

JUNIPER NETWORKS INC

Form 10-Q/A

April 29, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q/A

(Mark one)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 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)

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

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

There were approximately 544,960,000 shares of the Company's Common Stock, par value \$0.00001, outstanding as of April 15, 2005.

Explanatory Note

This Quarterly Report on Form 10-Q/A (Form 10-Q/A) is being filed as Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005. This Form 10-Q/A is filed with the Securities and Exchange Commission (the Commission) for the purpose of providing corrected exhibits 31.1 and 31.2. This report speaks as of the original filing date and, except as indicated, has not been updated to reflect events occurring subsequent to the original filing date.

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Juniper Networks, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2005 (unaudited)	December 31, 2004 (A)
ASSETS		
Current assets:		
Cash and cash equivalents ^(B)	\$ 819,548	\$ 713,182
Short-term investments ^(B)	435,301	404,659
Accounts receivable, net	184,789	187,306
Prepaid expenses and other current assets	114,962	108,586
Total current assets	1,554,600	1,413,733
Property and equipment, net	286,438	275,612
Long-term investments ^(B)	603,655	595,234
Restricted cash	31,299	31,226
Goodwill	4,433,530	4,427,930
Purchased intangible assets, net and other long-term assets	251,668	255,979
Total assets	\$ 7,161,190	\$ 6,999,714
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 106,723	\$ 113,890
Other accrued liabilities	211,201	229,197
Deferred revenue	197,860	159,750
Total current liabilities	515,784	502,837
Deferred revenue, net of current portion	31,339	22,700
Convertible senior notes and other long-term liabilities	479,111	481,440
Commitments and contingencies		
Stockholders' equity:		
Common stock and additional paid-in capital	5,948,635	5,888,220
Deferred stock compensation	(21,084)	(32,394)
Accumulated other comprehensive loss	(5,657)	(716)
Retained earnings	213,062	137,627
Total stockholders' equity	6,134,956	5,992,737

Total liabilities and stockholders' equity	\$ 7,161,190	\$ 6,999,714
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(A) The balance sheet at December 31, 2004 has been derived from the audited consolidated financial statements at that date, but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

(B) Total cash and available-for-sale investments were \$1,859 million and \$1,713 million as of March 31, 2005 and December 31, 2004, respectively.

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Three months ended March 31,	
	2005	2004
Net revenues:		
Product	\$ 392,280	\$ 194,184
Service	56,832	29,869
Total net revenues	449,112	224,053
Cost of revenues:		
Product	112,480	56,565
Service	30,715	17,454
Total cost of revenues	143,195	74,019
Gross profit	305,917	150,034
Operating expenses:		
Research and development	76,128	46,630
Sales and marketing	91,428	43,540
General and administrative	15,467	8,865
Amortization of purchased intangible assets and deferred stock compensation ⁽¹⁾	21,964	4,129
Total operating expenses	204,987	103,164
Operating income	100,930	46,870
Interest and other income	10,661	4,986
Interest expense	(363)	(2,500)
Income before income taxes	111,228	49,356
Provision for income taxes	35,793	15,816
Net income	\$ 75,435	\$ 33,540
Net income per share:		
Basic	\$ 0.14	\$ 0.09
Diluted	\$ 0.13	\$ 0.08
Shares used in computing net income per share:		
Basic	542,651	394,496
Diluted	587,659	441,719

(1) Amortization of deferred stock compensation relates to the following cost and expense categories by period:

Cost of revenues	\$	459	\$	12
Research and development		2,007		388
Sales and marketing		683		60
General and administrative		274		13
Total	\$	3,423	\$	473

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Three months ended March 31,	
	2005	2004
Operating Activities:		
Net income	\$ 75,435	\$ 33,540
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	11,735	8,603
Amortization of purchased intangibles, deferred stock compensation and debt issuance costs	22,327	4,599
Tax benefit of employee stock option plans	28,910	
Changes in operating assets and liabilities:		
Accounts receivable, net	2,517	(9,478)
Prepaid expenses, other current assets and other long-term assets	(19,601)	5,915
Accounts payable	(7,167)	3,992
Other accrued liabilities	(26,516)	586
Deferred revenue	46,749	25,008
Net cash provided by operating activities	134,389	72,765
Investing Activities:		
Purchases of property and equipment, net	(22,549)	(7,612)
Purchases of available-for-sale investments	(235,235)	(120,615)
Maturities and sales of available-for-sale investments	191,422	78,355
(Increase) decrease in restricted cash	(73)	2
Minority equity investments	(968)	(1,090)
Net cash used in investing activities	(67,403)	(50,960)
Financing Activities:		
Proceeds from issuance of common stock	39,380	41,083
Net cash provided by financing activities	39,380	41,083
Net increase in cash and cash equivalents	106,366	62,888
Cash and cash equivalents at beginning of period	713,182	365,606
Cash and cash equivalents at end of period	\$ 819,548	\$ 428,494

See accompanying Notes to the Condensed Consolidated Financial Statements

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

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 Juniper Networks enables secure and assured communications over a single IP network. The Company s purpose-built, high performance IP platforms enable customers to support many different services and applications at scale. Service providers, enterprises, governments and research and education institutions worldwide rely on Juniper Networks to deliver products for building networks that are tailored to the specific needs of their users, services and applications. Juniper Networks portfolio of proven networking and security solutions supports the complex scale, security and performance requirements of the world s most demanding networks. The Company sells and markets its products through its direct sales organization, value-added resellers and distributors.

In April 2004, the Company completed its acquisition of NetScreen Technologies, Inc. (NetScreen) in order to expand its customer base and portfolio of products. As a result of the NetScreen acquisition, the Company now offers two categories of networking products: infrastructure products and security products. NetScreen developed, marketed and sold a broad array of integrated network security solutions for enterprises, carriers and government entities. In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, the Company has included in its results of operations the results of NetScreen beginning on April 16, 2004; therefore, revenues, cost of revenues and operating expenses are significantly greater during the three months ended March 31, 2005 compared to the three months ended March 31, 2004.

Note 2. Summary of Significant Accounting Policies

Interim Financial Statements

The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2004.

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, *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, is recognized in net income. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 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):

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	Three Months Ended March 31,	
	2005	2004
Net income as reported	\$ 75.4	\$ 33.5
Add: amortization of deferred stock compensation included in reported net income, net of tax	2.1	0.3
Deduct: total stock-based employee compensation expense determined under fair value based method, net of tax	(25.3)	(15.5)
Pro forma net income	\$ 52.2	\$ 18.3
Basic net income per share:		
As reported	\$ 0.14	\$ 0.09
Pro forma	\$ 0.10	\$ 0.05
Diluted net income per share:		
As reported	\$ 0.13	\$ 0.08
Pro forma	\$ 0.09	\$ 0.04

Guarantees

The Company recognizes the fair value of guarantee and indemnification arrangements issued or modified after December 31, 2002 if these arrangements are within the scope of FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). In addition, the Company monitors the conditions that are subject to the guarantees and indemnifications, as required under previously existing generally accepted accounting principles, in order to identify if a loss has occurred. If the Company determines it is probable that a loss has occurred then any such estimable loss would be recognized under those guarantees and indemnifications. 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 examples of the Company's 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.

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.

The Company 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.

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 under SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities*, 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 statement of operations line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during the three months ended March 31, 2005 and 2004, in other income/(expense) on its consolidated statements of operations.

In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the Company reclassifies the gain or loss on the related cash flow hedge from accumulated other comprehensive income to other income/(expense) on the consolidated statements of operations at that time. For the three months ended March 31, 2005 and 2004, there were no material net gains or losses recognized in other income/(expense) relating to hedges of forecasted transactions that did not occur.

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In December 2004, the FASB revised SFAS No. 123 (SFAS 123(R)), *Share-Based Payment*, which requires companies to expense the estimated fair value of employee stock options and similar awards. The accounting provisions of SFAS 123(R) will be effective for the Company beginning on January 1, 2006. The Company will adopt the provisions of SFAS 123(R) using a modified prospective application. Under a modified prospective application, SFAS 123(R) will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123. The Company is in the process of determining how the new method of valuing stock-based compensation as prescribed in SFAS 123(R) will be applied to valuing stock-based awards granted after the effective date and the impact the recognition of compensation expense related to such awards will have on its financial statements.

In March 2005, the SEC staff issued guidance on SFAS 123(R). Staff Accounting Bulletin No. 107 (SAB 107) was issued to assist preparers by simplifying some of the implementation challenges of SFAS 123(R) while enhancing the information that investors receive. SAB 107 creates a framework that is premised on two overarching themes: (a) considerable judgment will be required by preparers to successfully implement SFAS 123(R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by SAB 107 include: (a) valuation models SAB 107 reinforces the flexibility allowed by SFAS 123(R) to choose an option-pricing model that meets the standard's fair value measurement objective; (b) expected volatility SAB 107 provides guidance on when it would be appropriate to rely exclusively on either historical or implied volatility in estimating expected volatility; and (c) expected term the new guidance includes examples and some simplified approaches to determining the expected term under certain circumstances. The Company will apply the principles of SAB 107 in conjunction with its adoption of SFAS 123(R).

The Emerging Issues Task Force issued EITF Issue No. 04-8 (EITF 04-8), *The Effect of Contingently Convertible Debt on Diluted Earnings per Share*, during September 2004. EITF 04-8 states that all issued securities that have embedded conversion features that are contingently exercisable upon occurrence of a market-price condition should be included in the calculation of diluted EPS, regardless of whether the market price trigger has been met. The EITF 04-8 consensus must be applied retroactively based on the terms in effect and amounts outstanding on the last day of the fiscal period in which the consensus becomes effective. EITF 04-8 was effective for the Company beginning in the fourth quarter of 2004 and was applied to the Company's Senior Notes that were issued in June 2003. The application of EITF 04-8 did not have a significant effect on diluted earnings per share for the three-month period ended March 31, 2004.

Note 3. Equity Investments

As of March 31, 2005 and December 31, 2004, the carrying values of the Company's minority equity investments in privately held companies were \$4.8 million and \$3.8 million, respectively. During the three months ended March 31, 2005, the Company made additional investments of \$1.0 million in privately held companies.

Note 4. Goodwill and Purchased Intangible Assets

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

As of March 31, 2005	Gross	Accumulated Amortization	Net
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Technology	\$ 286.6	\$ (98.7)	\$ 187.9
Other	64.1	(16.7)	47.4
Total	\$ 350.7	\$ (115.4)	\$ 235.3

As of December 31, 2004

Technology	\$ 286.6	\$ (82.4)	\$ 204.2
Other	52.1	(14.4)	37.7
Total	\$ 338.7	\$ (96.8)	\$ 241.9

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The Company purchased a portfolio of patents during the three months ended March 31, 2005 for \$12.0 million. These patents will be amortized over their useful lives, which average 12.1 years.

Amortization expense of purchased intangible assets of \$18.5 million and \$3.7 million were included in operating expenses for the three months ended March 31, 2005 and 2004, respectively. 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
2005 (remaining nine months)		\$ 55.7
2006		73.7
2007		68.2
2008		23.4
2009		3.5
Thereafter		10.8
Total		\$ 235.3

The Company tests its goodwill and any other intangibles with indefinite lives annually for impairment and assesses whether there are any indicators of impairment on an interim basis. The Company performed its annual impairment analysis during November 2004 and determined that there was no impairment of goodwill at that time. There were no impairment indicators during the three months ended March 31, 2005. 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	
Net additions to existing goodwill.	5.6
Balance as of March 31, 2005	\$ 4,433.5

The net additions to existing goodwill during the three months ended March 31, 2005 was primarily due to the recognition of a preacquisition contingency of \$6.0 million related to an earn-out payable to the shareholders of Neoteris, Inc., a company acquired by NetScreen during November 2003, in the event certain financial milestones were achieved. Based on the financial milestones that were achieved, we expect to pay \$18.0 million during the three months ended June 30, 2005. The \$6.0 million was partially offset by tax adjustments related to the period of October 1, 2003 to April 15, 2004, before the NetScreen acquisition was completed.

Note 5. 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

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Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's warranty reserve during the three months ended March 31, 2005 and 2004 were as follows (in millions):

	As of March 31,	
	2005	2004
Beginning balance	\$ 38.9	\$ 35.3
Provisions made during the three months	5.3	8.8
Changes in estimates	(0.3)	(0.9)
Actual costs incurred during the three months	(5.7)	(5.8)
Ending balance	\$ 38.2	\$ 37.4

Certain reclassifications have been made to the prior year amounts in order to conform to the current year's presentation. Specifically, the Company has disclosed changes in estimates, which had an impact on provisions made and actual costs incurred.

Note 6. Restructuring Charges

The Company has implemented several restructuring plans over the last four years as a result of the economic slowdown, which began in 2001, including restructuring in connection with the discontinuation of CMTS products in September 2003, and the acquisitions of Unisphere Networks in July 2002 and NetScreen in April 2004.

In connection with the acquisition of NetScreen, the remaining restructuring charge as of March 31, 2005 consists primarily of facility charges of \$11.6 million that will be paid through the end of the lease terms, which extend through 2008. Of the \$11.6 million, \$7.6 million is recorded in other long-term liabilities in the Condensed Consolidated Balance Sheet.

During the three months ended September 30, 2003, the Company announced that it would no longer develop its G-series CMTS products and recorded a one-time charge that was comprised of workforce reduction costs, non-inventory asset impairment, costs associated with vacating facilities and terminating contracts and other related costs. As of March 31, 2005, \$2.1 million remained to be paid primarily related to facility charges that will be paid through the end of the lease terms, which extend through 2008.

In connection with the acquisition of Unisphere Networks, the Company initiated 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. As of March 31, 2005, \$2.3 million remained to be paid primarily related to facility charges that will be paid through the end of the lease terms, which extend through 2014.

The activity in the accrued restructuring balances related to all the plans mentioned above was as follows during the three months ended March 31, 2005 (in millions):

Balance as of	Balance as of
------------------	------------------

	December 31, 2004	Cash Paid	March 31, 2005
Facilities	\$ 16.5	\$ 1.4	\$ 15.1
Contractual commitments and other charges	1.2	0.2	1.0
Total	\$ 17.7	\$ 1.6	\$ 16.1

Note 7. Other Comprehensive Income

Other comprehensive income is as follows (in millions):

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	Three Months Ended March 31,	
	2005	2004
Net income	\$ 75.4	\$ 33.5
Reclassification of net (gains) losses on investments realized and included in net income	0.2	
Change in net unrealized gains (losses) on investments	(4.8)	0.8
Change in foreign currency translation adjustment	(0.2)	0.2
Total comprehensive income	\$ 70.6	\$ 34.5

Note 8. Net Income per Share

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

	Three Months Ended March 31,	
	2005	2004
Numerator:		
Net income	\$ 75.4	\$ 33.5
Denominator:		
Weighted-average shares of common stock outstanding	542.8	394.5
Weighted-average shares subject to repurchase	(0.1)	
Denominator for basic net income per share	542.7	394.5
Common stock equivalents	45.0	47.2
Denominator for diluted net income per share	587.7	441.7
Consolidated net income applicable to common stockholders per share:		
Basic	\$ 0.14	\$ 0.09
Diluted	\$ 0.13	\$ 0.08

Employee stock options to purchase approximately 26,855,000 shares and 9,114,000 shares in the three months ended March 31, 2005 and 2004, 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 antidilutive.

Shares issuable upon conversion of the Zero Coupon Convertible Senior Notes due June 15, 2008 (the Senior Notes) were included in the calculation of the diluted earnings per share for the three months ended March 31, 2005 and 2004 in accordance with EITF Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share* (EITF 04-8). EITF 04-8 required retroactive application; therefore the diluted earnings per share for the three months ended March 31, 2004 have been restated.

Note 9. Operating Segments

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 that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance.

During the three months ended March 31, 2005, the Company s CODM and senior management (together management) began to allocate resources and assess performance based on financial information by categories of networking products and by service; therefore the Company now has three

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operating segments: Infrastructure, Security and Service. The Infrastructure segment includes products from the E-, M- and T-series product families. The Security segment includes products from the firewall and virtual private network (VPN) systems and appliances, secure access secure sockets layer VPN appliances, intrusion detection and prevention appliances, and the J-series product family. The Service segment is managed as one organization and delivers services to customers of the Infrastructure and Security segments.

Prior to the three months ended March 31, 2005, management evaluated the Company's performance by theater and by categories of networking products based only on revenues. Management did not assess the performance of its theaters or categories of networking products on other measures of income or expenses; therefore, the Company only had one operating segment.

The change in operating segments was due to a shift in management structure and responsibilities to measure the business based on product and service profitability. Direct costs, such as standard costs and research and development and product marketing expenses, are allocated directly to each operating segment. Indirect costs, such as sales and general and administrative expenses are allocated to each operating segment based on 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):

	Three months ended March 31,	
	2005	2004
Net Revenues:		
Infrastructure	\$ 304.1	\$ 194.2
Security	88.2	
Service	56.8	29.9
Total net revenues	\$ 449.1	\$ 224.1
Operating income:		
Infrastructure	\$ 84.5	\$ 41.2
Security	3.1	
Service	13.3	5.7
Total operating income	\$ 100.9	\$ 46.9
Depreciation and amortization of purchased intangible assets and deferred stock compensation included in operating income:		
Infrastructure	\$ 11.4	\$ 11.6
Security	20.8	
Service	1.5	1.1
Total depreciation and amortization	\$ 33.7	\$ 12.7

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):

	Three months ended March 31,	
	2005	2004
Americas:		
United States	\$ 191.0	\$ 83.9
Other	3.0	12.6
Total Americas	194.0	96.5
Europe, Middle East and Africa	115.3	63.3
Asia Pacific:		
Japan	52.6	35.4
Other	87.2	28.9
Total Asia Pacific	139.8	64.3
Total	\$ 449.1	\$ 224.1

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Two customers individually accounted for 13% and 12% of the Company's net revenues for the three months ended March 31, 2005. The revenue attributed to each significant customer was derived from the sale of products and services in all three operating segments. Two customers individually accounted for 16% and 10% of the Company's net revenues for the three months ended March 31, 2004. The revenue attributed to each significant customer was derived from the Infrastructure and Service operating segments since the Security operating segment primarily includes products added through the NetScreen acquisition.

The Company tracks assets by physical location. Substantially all of the Company's assets, including property and equipment, as of March 31, 2005 and 2004 were attributable to its U.S. operations.

Note 10. Income Taxes

The Company recorded tax provisions of \$35.8 million and \$15.8 million for the three months ended March 31, 2005 and 2004, respectively. The Company's effective tax rate was 32% for each period. The Company's income taxes currently payable for federal and state purposes have been reduced by the tax benefit from employee stock option transactions. These benefits totaled \$28.9 million for the three months ended March 31, 2005 and were reflected as an increase to additional paid-in capital.

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 believes it has made adequate provisions in the accompanying consolidated financial statements for any adjustments that the IRS has proposed with respect to these tax returns.

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 during February 2005, and intends to dispute this assessment with the IRS and resolve the issue at the Appeals level. The Company currently does not believe that it is probable that any final assessment will be sustained nor does it believe that a liability can be reasonably estimated at this time. In the event that this issue is resolved unfavorably to the Company, there exists the possibility of a material adverse impact on the Company's results of operations for the period in which an unfavorable outcome becomes probable and reasonably estimable.

Note 11. Contingencies

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. 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

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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 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 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. The settlement is subject to a number of conditions, including 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. The hearing on defendants' motion to dismiss was held in September 2003. In March 2004, the court granted defendants' motion to dismiss, without leave to amend. In April 2004, the plaintiffs filed a notice of appeal. The appeal has been fully briefed by the parties. The Court of Appeals has not yet scheduled oral argument on the appeal.

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

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order of final judgment against plaintiffs. In January 2005, plaintiffs filed a notice of appeal from this ruling. There has not yet been any briefing or argument on appeal.

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. In July 2004, the plaintiff amended its complaint to add two additional patents. The Company believes that it has meritorious defenses to the claims and intends to defend the suit vigorously.

Note 12. Pending Acquisitions

Kagoor Networks Acquisition

In March 2005, Juniper Networks announced it had signed a definitive agreement to acquire Kagoor Networks, Inc. in a transaction valued at \$67.5 million of cash, plus options and certain other incentives and equity compensation. The acquisition is expected to close in the second quarter of 2005 subject to certain customary closing conditions.

Redline Networks Acquisition

In April 2005, Juniper Networks announced it had signed a definitive agreement to acquire Redline Networks, Inc. in a transaction valued at approximately \$132 million of cash, plus options and certain other incentives and equity compensation. The acquisition is expected to close in the second quarter of 2005 subject to certain customary closing conditions.

Peribit Networks Acquisition

In April 2005, Juniper Networks announced it had signed a definitive agreement to acquire Peribit Networks, Inc. in a transaction valued at approximately \$337 million of stock and cash, plus options and certain other incentives and equity compensation. The acquisition is expected to close in the third quarter of 2005 subject to certain customary closing conditions.

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

This Quarterly Report on Form 10-Q (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 the Company that are based on current expectations, estimates, forecasts, and projections about the industry in which the Company operates and the beliefs and assumptions of the management of the Company. 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 Factors That May Affect Future Results and elsewhere, and in other reports the Company files with the Securities and Exchange Commission (SEC), specifically the most recent Annual Report on Form 10-K. The Company undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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 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, 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 the three months ended March 31, 2005 and 2004, 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

In April 2004, we completed our acquisition of NetScreen Technologies, Inc. (NetScreen) in order to expand our customer base and portfolio of products. As a result of the NetScreen acquisition, we now offer two categories of networking products: infrastructure products and security products. NetScreen developed, marketed and sold a broad array of integrated network security solutions for enterprises, carriers and government entities. We have included in our results of operations the results of NetScreen beginning on April 16, 2004; therefore, revenues, cost of revenues and operating expenses are significantly greater during the three months ended March 31, 2005 compared to the three months ended March 31, 2004.

Nature of Expenses

NetScreen had a significant distribution channel in place at the time of the acquisition, and we are using that channel to target new customers and increase sales. We plan to increase the volume of sales that go through our distribution channel during 2005 compared to prior years. This shift to selling more products through a distribution channel may negatively impact gross margins.

During the three months ended March 31, 2005, the Company's chief operating decision maker and senior management (together "management") began to allocate resources and assess performance

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based on financial information by categories of networking products and by services; therefore we now have three operating segments: Infrastructure, Security and Service. The Infrastructure segment includes products from the E-, M- and T-series product families. The Security segment includes products from the firewall and virtual private network (VPN) systems and appliances, secure access secure sockets layer VPN appliances, intrusion detection and prevention appliances, and the J-series product family. The Service segment is managed as one organization and delivers services to customers of the Infrastructure and Security segments. The change in operating segments was due to a shift in management structure and responsibilities to measure the business on product and service profitability. Direct costs, such as standard costs and research and development and product marketing expenses, are allocated directly to each operating segment. Indirect costs, such as sales and general and administrative expenses are allocated to each operating segment based on revenue.

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 primary independent contract manufacturers have facilities primarily in Neenah, Wisconsin; Toronto, Canada and Kulim, Malaysia. Generally, our contract manufacturers retain title to the underlying components and finished goods inventory until our customers take title to the assembled final product upon shipment from the contract manufacturer's facility.

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. Carrying and obsolete charges have decreased each of the past two years as the global economy and our product revenue improved.

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 increased our headcount from approximately 1,600 employees as of March 31, 2004 to approximately 3,100 employees as of March 31, 2005. The majority of this increase in headcount was a result of the NetScreen acquisition.

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 the company's growth.

Research and development expenses include:

- the costs of developing our products,
- outside services, such as certifications of new products,
- equipment used for testing
- and patent related costs.

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 2005 compared to prior years 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 and increase our

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sales and marketing costs in an effort to expand and grow our presence in new markets, serving both private and public networks with a full portfolio of networking and security 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 the consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to establish accounting policies that contain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These policies include:

revenue recognition;

estimating future warranty costs and the valuation of exposures associated with the contract manufacturing operations, both of which impact cost of product revenues and gross margins;

the provision for income taxes, which impacts our income tax expense, and tax related accruals;

the allowance for doubtful accounts, which impacts general and administrative expenses; and

the initial and continuing valuation of goodwill and other purchased intangible assets, the impairment of which would impact operating expenses.

We have other important accounting policies and practices; however, once adopted, these other policies either generally do not require us to make significant estimates or assumptions or otherwise only require implementation of the adopted policy and not a judgment as to the policy itself. We base our estimates on our historical experience and also on assumptions that we believe are standard and reasonable. Despite our intention to establish accurate estimates and assumptions, actual results could differ from those estimates for various reasons including those described in Factors That May Affect Future Results.

Management believes there have been no significant changes during the three months ended March 31, 2005 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2004.

Results of Operations*Net Revenues*

The following table shows product and service net revenues for the three months ended March 31, 2005 and 2004 (in millions):

	Three Months Ended March 31,			
	2005	% of Net Revenues	2004	% of Net Revenues
Net revenues:				
Product	\$ 392.3	87%	\$ 194.2	87%

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Service	56.8	13%	29.9	13%
Total net revenues	\$ 449.1	100%	\$ 224.1	100%

Net product revenues increased \$198.1 million in the three months ended March 31, 2005 compared to the same period in 2004 primarily as 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

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network, and the addition of the security networking products through the NetScreen acquisition. An analysis of the change in revenue by Infrastructure and Security segments and the change in units, can be found below in the section titled Segment Information.

Net service revenues increased \$27.0 million in the three months ended March 31, 2005 compared to the same period in 2004 primarily due to the growth in product shipments and number of customers as a result of the NetScreen acquisition. 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 and are typically for one-year renewable periods for services such as 24-hour customer support, non-specified updates and hardware repairs. In addition to service contracts, we also provide professional and educational services.

Siemens and Ericsson each accounted for greater than 10% of our net revenues during the three months ended March 31, 2005 and 2004.

The following table shows the percent of total net revenues by geographic theater:

	Three Months Ended March 31,	
	2005	2004
Americas	43%	43%
Europe, Middle East and Africa	26%	28%
Asia Pacific	31%	29%

Net revenues attributable to the United States were \$191.0 million and \$83.9 million for the three months ended March 31, 2005 and 2004, respectively. We continue to experience a relatively even distribution of revenue among our three theaters, and we expect this trend to continue.

Cost of Revenues

The following table shows cost of product and service revenues and the related gross margin (GM) percentages for the three months ended March 31, 2005 and 2004 (in millions):

	Three Months Ended March 31,			
	2005	GM %	2004	GM %
Cost of revenues:				
Product	\$ 112.5	71%	\$ 56.6	71%
Service	30.7	46%	17.4	42%
Total cost of revenues	\$ 143.2	68%	\$ 74.0	67%

Cost of product revenues increased \$55.9 million in the three months ended March 31, 2005 compared to the same period in 2004, while the product gross margin remained steady at 71%. The increase in absolute dollars was primarily due to standard costs related to the increase in revenue.

As we have expanded our market share and entered more markets, we have begun to experience increased competition. Price competition is intense; however, our revenues increased in absolute dollars and our product gross margins have remained steady compared to the year-ago period. In addition, the higher margins from the Security products were offset by the stronger quarter in the Asia Pacific theater, compared to the year-ago period, and pricing is more sensitive in this theater, which has a negative impact on margins. We expect to see continued price competition and pressure on our product gross margins in the future.

Cost of service revenues increased \$13.3 million in the three months ended March 31, 2005 compared to the same period in 2004, and the service gross margins increased four percentage points. In absolute dollars, employee related expenses increased \$6.1 million due to higher headcount and outside services increased \$5.2 million.

Table of Contents*Operating Expenses*

We have included in our results of operations the results of NetScreen beginning on April 16, 2004; therefore operating expenses are significantly greater during the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The following table shows operating expenses for the three months ended March 31, 2005 and 2004 (in millions):

	Three Months Ended March 31,			
	2005	% of Net Revenues	2004	% of Net Revenues
Research and development	\$ 76.1	17%	\$ 46.6	21%
Sales and marketing	\$ 91.4	20%	\$ 43.5	19%
General and administrative	\$ 15.5	3%	\$ 8.9	4%
Amortization of purchased intangible assets	\$ 18.5	4%	\$ 3.6	2%
Amortization of deferred stock compensation	3.4	1%	0.5	<1%
Amortization of purchased intangible assets and deferred stock compensation	\$ 21.9	5%	\$ 4.1	2%

Research and development expenses increased \$29.5 million from the three months ended March 31, 2004 to the three months ended March 31, 2005 due to a \$20.4 million increase in personnel related expenses and a \$5.0 million increase in outside services and equipment related to the development and testing of products. Personnel related expenses increased due to additional hires in the engineering organization to support product innovation.

Sales and marketing expenses increased \$47.9 million from the three months ended March 31, 2004 to the three months ended March 31, 2005 due to a \$35.7 million increase in personnel related expenses, a \$6.1 million increase in allocated facility and IT costs to support the growth in these departments and a \$3.0 million increase in marketing related activities. Personnel related expenses increased primarily due to additional hires to support our additional products and the expansion of our distribution channels and geographic presence. Marketing related activities increased primarily as a result of developing our channel and marketing the products purchased through the NetScreen acquisition.

General and administrative expenses increased \$6.6 million from the three months ended March 31, 2004 to the three months ended March 31, 2005 due to a \$3.1 million increase in personnel related expenses and a \$2.6 million increase in professional services. Personnel related expenses increased due to additional hires. Professional services increased as a result of higher corporate governance costs.

Amortization of purchased intangible assets and deferred stock compensation increased \$17.9 million from the three months ended March 31, 2004 to the three months ended March 31, 2005 due to the NetScreen acquisition. The amortization of deferred stock compensation is adjusted quarterly based on employee terminations.

Other Income and Expenses

The following table shows other income and expenses for the three months ended March 31, 2005 and 2004 (in millions):

	Three Months Ended March 31,	
	2005	2004
Interest and other income	\$ 10.7	\$ 5.0
Interest expenses	\$ (0.4)	\$ (2.5)

Interest and other income increased \$5.7 million as a result of higher cash, cash equivalents and investment balances quarter over quarter and an increase in interest rates.

Interest and other expenses decreased \$2.1 million as a result of the retirement of the subordinated notes during 2004.

Provision for Income Taxes

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We recorded tax provisions of \$35.8 million and \$15.8 million for the three months ended March 31, 2005 and 2004, and our effective tax rates were 32% for both periods .

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 believes it has made adequate provisions in the accompanying consolidated financial statements for any adjustments that the IRS has proposed with respect to these tax returns.

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 during February 2005, and intends to dispute this assessment with the IRS and resolve the issue at the Appeals level. The Company currently does not believe that it is probable that any final assessment will be sustained nor does it believe that a liability can be reasonably estimated at this time. In the event that this issue is resolved unfavorably to the Company, there exists the possibility of a material adverse impact on the Company's results of operations for the period in which an unfavorable outcome becomes probable and reasonably estimable.

Segment Information

A description of the products and services for each segment can be found in Note 9 to the Condensed Consolidated Financial Statements. We began to track financial information by our three operating segments during the three months ended March 31, 2005 as our management structure and responsibilities began to measure the business based on product and service profitability. We have included segment financial data for the three months ended March 31, 2004 for comparative purposes.

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

	Three months ended March 31,	
	2005	2004
Net Revenues:		
Infrastructure	\$ 304.1	\$ 194.2
Security	88.2	
Service	56.8	29.9
Total net revenues	\$ 449.1	\$ 224.1
Operating income:		
Infrastructure	\$ 84.5	\$ 41.2
Security	3.1	
Service	13.3	5.7
Total operating income	\$ 100.9	\$ 46.9

Depreciation and amortization of purchased intangible assets and deferred stock
compensation included in operating income:

Infrastructure	\$ 11.4	\$ 11.6
Security	20.8	
Service	1.5	1.1
Total depreciation and amortization	\$ 33.7	\$ 12.7

Table of Contents*Infrastructure Operating Segment*

Infrastructure net revenues increased \$109.9 million 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 and ports shipped for the three months ended March 31, 2005 and 2004:

	Three months ended March 31,	
	2005	2004
Infrastructure chassis revenue units	2,418	1,318
Infrastructure ports shipped	37,524	23,288

We track infrastructure revenue units 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.

The infrastructure operating income increased \$43.3 million due to increases in sales, offset by higher personnel related costs to support product innovation, the expansion of our distribution channel, the marketing of our products and a greater mix of revenue attributable to the Asia Pacific theater.

Security Operating Segment

The Security operating segment primarily consists of products acquired through the NetScreen acquisition and the costs related to those products; therefore there was no revenue or operating income during the three months ended March 31, 2004. Net revenues attributable to the security unit during the three months ended March 31, 2005 were based on approximately 38,000 units. The higher depreciation and amortization expense attributable to the Security segment is primarily due to the purchased intangible assets and deferred stock compensation that resulted from the NetScreen acquisition.

Service Operating Segment

A discussion on the change in service revenue can be found above under the *Net Revenues* section. Service operating income increased as a result of the revenue growth experienced in the Infrastructure segment and the new Security revenue, partially offset by increases in operating costs, primarily due to personnel related costs.

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):

	March 31, 2005	December 31, 2004
Cash and cash equivalents	\$ 819.5	\$ 713.2
Short-term investments	435.3	404.7
Long-term investments	603.7	595.2
Total cash and available-for-sale investments	\$ 1,858.5	\$ 1,713.1
Restricted cash	\$ 31.3	\$ 31.2
Working capital	\$ 1,038.8	\$ 910.9

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Working capital increased primarily due to cash provided by operations and the issuance of common stock through employee stock option exercises and stock purchase plans. 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 and long-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

Our principal commitments consist of obligations outstanding under operating leases, the Zero Coupon Convertible Senior Notes due June 15, 2008 (Senior Notes) and definitive agreements to acquire Kagoor Networks, Redline Networks and Peribit Networks. The contractual obligations under operating leases are primarily for our facilities, which extend through May 2014.

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.

In March 2005, we announced that we had signed a definitive agreement to acquire Kagoor Networks in a transaction valued at \$67.5 million in cash, plus options and certain other incentives and equity compensation. The acquisition is expected to close in the second quarter of 2005 subject to certain customary closing conditions.

In April 2005, we announced that we had signed a definitive agreement to acquire Redline Networks in a transaction valued at approximately \$132 million of cash, plus options and certain other incentives and equity compensation. The acquisition is expected to close in the second quarter of 2005 subject to certain customary closing conditions.

In April 2005, we announced that we had signed a definitive agreement to acquire Peribit Networks in a transaction valued at approximately \$337 million of stock and cash, plus options and certain other incentives and equity compensation. The acquisition is expected to close in the third quarter of 2005 subject to certain customary closing conditions.

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 \$148.9 million as of March 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 March 31, 2005, we had accrued \$19.0 million based on our estimate of such charges.

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Operating Activities

Net cash provided by operating activities was \$134.4 million and \$72.8 million for the three months ended March 31, 2005 and 2004, respectively. The cash provided by operating activities for each period was due to our net income adjusted by:

recurring non-cash charges of \$63.0 million and \$13.2 million for the three months ended March 31, 2005 and 2004, respectively, for the tax benefit of employee stock option plans, depreciation expense and amortization expenses of purchased intangible assets, deferred stock compensation and debt issuance costs; and

fluctuations during the normal course of business of \$(4.0) million and \$26.0 million for 2005 and 2004, respectively, in accounts receivable, prepaid and other current assets, other long-term assets, accounts payables, other accrued liabilities and deferred revenue.

Investing Activities

Net cash used in investing activities was \$67.4 million and \$51.0 million for the three months ended March 31, 2005 and 2004, respectively. Recurring investing activities included capital expenditures of \$22.5 million and \$7.6 million, respectively. We have also made investments in securities classified as available-for-sale and sold investments to fund ongoing operations and the retirement of the Subordinated Notes during the first half of 2004. We also made minority equity investments in privately held companies of \$1.0 million and \$1.1 million during the three months ended March 31, 2005 and 2004, respectively.

Financing Activities

Net cash provided by financing activities was \$39.4 million and \$41.1 million for the three months ended March 31, 2005 and 2004, respectively. The cash provided during both periods was through the issuance of common stock related to employee option exercises and stock purchase plans.

Recent Accounting Pronouncements

In December 2004, the FASB revised SFAS No. 123 (SFAS 123(R)), *Share-Based Payment*, which requires companies to expense the estimated fair value of employee stock options and similar awards. The accounting provisions of SFAS 123(R) will be effective for us beginning on January 1, 2006. We will adopt the provisions of SFAS 123(R) using a modified prospective application. Under modified prospective application, SFAS 123(R), which provides certain changes to the method for valuing stock-based compensation among other changes, will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123 (see Note 2 in the Notes to Consolidated Financial Statements). We are in the process of determining how the new method of valuing stock-based compensation as prescribed in SFAS 123(R) will be applied to valuing stock-based awards granted after the effective date and the impact the recognition of compensation expense related to such awards will have on our financial statements.

In March 2005, the SEC staff issued guidance on SFAS 123(R). Staff Accounting Bulletin No. 107 (SAB 107) was issued to assist preparers by simplifying some of the implementation challenges of SFAS 123(R) while enhancing the information that investors receive. SAB 107 creates a framework that is premised on two overarching themes: (a) considerable judgment will be required by preparers to successfully implement SFAS 123(R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by SAB 107 include: (a) valuation models SAB 107

reinforces the flexibility allowed by SFAS 123(R) to choose an option-pricing model that meets the standard's fair value measurement objective; (b) expected volatility – SAB 107 provides guidance on when it would be appropriate to rely exclusively on either historical or implied volatility in estimating expected volatility; and (c) expected term – the new guidance includes examples and some simplified approaches to determining

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the expected term under certain circumstances. We will apply the principles of SAB 107 in conjunction with our adoption of SFAS 123(R).

The Emerging Issues Task Force issued EITF Issue No. 04-8 (EITF 04-8), *The Effect of Contingently Convertible Debt on Diluted Earnings per Share*, during September 2004. EITF 04-8 states that all issued securities that have embedded conversion features that are contingently exercisable upon occurrence of a market-price condition should be included in the calculation of diluted EPS, regardless of whether the market price trigger has been met. The EITF 04-8 consensus must be applied retroactively based on the terms in effect and amounts outstanding on the last day of the fiscal period in which the consensus becomes effective. EITF 04-8 was effective for Juniper beginning in the fourth quarter of 2004 and was applied to our Senior Notes that were issued in June 2003. The application of EITF 04-8 did not have a significant effect on diluted earnings per share for the three-month period ended March 31, 2004.

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 our actual financial results, 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.

The 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 has 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.

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 and Ericsson have each accounted for greater than 10% of our net revenues during the three months ended March 31, 2005 and 2004. Any downturn in the business of these 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 recently announced planned 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

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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 security products market, we face intense competition from a broader group of companies including appliance vendors such as Cisco Systems, Inc., SonicWALL, Inc., and Watchguard Technologies and software vendors such as CheckPoint Software Technologies and Symantec Corporation. We also compete with various emerging private companies and low-cost network hardware suppliers that may position their products as replacements for ours.

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.

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 distributors and value-added resellers. The loss of or reduction in sales to these value-added resellers or distributors could materially reduce our revenues. Our competitors may in some cases be effective in incentivizing resellers or potential resellers to favor their products or to prevent or reduce sales of our products. If we fail to maintain relationships with these distribution partners, fail to develop new relationships with value-added resellers and distributors in new markets or expand the number of resellers in existing markets, fail to manage, train or incent 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.

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. We recently announced plans to acquire Kagoor Networks, Inc., Redline Networks, Inc. and Peribit Networks, Inc. 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

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

Our recent level of product 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 inventory or obsolescence charges from our contract manufacturers, increased costs due to changes in component pricing or charges incurred due to inventory holding periods if our forecasts do not accurately anticipate product demand, 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 no later than the beginning of the first fiscal year beginning after June 15, 2005. By causing us to incur 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 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 limited visibility into customer spending plans, changing market conditions, including some customer and potential customer bankruptcies, changes in the mix of products sold, long sales and implementation cycles, regional economic and political conditions and seasonality. For example, many companies experience seasonal fluctuations in customer spending patterns, particularly in the 1st and 3rd 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.

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.

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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.

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. For example, IBM is our sole ASIC supplier for our infrastructure products and Toshiba America Electronic Components, Inc. is our sole ASIC supplier for our security products. 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 materials and components required to produce our products, which could 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 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, 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

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supply chain management. For example, one of our contract manufacturers has recently begun manufacturing in Malaysia. Each of these factors could adversely affect our business and financial results.

We sell our products to customers that use those products to build networks and IP infrastructure and, if the network and IP systems do 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, 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.

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 the NetScreen acquisition 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. We cannot accurately predict the amount and timing of any impairment of assets.

Our products are highly technical and if they contain undetected software or hardware 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.

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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 and 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, 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 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 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.

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.

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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. 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 software 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.

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 would 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 outside of the United States and also depend on the operations of our contract manufacturers and suppliers that are located 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 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 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

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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 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, may 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, 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, 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 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.

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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 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 controls 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 structure and procedures for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We expect to incur significant expenses and 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

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keys. Governmental regulation of encryption technology and regulation of imports or exports, or our failure to obtain required export approval of encryption technologies 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 include matters such as voice over the Internet or using Internet Protocol, encryption technology, and access charges for service providers. The adoption of such regulations could decrease demand for our products, and at the same time increase the cost of selling our products, which could have a material adverse effect on our business, operating result 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 3. Quantitative and Qualitative Disclosures 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 March 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 March 31, 2005	Valuation of Securities Given an Interest Rate Increase of X BPS		
(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
\$ 261.4	\$ 260.0	\$ 258.6	\$ 257.2	\$ 255.8	\$ 254.4	\$ 253.0

Government treasury and agencies							
Corporate bonds and notes	564.8	561.3	557.9	554.5	551.0	547.6	544.1
Asset backed securities and other	376.1	375.6	375.1	374.7	374.2	373.7	373.2
Total	\$ 1,202.3	\$ 1,196.9	\$ 1,191.6	\$ 1,186.4	\$ 1,181.0	\$ 1,175.7	\$ 1,170.3

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

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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 use 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.

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 under SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities*, 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 statement of operations line item to which the hedged transaction relates. We record any ineffectiveness of the hedging instruments, which was immaterial during the three months ended March 31, 2005 and 2004, in other income/(expense) on its consolidated statements of operations.

In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income to other income/(expense) on the consolidated statements of operations at that time. For the three months ended March 31, 2005 and 2004, there were no material net gains or losses recognized in other income/(expense) relating to hedges of forecasted transactions that did not occur.

Item 4. Controls and Procedures

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.

Changes in Internal Controls

There has been no significant change in our internal controls over the financial reporting that occurred during the first quarter of Fiscal 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. 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. 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.

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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 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 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. The settlement is subject to a number of conditions, including 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. The hearing on defendants' motion to dismiss was held in September 2003. In March 2004, the court granted defendants motion to dismiss, without leave to amend. In April 2004, the plaintiffs filed a notice of appeal. The appeal has been fully briefed by the parties. The Court of Appeals has not yet scheduled oral argument on the appeal.

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. In January 2005, plaintiffs filed a notice of appeal from this ruling. There has not yet been any briefing or argument on appeal.

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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. In July 2004, the plaintiff amended its complaint to add two additional patents. The Company believes that it has meritorious defenses to the claims and intends to defend the suit vigorously.

Item 6. Exhibits

Exhibit Number	Description of Document
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

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SIGNATURES

Pursuant to the requirements 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.

Juniper Networks, Inc.
April 29, 2005

By: /s/ Robert R.B. Dykes

Robert R.B. Dykes
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

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Exhibit Index

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