000 Non-statutory Stock Option Plan (the "2000 Plan"). The 2000 Plan provides for the granting of non-statutory stock options to employees, directors and consultants. Non-statutory stock options may be granted at an exercise price of not less than 85% of the fair value per share on the date of grant; however, no non-statutory stock options have been granted for less than fair market value on the date of grant. Vesting and exercise provisions are determined by the Board of Directors or a committee of the Board of Directors. Options granted under the 2000 Plan generally become exercisable over a four-year period beginning on the date of grant. Options granted under the 2000 Plan have a maximum term of ten years. Options granted to consultants are in consideration for the fair value of services previously rendered, are not contingent upon future events and are expensed in the period of grant. As of December 31, 2005, Juniper Networks had authorized 90,901,437 shares of common stock for issuance under the 2000 Plan. At December 31, 2005, 56,045,740 shares were available for future option grants under the 2000 Plan.

Plans Assumed Upon Acquisition

In connection with acquisitions, the Company has assumed options under the plans of the acquired companies, exchanged those options for Juniper Networks options and authorized the appropriate number of shares of common stock for issuance pursuant to those options. As of December 31, 2005, there were approximately 15,472,302 shares outstanding under plans assumed through acquisitions. During 2005, 6,517 shares of restricted common stock have been repurchased at an average price of $0.33 per share in connection with employee terminations. There were 33,586 shares of restricted shares subject to repurchase as of December 31, 2005.

Option activity under all option plans for the three years ended December 31, 2005 is summarized as follows:

	Outstanding Options	
	Number of Shares (in thousands)	Weighted-Average Exercise Price
Balance at December 31, 2002	74,877	$ 10.71
Options granted and assumed	14,764	13.06
Options exercised	(14,523)	5.64
Options canceled	(6,726)	13.58
Balance at December 31, 2003	68,392	12.01
Options granted and assumed	47,911	17.82
Options exercised	(20,254)	8.07
Options canceled	(6,865)	15.75
Balance at December 31, 2004	89,184	15.75
Options granted and assumed	18,101	19.91
Options exercised	(15,464)	8.26
Options canceled	(6,647)	18.24
Balance at December 31, 2005	85,174	$ 17.79

The following schedule summarizes information about stock options outstanding under all option plans as of December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
$0.02 - $5.65	12,121	5.1	$ 3.43	10,739	$ 3.64
$5.69 - $10.20	9,272	6.5	6.93	6,657	6.90
$10.31 - $13.74	9,744	6.5	10.60	9,131	10.44
$13.83 - $16.78	8,668	6.9	15.32	4,289	15.28
$16.96 - $22.59	11,961	8.7	21.20	6,049	21.54
$22.97 - $24.02	7,111	9.7	23.52	6,865	23.50
$24.14 - $24.14	9,906	8.7	24.14	9,717	24.14
$24.53 - $28.30	8,791	8.6	26.68	7,111	26.48
$29.19 - $115.48	7,588	4.3	36.48	7,588	36.48
$183.06 - $183.06	12	4.7	183.06	12	183.06
$0.02 - $183.06	85,174	7.2	$ 17.79	68,158	$ 18.19

As of December 31, 2005, approximately 68,158,000 options were exercisable at an average exercise price of $18.19. As of December 31, 2004, approximately 43,562,000 options were exercisable at an average exercise price of $13.33.

Employee Stock Purchase Plan

On December 16, 2005, the Board of Directors amended the Company's 1999 Employee Stock Purchase Plan (the "ESPP") to eliminate the ability of a participant under the ESPP to increase the rate of his/her payroll deductions during any offering period (as defined in the ESPP). This change will be effective beginning with the offering period commencing on February 1, 2006.

In April 1999, the Board of Directors approved the adoption of Juniper Networks 1999 Employee Stock Purchase Plan (the "Purchase Plan"). The 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 Purchase Plan is implemented in a series of offering periods, each six months in duration. 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 respective offering period.

Employees purchased 911,607 shares, 769,000 shares, and 1,475,000 shares of common stock through the Purchase Plan at an average exercise price of $19.96, $15.39, and $6.74 per share for 2005, 2004, and 2003, respectively. As of December 31, 2005, a total of 4,742,700 shares had been issued under the Purchase Plan at an average price of $8.92 per share, and 7,257,300 shares remained available for future issuance under the Purchase Plan. As of December 31, 2004, a total of 3,831,000 shares had been issued under the Purchase Plan at an average price of $7.95 per share, and 8,169,000 shares remained available for future issuance under the Purchase Plan.

Stock-Based Compensation

The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock-based compensation plans. Because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized, other than acquisition-related compensation costs.

The Company has disclosed the pro forma fair value stock-based compensation information required by SFAS 123 in Note 2, "Summary of Significant Accounting Policies." The fair value of each option granted or assumed through December 31, 2005 was estimated on the date of grant or date of assumption using the minimum value (before the Company went public) or the Black-Scholes method. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes model requires the input of highly subjective assumptions including the expected stock price volatility. The following shows the assumptions used to calculate the fair value of the Company's stock-based awards:

	Year Ended December 31,		
	2005	2004*	2003
Employee Stock Options			
Dividend yield	—	—	—
Volatility factor	42%	55%	81%
Risk-free interest rate	3.97%	3.23%	2.46%
Expected life (years)	4.3	4.5	4.5
Purchase Plan			
Dividend yield	—	—	—
Volatility factor	39%	54%	81%
Risk-free interest rate	2.8%	1.8%	1.1%
Expected life (years)	0.5	0.5	0.5

*The assumptions for 2004 have been revised to include options assumed in the acquisition in 2004. Weighted average assumptions previously reported for 2004 were 54% for volatility, 3.26% for risk-free interest rate, and 4.6 years for expected life. The revision had no effect on the Company's previously reported consolidated results of operations or financial condition as well as pro forma stock-based compensation expense reported under SFAS 123 for 2004.

In anticipation of adopting SFAS 123R, the Company refined the variables used in the Black-Scholes model during 2005. As a result, the Company refined its methodology of estimating the expected term to be more representative of future exercise patterns. The Company also refined its computation of expected volatility by considering the volatility of publicly traded options to purchase its common stock and its historical stock volatility. The weighted average estimated fair value of employee stock options granted during 2005, 2004, and 2003 was $9.63, $12.19, and $8.17 per option, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during 2005, 2004, and 2003 was $6.36, $4.44, and $3.08 per share, respectively.

On December 16, 2005, the Board of Directors approved the acceleration of the vesting of certain unvested and "out-of-the-money" stock options that had an exercise price per share equal to or greater than $22.00, all of which were previously granted under the Company's stock option plans and that were outstanding on December 16, 2005. Options to purchase approximately 21.2 million shares of common stock or 49.3% of our total outstanding unvested options on December 16, 2005 were accelerated. The options accelerated excluded options previously granted to certain employees, including all of the executive officers and the Board of Directors of Juniper.

In addition, the acceleration of the unvested and "out-of-the-money" options was accompanied by restrictions imposed on any shares purchased through the exercise of accelerated options. Those restrictions will prevent the sale of any such shares prior to the date such shares would have originally vested had the optionee been employed on such date, whether or not the optionee is actually an employee at that time.

The purpose of the acceleration was to enable the Company to avoid recognizing compensation expense associated with these options in future periods in its Consolidated Statements of Operations pursuant to Financial Accounting Standards Board Statement No. 123R. Under SFAS No. 123R, the Company will apply the expense recognition provisions relating to stock options beginning in the first quarter of fiscal 2006. In approving the acceleration, the Board considered its impact on future financial results, stockholder value and employee retention. The Company believes that the acceleration of the unvested and "out-of-the-money" options was in the best interest of stockholders as the acceleration will reduce the Company's reported compensation expense in future periods in light of these accounting regulations. As a result of the acceleration, the Company expects to reduce the pre-tax stock option expense it otherwise would have been required to record by approximately $153 million subsequent to the adoption of SFAS 123R beginning in 2006. The acceleration of the vesting of these options did not result in a charge to its consolidated statements of operations in 2005.

Common Stock Reserved for Future Issuance

At December 31, 2005, Juniper Networks had reserved an aggregate of approximately 190,752,000 shares of common stock for future issuance under all its Stock Option Plans, the 1999 Employee Stock Purchase Plan and for future issuance upon conversion of convertible senior notes.

Common Stock Repurchase Program

During July 2004, the Company's Board of Directors approved a program to repurchase up to $250.0 million of the Company's common stock. During 2005 and 2004, the Company repurchased and retired zero and 2.9 million shares, respectively, of its common stock. The average price of 2004 repurchases was $22.17 per share for an aggregate purchase price of $63.6 million. The program may be discontinued at any time.

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, 2005.

Note 11. 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. Beginning January 1, 2001, the Company began matching employee contributions. The matching formula was 50% up to 6% of eligible pay (up to an annual maximum of $2,000). Effective on January 1, 2005, the Company increased the match from 50% to 100% of eligible pay, up to an annual maximum of $2,000. All matching contributions vest immediately. The Company's matching contributions to the plan totaled $5.1 million, $3.1 million, and $2.0 million in 2005, 2004, and 2003, respectively.

Note 12. Segment Information

An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenue and incur expenses and about which separate financial information is available. It is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing performance.

In 2005, the Company's CODM and senior management team (together "management") began to allocate resources and assess performance based on financial information by categories of products and by service. Following the acquisitions of Funk, Acorn, Peribit, Redline, and Kagoor, the Company combined the products from these acquired companies with the Security segment to create the SLT operating segment. As a result, the Company currently has the following operating segments: Infrastructure, SLT, and Service. The Infrastructure segment includes products from the E-, M- and T-series product families as well as the Acorn products. The SLT segment includes Security products and Application Acceleration products from the Funk, Peribit, Redline, Kagoor, and NetScreen acquisitions. Security products consist of firewall and virtual private network ("VPN") systems and appliances, secure sockets layer VPN appliances, intrusion detection and prevention appliances, session border control products and the J-series product family. Application Acceleration products consist of application front end platforms and wide area network ("WAN") optimization platforms. The Service segment delivers world-wide services to customers of the Infrastructure and SLT segments.

Prior to fiscal 2005, management evaluated the Company's performance by geographic theater and by categories of products based only on revenues. Management did not assess the performance of its geographic theaters or categories of products on other measures of income or expenses; therefore, the Company only had one operating segment.

The re-alignment of operating segments in 2005 was due to a shift in management structure and responsibilities to measure the business based on product and service profitability. Commencing in the fourth quarter of 2005, the primary financial measure used by the management in assessing performance and allocating resources to the segments is management operating income, which includes certain cost of revenues, research and development expenses, sales and marketing expenses, and general and administrative expenses. Direct costs, such as standard costs, research and development, and product marketing expenses, are applied directly to each operating segment. Indirect costs, such as manufacturing overhead, other cost of sales, are allocated based on standard costs. Indirect operating expenses, such as sales, business development, and general and administrative expenses are allocated to each operating segment based on factors including headcount and revenue. Prior period information has been included for comparative purposes. Financial information for each operating segment used by management to make financial decisions and allocate resources is as follows (in millions):

	Year Ended December 31,		
	2005	2004	2003
Net Revenues:			
Infrastructure	$ 1,367.8	$ 975.7	$ 602.5
Service Layer Technologies	403.2	187.2	—
Service	293.0	173.1	98.9
Total net revenues	$ 2,064.0	$ 1,336.0	$ 701.4
Operating income:			
Management operating income:			
Infrastructure	$ 483.2	$ 297.9	$ 76.1
Service Layer Technologies	13.4	1.0	—
Service	72.3	32.6	17.6
Total management operating income	568.9	331.5	93.7
Amortization of purchased intangible assets	(85.2)	(56.8)	(20.7)
Stock-based compensation expense related to acquisitions	(17.6)	(44.0)	(2.0)
IPR&D	(11.0)	(27.5)	—
Restructuring, impairments, and special charges, net	0.6	5.1	(14.0)
Patent expense	(10.0)	—	—
Integration costs	—	(5.1)	—
Total operating income	$ 445.7	$ 203.2	$ 57.0

One customer accounted for 14% and 15% of the Company's net revenues for 2005 and 2004, respectively. Two customers individually accounted for 15% and 13% of the Company's net revenues in 2003. The revenue attributed to this significant customer was derived from the sale of products and services in all three operating segments.

The Company attributes sales to geographic theater based on the customer's ship-to location. The following table shows net revenue by geographic theater (in millions):

	Year Ended December 31,		
	2005	2004	2003
Americas			
United States	$ 879.0	$ 561.5	$ 268.2
Other	53.9	47.6	28.0
Total Americas	932.9	609.1	296.2
Europe, Middle East, and Africa	610.1	380.5	186.4
Asia Pacific:			
Japan	204.8	155.7	102.4
Other	316.2	190.7	116.4
Total Asia Pacific	521.0	346.4	218.8
Total	$ 2,064.0	$ 1,336.0	$ 701.4

The Company tracks assets by physical location. Over 90% of the Company's assets, including property and equipment, as of December 31, 2005 and 2004 were attributable to its U.S. operations. The Company does not allocate its assets by segment.

Note 13. Net Income Per Share

Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for that period. Diluted net income per share is computed giving effect to all dilutive potential shares that were outstanding during the period. Dilutive potential common shares consist of incremental common shares subject to repurchase, common shares issuable upon exercise of stock options, and shares issuable upon conversion of the Subordinated Notes. The following table presents the calculation of basic and diluted net income per share (in millions, except per share data):

	Year Ended December 31,		
	2005	2004	2003
Net income	$ 354.0	$ 135.7	$ 39.2
Basic and diluted:			
Weighted-average shares of common stock outstanding	554.3	493.4	382.3
Less: weighted-average shares subject to repurchase	(0.1)	(0.3)	(0.1)
Weighted-average shares used in computing basic net income per share	554.2	493.1	382.2
Effect of dilutive securities:			
Shares subject to repurchase	0.1	0.3	0.1
Shares issuable upon conversion of the Subordinated Notes	19.9	19.9	10.7
Employee stock options	24.7	29.3	20.8
Weighted-average shares used in computing diluted net income per share	598.9	542.6	413.8
Basic net income per share	$ 0.64	$ 0.28	$ 0.10
Diluted net income per share	$ 0.59	$ 0.25	$ 0.09

Employee stock options to purchase approximately 37,720,000 shares, 11,833,000 shares, and 13,065,000 shares in 2005, 2004, and 2003, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and, therefore, the effect would have been anti-dilutive.

Note 14. Income Taxes

The following is a geographical breakdown of income before the provision for income taxes (in millions):

	Year Ended December 31,		
	2005	2004	2003
Domestic	$ 230.2	$ 107.4	$ 37.7
Foreign	272.0	111.6	21.2
Total income before provision for income taxes	$ 502.2	$ 219.0	$ 58.9

The provision for income taxes consists of the following (in millions):

	Year Ended December 31,		
	2005	2004	2003
Current Provision:			
Federal	$ 13.7	$ —	$ —
State	3.0	1.1	1.0
Foreign	34.6	16.2	8.0
Total current provision	51.3	17.3	9.0
Deferred benefit:			
Federal	(20.5)	—	—
State	(9.3)	—	—
Foreign	(2.8)	—	—
Total deferred benefit	(32.6)	—	—
Income tax benefits attributable to employee stock plan activity allocated to stockholders' equity	129.5	66.0	10.8
Total provision for income taxes	$ 148.2	$ 83.3	$ 19.8

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

	Year Ended December 31,		
	2005	2004	2003
Expected provision at 35% rate	$ 175.7	$ 76.7	$ 20.6
State taxes, net of federal benefit	12.6	6.6	1.7
Foreign income at different tax rates	(14.9)	(2.9)	1.2
Jobs Act repatriation, including state taxes	(19.7)	—	—
Non-deductible goodwill and IPR&D	3.9	9.6	—
Un-benefited operating and investment losses	—	—	1.7
Research and development credits	(10.7)	(8.4)	(6.5)
Other	1.3	1.7	1.1
Total provision for income taxes	$ 148.2	$ 83.3	$ 19.8

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):

	As of December 31,	
	2005	2004
Deferred tax assets:		
Net operating loss carry-forwards	$ 90.8	$ 108.3
Foreign tax credit carry-forwards	6.5	8.1
Research and other credit carry-forwards	112.3	92.3
Deferred revenue	17.7	21.5
Property and equipment basis differences	4.9	8.9
Reserves and accruals not currently deductible	129.3	114.7
Other	4.0	3.8
Total deferred tax assets	365.5	357.6
Valuation allowance	(198.6)	(207.8)
Net deferred tax assets	166.9	149.8
Deferred tax liabilities:		
Purchased intangibles	(99.3)	(96.8)
Unremitted foreign earnings	(23.8)	(35.8)
Deferred compensation and other	(1.2)	(8.6)
Total deferred tax liabilities	(124.3)	(141.2)
Net deferred tax assets	$ 42.6	$ 8.6

At December 31, 2005, the Company had a valuation allowance on its U.S. domestic deferred tax assets of approximately $198.6 million, of which approximately $158 million relates to the tax benefits of stock option deductions that will be credited to equity when realized. The remaining balance of $40.6 million relates to capital losses that will carry forward to offset future capital gains. The net valuation allowance decreased by $9.2 million and increased by nil in the years ended December 31, 2005 and 2004, respectively. The 2005 reduction was attributable to the recognition of certain U.S. domestic deferred tax assets.

As of December 31, 2005, the Company had federal and state net operating loss carry-forwards of approximately $251 million and $241.9 million, respectively. The Company also had federal and state tax credit carry-forwards of approximately $77.4 million and $63.8 million, respectively. Unused net operating loss and research and development tax credit carry-forwards will expire at various dates beginning in the years 2021 and 2012, respectively.

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. At December 31, 2005, the Company has unrecognized deferred tax liabilities of approximately $23.8 million related to approximately $66.2 million of cumulative net undistributed earnings of foreign subsidiaries. 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.

American Jobs Creation Act of 2004 — Repatriation of Foreign Earnings

The American Jobs Creation Act of 2004 ("Jobs Act"), enacted on October 22, 2004, provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated during either fiscal 2004 or fiscal 2005. The deduction results in an approximate 5.25% federal tax rate on the repatriated earnings. During 2005, the Company's Chief Executive Officer and Board of Directors approved a domestic reinvestment plan as required by the Jobs Act to repatriate $225.0 million in foreign earnings in 2005.

The Company repatriated $225.0 million under the Jobs Act in 2005. It recorded a net tax benefit in 2005 of $19.7 million related to this repatriation dividend. The net tax benefit consists of a federal and state tax provision, net of federal benefit, of $9.7 million, offset by a tax benefit of $29.4 million related to an adjustment of deferred tax liabilities on un-repatriated earnings.

Note 15. Selected Quarterly Financial Data (Unaudited)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2005				
Net revenues	$ 449.1	$ 493.0	$ 546.4	$ 575.4
Gross margin	305.5	337.5	374.6	393.5
Restructuring, impairments, and special charges, net	—	(6.6)	(0.1)	6.2
Amortization of purchased intangibles	18.5	19.9	23.0	23.7
In-process research and development	—	1.9	3.8	5.3
Operating income	100.9	119.6	108.7	116.4
Gain on/(Write-down of) equity investments	—	—	1.7	(0.4)
Net income	$ 75.4	$ 89.0	$ 84.1	$ 105.5
Basic income per share	$ 0.14	$ 0.16	$ 0.15	$ 0.19
Diluted income per share	$ 0.13	$ 0.15	$ 0.14	$ 0.17

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2004				
Net revenues	$ 224.1	$ 306.9	$ 375.0	$ 430.1
Gross margin	150.0	208.8	261.1	302.6
Restructuring and other	—	(3.8)	(1.2)	—
Amortization of purchased intangibles	3.7	16.2	18.4	18.4
In-process research and development	—	27.5	—	—
Operating income (loss)	46.9	(4.8)	70.9	90.2
Gain on retirement of convertible subordinated notes	—	(4.1)	—	—
Write-down of equity investments	—	—	(3.0)	—
Net income (loss)	$ 33.5	$ (12.6)	$ 48.8	$ 66.0
Basic income per share	$ 0.09	$ (0.02)	$ 0.09	$ 0.12
Diluted income (loss) per share	$ 0.08	$ (0.02)	$ 0.08	$ 0.11

Certain reclassifications have been made to prior quarter balances in order to conform to the current year's presentation.

The 2005 quarterly results reflect the impact of the acquisitions of Kagoor and Redline in the second quarter, Peribit in the third quarter, and Acorn and Funk in the fourth quarter, and the ongoing effects of these operations for the remainder of the year. The 2004 quarterly results reflect the impact of the acquisition of NetScreen in the second quarter and the ongoing effects of its operations for the remainder of the year. Basic and diluted net losses per share are computed independently for each of the quarters presented, therefore, the sum of the quarters may not be equal to the full year net loss per share amounts.

Note 16. Subsequent Event

In 2006, the Company repurchased 10,071,100 common shares at an average price of $18.51 as part of its Common Stock Repurchase Program. As of February 15, 2006, a total of 12,939,700 common shares had been repurchased since the inception of the program, equating to approximately $250 million at an average price of $19.32 per share.

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

None.

ITEM 9A. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*: We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

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 41 of this Form 10-K, which report is incorporated herein by reference.

(b) For the "Report of Independent Registered Public Accounting Firm," please see Item 8 on page 44 of this Form 10-K, which report is incorporated herein by reference.

(c) *Changes in Internal Controls*: There has been no change in our internal control over the financial reporting that occurred during the fourth quarter of fiscal 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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."

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.

Information regarding our current executive officers in Part I of this Report on Form 10-K is also incorporated by reference into this Item 10.

The other information required in this Item is incorporated herein by reference to the Company's definitive proxy statement for our 2006 Annual Meeting of Stockholders.

ITEM 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for our 2006 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for our 2006 Annual Meeting of Stockholders.

ITEM 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for our 2006 Annual Meeting of Stockholders.

ITEM 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for our 2006 Annual Meeting of Stockholders.

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

Schedule	Page
Schedule II — Valuation and Qualifying Account	80

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 81 of this report.

(b) Exhibits

See Exhibit Index on page 81 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 had 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 6th day of March 2006.

Juniper Networks, Inc.

By: /s/ Robert R.B. Dykes

Robert R.B. Dykes
Executive Vice President, Business Operations and Chief Financial Officer
(Duly Authorized Officer and Principal Financial and 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 Robert Dykes, and each of them individually, as his attorney-in-fact, each with full power of substitution, for him 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, the following persons in the capacities and on the date indicated have signed this report below.

Signature	Title	Date
/s/ Scott Kriens Scott Kriens	Chairman and Chief Executive Officer (Principal Executive Officer)	March 6, 2006
/s/ Robert R.B. Dykes Robert R.B. Dykes	Executive Vice President, Business Operations and Chief Financial Officer (Principal Financial and Accounting Officer)	March 6, 2006
/s/ Pradeep Sindhu Pradeep Sindhu	Chief Technical Officer and Vice Chairman of Board	March 6, 2006
/s/ Robert M. Calderoni Robert M. Calderoni	Director	March 6, 2006
/s/ Kenneth Goldman Kenneth Goldman	Director	March 6, 2006
/s/ William R. Hearst III William R. Hearst III	Director	March 6, 2006
/s/ Kenneth Levy Kenneth Levy	Director	March 6, 2006
/s/ Frank Marshall Frank Marshall	Director	March 6, 2006
/s/ Stratton Sclavos Stratton Sclavos	Director	March 6, 2006
/s/ William R. Stensrud William R. Stensrud	Director	March 6, 2006

Juniper Networks, Inc.

Schedule II — Valuation and Qualifying Account
Years Ended December 31, 2005, 2004, and 2003
(in millions)

	Balance at beginning of year	Amount acquired through acquisitions	Charged to (reversed from) costs and expenses	Recoveries (Deductions), net	Balance at end of year
Year ended December 31, 2005					
Allowance for doubtful accounts	$ 10.2	$ 1.2	$ (2.7)	$ (1.0)	$ 7.7
Sales returns reserve	$ 17.3	$ 0.2	$ 21.9	$ (22.7)	$ 16.7
Year ended December 31, 2004					
Allowance for doubtful accounts	$ 9.2	$ 3.7	$ (2.3)	$ (0.4)	$ 10.2
Sales returns reserve	$ 14.8	$ 11.9	$ 4.9	$ (14.3)	$ 17.3
Year ended December 31, 2003					
Allowance for doubtful accounts	$ 8.3	$ —	$ 0.7	$ 0.2	$ 9.2
Sales returns reserve	$ 16.9	$ —	$ 6.0	$ (8.1)	$ 14.8

Exhibit Index

			Incorporated By Reference		
Exhibit No.	Exhibit	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.	10-Q	3.2	000-26339	11/14/2003
4.1	Indenture, dated as of June 2, 2003, between the Company and Wells Fargo Bank Minnesota National Association	S-3	4.1	333-106889	7/11/2003
4.2	Form of Note (included in Exhibit 4.1)	S-3	4.1	333-106889	7/11/2003
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	Amended and Restated Juniper Networks 1999 Employee Stock Purchase Plan* ++				
10.6	Juniper Networks 2000 Nonstatutory Stock Option Plan ++	S-8	10.1	333-92086	7/9/2002
10.7	Form of Option Agreement for the Juniper Networks 2000 Nonstatutory Stock Option Plan++	10-K	10.6	000-26339	3/4/2005
10.8	Unisphere Networks, Inc. Second Amended and Restated 1999 Stock Incentive Plan ++	S-8	10.1	333-92090	7/9/2002
10.9	NetScreen Technologies, Inc. 1997 Equity Incentive Plan++	S-1+	10.2	333-71048	10/5/2001
10.10	NetScreen Technologies, Inc. 2001 Equity Incentive Plan++	S-1+	10.3	333-71048	12/10/2001
10.11	NetScreen Technologies, Inc. 2002 Stock Option Plan++	S-8	4.7	333-114688	4/21/2004
10.12	Neoteris 2001 Stock Plan++	S-8+	4.1	333-110709	11/24/2003
10.13	Kagoor Networks, Inc. 2003 General Stock Option Plan++	S-8	4.1	333-124572	5/3/2005
10.14	Kagoor Networks, Inc. 2003 Israel Stock Option Plan++	S-8	4.2	333-124572	5/3/2005
10.15	Redline Networks 2000 Stock Plan++	S-8	4.1	333-124610	5/4/2005
10.16	Peribit Networks 2000 Stock Plan++	S-8	99.1	333-126404	7/6/2005
10.17	Severance Agreement between Scott Kriens and the Registrant dated October 1, 1996 ++	S-1	10.6	333-76681	4/23/1999
10.18	Change of Control Agreement between Marcel Gani and the Registrant dated February 18, 1997++	S-1	10.7	333-76681	4/23/1999
10.19	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

10.20	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
10.21	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
10.22	Lease between Mathilda Associates LLC and the Registrant dated June 18, 1999	S-1	10.10	333-76681	6/23/1999
10.23	Lease between Mathilda Associates LLC and the Registrant dated February 1, 2000	10-K	10.9	000-26339	3/27/2001
10.24	Lease between Mathilda Associates II LLC and the Registrant dated August 15, 2000	10-Q	10.15	000-26339	11/2/2004
10.25	Robert R.B. Dykes Employment Agreement++	8-K	99.1	000-26339	12/14/2004
10.26	Amended and Restated Aircraft Reimbursement Policy++	10-K	10.23	000-26339	3/4/2005
10.27	Summary of 2005 Executive Officer Bonus Plan++	8-K	10.1	000-26339	2/8/2005
10.28	Summary of Non-Employee Director Compensation ++	8-K		000-26339	8/10/2005
10.29	Summary of Robert Sturgeon Compensatory Arrangements ++	8-K	10.1	000-26339	9/15/2005
10.30	Summary of 2006 Executive Officer Bonus Plan and Restricted Stock Unit Program++	8-K	10.1	000-26339	2/14/2006
12.1	Computation of Ratio of Earnings to Fixed Charges*				
21.1	Subsidiaries of the Company*				
23.1	Consent of Independent Registered Public Accounting Firm*				
24.1	Power of Attorney (see page 79)				
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**				

* Filed herewith

** Furnished herewith

\+ Filed by NetScreen Technologies, Inc.

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

1) Registration Statement (Form S-8 Nos. 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) of Juniper Networks, Inc.;

2) Registration Statement (Form S-3 Nos. 333-44116, 333-52260, 333-75758, 333-106889, and 333-110714), of Juniper Networks, Inc.;

of our reports dated March 3, 2006, with respect to the consolidated financial statements and schedule of Juniper Networks, Inc., Juniper Networks, Inc. management's assessment of the effectiveness of internal control over financial reporting, 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, 2005.

/s/ Ernst & Young LLP

San Jose, California
March 3, 2006

EXHIBIT 31.1

CERTIFICATION

I, Scott Kriens, 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: March 6, 2006

/s/ Scott Kriens
Scott Kriens
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Robert R.B. Dykes, 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: March 6, 2006

/s/ Robert R.B. Dykes
Robert R.B. Dykes
Executive Vice President, Business
Operations and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott Kriens, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Juniper Networks, Inc. on Form 10-K for the year ended December 31, 2005 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.

By:	/s/ Scott Kriens
Name:	Scott Kriens
Title:	Chairman and Chief Executive Officer
Date:	March 6, 2006

EXHIBIT 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert R.B. Dykes, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Juniper Networks, Inc. on Form 10-K for the year ended December 31, 2005 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.

By:	/s/ Robert R.B. Dykes
Name:	Robert R.B. Dykes
Title:	Executive Vice President, Business Operations and Chief Financial Officer
Date:	March 6, 2006

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