JUNIPER NETWORKS INC
Form 10-K
March 09, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**
**FORM 10-K**

**(Mark one)**

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

**For the fiscal year ended December 31, 2006**

**OR**

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

**For the transition period from ____________________ to ____________________**

**Commission file number 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<br>Sunnyvale, California 94089 | (408) 745-2000 |
| (Address of principal executive offices, including zip code) | (Registrant s telephone number, including area code) |

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days.

Yes þ No o

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filed o

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant was approximately $5,844,000,000 as of the end of the Registrant s second fiscal quarter (based on the closing price for the Common Stock on the NASDAQ National Market on June 30, 2006).

As of February 28, 2007 there were approximately 569,234,000 shares of the Registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

As noted herein, the information called for by Part III is incorporated by reference to specified portions of the Registrant s definitive proxy statement to be filed in conjunction with the Registrant s 2007 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant s fiscal year ended December 31, 2006.

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## Explanatory Note

In this Form 10-K as of and for the year ended December 31, 2006 (the 2006 Form 10-K ), Juniper Networks, Inc. ( Juniper Networks ) is restating its consolidated balance sheet as of December 31, 2005 and the related consolidated statements of operations, shareholders equity, and cash flows for each of the fiscal years ended December 31, 2005 and 2004 as a result of an independent stock option investigation commenced by the Board of Directors and Audit Committee. This restatement is more fully described in Note 2, Restatement of Consolidated Financial Statements, to Consolidated Financial Statements and in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. This 2006 Form 10-K will also reflect the restatement of Selected Consolidated Financial Data in Item 6 for the fiscal years ended December 31, 2005, 2004, 2003 and 2002. In addition, the Company is restating the unaudited quarterly financial information and financial statements for interim periods of 2005, and unaudited condensed financial statements for the three months ended March 31, 2006.

Financial information included in the reports on Form 10-K, Form 10-Q and Form 8-K filed by Juniper Networks prior to August 10, 2006, and the related opinions of its independent registered public accounting firm, and all earnings press releases and similar communications issued by the Company prior to August 10, 2006 should not be relied upon and are superseded in their entirety by this Report and other reports on Form 10-Q and Form 8-K filed by the Company with the Securities and Exchange Commission on or after August 10, 2006.

# PART I

## ITEM 1. Business

### Overview

We design and sell products and services that together provide our customers with purpose-built, high performance Internet Protocol ( IP ) platforms that enable them to support a wide variety of services and applications at scale. Our customers include service providers, enterprises, governments and research and education institutions, who rely on us to deliver a portfolio of proven networking, security and application acceleration solutions that solve highly complex, fast-changing problems in the world s most demanding networks.

In 2006 we invested in our internal research and product innovation both for release in the year and for future release. We made several significant new product and strategy announcements in 2006 for both our service provider and our enterprise customers.

In 2005, we completed the following five acquisitions: Kagoor Networks, Inc. ( Kagoor ), Redline Networks, Inc ( Redline ), Peribit Networks, Inc. ( Peribit ), Acorn Packet Solutions, Inc. ( Acorn ), and Funk Software, Inc. ( Funk ). I 2004, we completed the acquisition of NetScreen Technologies, Inc. ( NetScreen ). These acquisitions expanded our customer base and product portfolio.

We continued to define our portfolio of products into the following two categories of networking products:

§ Infrastructure products, which consist predominately of our router portfolio, and the acquired Kagoor and Acorn products.

§ Service Layer Technologies ( SLT ) products, which consist predominately of the former NetScreen, Peribit, Redline and Funk products.

Our operations are organized into three operating segments: Infrastructure, SLT, and Service. Our Infrastructure segment primarily offers scalable router products that are used to control and direct network traffic from the core, through the edge, aggregation and the customer premise equipment level. Our SLT segment offers solutions that meet a broad array of our customer s priorities, from protecting the network itself, and protecting data on the network, to maximizing existing bandwidth and acceleration of applications across a distributed network. Together, our high performance secure networking solutions help enable our customers to convert networks that provide commoditized, best efforts services into more valuable assets that provide differentiation and value and increased reliability and security to end users. Our Service segment delivers world-wide services to customers of the Infrastructure and SLT segments.

During our fiscal year ended December 31, 2006 we generated net revenues of $2.3 billion and conducted business in nearly 100 countries. See the information in Item 8 for more information on our consolidated financial position as of December 31, 2006 and 2005 and our consolidated results of operations, consolidated statements of stockholders equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006.

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

### Our Strategy

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

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

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***Leverage Position as Supplier of Purpose-Built Network Infrastructure and Security.*** From inception we have focused on designing and building IP network infrastructure for service providers and network intensive businesses and have integrated purpose-built technology into a network optimized architecture that specifically meets our customers needs. We believe that many of these customers will deploy networking equipment from only a few vendors. We believe that the purpose-built nature of our products provide us with a competitive advantage, which is critical in gaining selection as one of these vendors.

***Be Strategic to Our Customers.*** In developing our infrastructure and SLT solutions, we work very closely with customers to design and build a product specifically to meet their complex needs. Over time, we have expanded our understanding of the challenges facing these customers. That increased understanding has enabled us to subsequently design additional capabilities into our products. We believe our close relationships with, and constant feedback from, our customers have been key elements in our design wins and rapid deployment to date. We plan to continue to work very closely with our customers to implement product enhancements as well as to design future products that meet their evolving needs.

***Enable New IP-Based Services.*** Our platforms enable network operators to build and secure networks cost-effectively and to offer new differentiated services for their customers more efficiently than legacy network products. We believe that the secure delivery of IP-based services and applications, including Internet Protocol Television ( IPTV ), web hosting, outsourced Internet and intranet services, outsourced enterprise applications and voice-over IP, will continue to grow and are cost-effectively enabled by our secure networking solutions.

***Establish and Develop Industry Partnerships.*** Our customers have diverse requirements. While our products meet certain requirements of our customers, our products are not intended to satisfy certain other requirements. Therefore, we believe that it is important that we build relationships with other industry leaders in a diverse set of networking technologies and services. These relationships ensure that we have access to those technologies and services, whether through technology integration, joint development, resale or other collaboration, in order to better support a broader set of our customers requirements.

**Markets and Customers**

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

***Service Providers***

Service providers include wireline, wireless, and cable operators as well as major internet content providers. Supporting most major service provider networks in the world, our platforms are designed and built for the scale and dependability that service providers demand. Our secure networking solutions benefit these customers by:

§ Reducing capital and operational costs by running multiple services over the same network using our high density, highly reliable platforms;

§ Promoting generation of additional revenue by enabling new services to be offered to new market segments based on our product capabilities;

§ Increasing customer satisfaction, while lowering costs, by enabling consumers to self-select automatically provisioned service packages that provide the quality, speed and pricing they desire; and

§ Providing increased asset longevity and higher return on investment as their networks can scale to multi-terabit rates based on the capabilities of our platforms.

While many of these service providers have historically been categorized separately as wireless, wireline, or cable operators, in 2006 we saw a move towards convergence of these different types of service providers through acquisition, merger and partnerships. We believe these strategic developments are made technically possible as operators invest in next generation networks ( NGN ) capable of supporting voice, video and data traffic on to the same IP-based network. This convergence relies on IP-based traffic processing and creates the opportunity for multi-service networks including new service offerings such as IPTV. These new services offer service providers significant new revenue opportunities.

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

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

Our products are present in all of the 30 largest service provider networks in the world.

***Enterprise***

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

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

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

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

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

The enterprise market continues to be an important part of our business growth during 2006 driven in particular by growth in the second half of the year. Since we first entered the market, we have sold our products to over 20,000 enterprise customers and as of December 31, 2006 we had more than 9,000 channel partners.

As with the service provider market, innovation continues to be a critical component in our strategy for the enterprise market. We believe there is a growing need for enterprises to build advanced networks with real time information and reliable network performance. These enterprises need high performing, scalable and secure networks that are global, distributed and always available. Network equipment vendors need to demonstrate high performance and high security to these customers in specific segments with best-in-class open solutions for maximum flexibility. We offer enterprise solutions and services for data centers, branch and campus applications, distributed and extended enterprises, and Wide Area Network ( WAN ) gateways.

We believe that the market is moving toward high performance, integrated solutions to drive increased operational efficiencies. This is partly illustrated by the success of our Integrated Security Gateway ( ISG ) products that combine firewall/virtual private network ( VPN ) and intrusion detection and prevention ( IDP ) solutions in a single platform and Secure Services Gateway ( SSG ) platforms that provide a mix of high performance security with Local Area Network ( LAN )/WAN connectivity for regional and branch office deployments. We will continue to invest to develop these and other converged technologies and solutions.

**Fundamental Requirements for High Performance Secure Networks**

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

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

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

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

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

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

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

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

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

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

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

## Our Technology and Products

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

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

***Infrastructure Products***

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

Although specific designs vary among our product families, our platforms are essentially modular, with the chassis serving as the base of the platform. The chassis contains components that enable and support many of the fundamental functions of the router, such as power supplies, cooling fans, and components that run our JUNOS or JUNOSe operating system, perform high-speed packet forwarding, or keep track of the structure of the network and instruct the packet forwarding components where to send packets. Each chassis has a certain number of slots that are available to be populated with components we refer to as modules or interfaces.

The modules are the components through which the router receives incoming packets of data from the network over a variety of transmission media. The physical connection between a transmission medium and a module is referred to as a port. The number of ports on a module varies widely depending on the functionality and throughput offered by the module. In some cases, modules do not contain ports or physically receive packets from the network, but rather enhance the overall functionality of the router. We refer to these components as service modules.

Major infrastructure product families are summarized as follows:

§ *M-Series and T-Series:* Our M-series platforms are extremely versatile as they can be deployed at the edge of operator networks, in small and medium core networks, enterprise networks and in other applications. The M-series product family includes the M320, M160, M120, M40e, M20, M10i and M7i platforms. The MX-Series is a new product family developed as a platform to address the Carrier Ethernet market and the MX960 is the first in a series of platforms designed for emerging Ethernet network architectures and services. Our T-series platforms, T640, T320, and TX Matrix, are primarily designed for core IP infrastructures. The M-series and T-series products leverage our ASIC technology and the same JUNOS operating system to enable consistent, continuous, reliable and predictable service delivery.

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

***SLT Products***

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

Major SLT product families are summarized as follows:

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

§ *Firewall and VPN Appliances*: Our SSG family of products represents a new class of purpose-built security appliance that delivers a mix of high performance, security and LAN/WAN connectivity for regional and branch office deployments. The SSG appliances combine proven firewall/VPN and robust routing with a set of Unified Threat Management ( UTM ) security features to protect traffic as it flows in and out of the branch office. Our NS-208, -204, -100, -50, -25, -5XT and -5XP security appliances are fixed configuration products of varying performance characteristics that offer integrated firewall, VPN and denial of service protection capabilities. Our security appliances are designed to maximize security and performance while using less physical space than competing products. Our security appliances can be deployed to provide small to medium-sized businesses and enterprise remote locations with secure Internet access and communication.

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

§ *IDP Appliances*: Our IDP-1100, -600, -200 and -50 appliances utilize intrusion detection methods to increase the attack detection accuracy and provide the broadest attack detection coverage available. Our IDP appliances provide fast and efficient traffic processing and alarm collection, presentation and forwarding. Once an attack is detected, our IDP appliances prevent the intrusion by dropping the packets or connection associated with the attack, reducing or eliminating the effects of the attack. Our IDP appliances can also alert the IT staff to respond to the attack. Our IDP appliances can be clustered to provide high availability and reduce risk associated with a single point of failure.

§ *Application Acceleration Platforms*: Our WX, WXC, and DX products improve the performance of client-server and web-enabled business applications for branch-office, remote, and mobile users. These application acceleration platforms enable our customers to deliver LAN-like performance to users around the globe who access centralized applications.

§ *Unified Access Control ( UAC ) Solution*: Using our UAC 2.0 solution, our IC-4000 and -6000 appliances combine identity-based policy and end-point intelligence to give enterprises real-time visibility and policy control throughout the network.

§ *AAA and 802.1X Products*: Our family of AAA and 802.1X network access security products, including our Odyssey Access Client and Steel Belted Radius products, are a key component to uniform security policy enforcement across all network access methods, including wireless LAN, remote/VPN, dial, and identity-based (wired 802.1X) methods.

In 2006, we announced several significant new products for both of our Infrastructure and SLT products including, but not limited to, the following:

*Infrastructure:*

§ The MX960 Ethernet Services Router, a high-density, purpose-built, platform designed to address the Carrier Ethernet market. The MX960 is the first in a series of platforms designed for emerging Ethernet network architectures and services, and complements many products and technologies introduced by us in 2006. We expect to begin shipment of the MX960 in the first quarter of 2007.

- § A series of enhancements for the E320 broadband services router. These enhancements include the delivery of new interface cards with advanced capabilities designed to reduce the complexity of deploying Internet Protocol Television ( IPTV ) and other services.

- § The new M120 platform which is our next generation multi-service edge and small core routing platform.

- § A new T-series 40 Gbps interface card was also released which delivers enhanced interoperability and service agility over optical transport and IP network infrastructures.

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*SLT:*

- § The SSG family of branch office security products. The new SSG products combine firewall, virtual private network ( VPN ) and routing functionality with UTM security features to protect traffic as it flows in and out of the enterprise branch offices.

- § Our branch office strategy, which leverages our standards-based application acceleration, IP telephony, routing and security products. This includes a full branch solution using our SSG security platforms and new J4350 and J6350 J-series enterprise routers. The strategy also includes a range of new implementation services and the integration of Intelligent Communications capabilities from Avaya, offering customers increased choice and flexibility for branch offices.

- § The completion of integration of our 802.1X components with our new UAC 2.0 solution, including elements of our Odyssey Access Client and Steel-Belted Radius products. As an open standards-access control solution, UAC 2.0 can be deployed in a flexible array of deployment scenarios to give enterprises real-time visibility and granular policy control throughout the network.

- § New additions to our WX and DX application acceleration platforms, which advance performance and availability and management of our comprehensive data center solution and are designed to meet the changing requirements for enterprise data centers.

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

## Customer Service and Support

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

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

As of December 31, 2006, we employed 611 people in our worldwide customer service and support organization. We believe that a broad range of support services is essential to the successful customer deployment and ongoing support of our products and we have hired support engineers with proven network experience to provide those services.

## Sales and Marketing

As of December 31, 2006, we employed 1,591 people in our worldwide sales and marketing organizations. These sales employees operate in different locations around the world in support of our customers.

Our sales organization is organized into three geographic theaters and within each theater according to the particular needs in that market. Our three geographic theaters are (i) the Americas (including United States, Canada, Central and South America), (ii) Europe, Middle East and Africa and (iii) Asia Pacific. Within each theater there are regional and country teams to ensure we operate close to the customer.

The sales teams operate in their respective regions and generally either engage customers directly or manage customer opportunities through our distribution and reseller relationships or channels as described below. In the United States and Canada, we sell to several service providers directly and sell to other service providers and enterprise customers primarily through resellers. Almost all of our sales outside the United States and Canada are made through channel partners.

See Note 12 in Item 8 for information concerning our revenues by significant customers and by geographic region.

***Direct Sales Structure***

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

***Channel Sales Structure***

A critical part of our sales and marketing efforts are our channel partners through whom we do the majority of our business. We employ various channel partners:

§ A global network of strategic distribution relationships, as well as theater or country-specific distributors who in turn sell to local value added resellers who sell to the end-user customer. The distribution channel partners mainly sell our SLT products plus some router products that are often purchased by our enterprise customers. These distributors tend to be focused on particular theaters or particular countries within theaters. For example, we have substantial distribution relationships with Ingram Micro in the Americas and with NEC in Japan. Our agreements with these distributors are generally non-exclusive, limited by theater, and provide product discounts and other ordinary terms of sale. These agreements do not require our distributors to purchase specified quantities of our products.

§ Direct value-added resellers including our strategic resellers referenced below, which resell our products to end-users around the world. These direct value-added resellers buy the products and services directly from us and have expertise in deploying complex networking solutions in their respective markets. Our agreements with these direct value-added resellers are generally non-exclusive, limited by theater, and provide product discounts and other ordinary terms of sale. These agreements do not require our direct value-added resellers to purchase specified quantities of our products.

§ Strategic world-wide reseller relationships with Siemens AG, Ericsson Telekom A.B. and Alcatel-Lucent. These companies each offer services and products that complement, but in some cases compete with, our own product offerings and act as a fulfillment partner for our products. Our arrangements with each of these partners allow them to resell our products on a worldwide, non-exclusive basis, provide for discounts based upon the volume of products sold and specify other general terms of sale. The agreements do not require these partners to purchase specified quantities of our products. Siemens accounted for greater than 10% of our total net revenues in 2006.

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

Our sales team is generally split between service provider and enterprise customers, with each separate team ensuring focus on the key customers in these respective markets. There is a structure of sales professionals, system engineers, marketing and channel teams each focused on the respective service provider and enterprise markets.

**Research and Development**

As of December 31, 2006, we employed 2,070 people in our worldwide research and development organization. We have assembled a team of skilled engineers with extensive experience in the fields of high-end computing, network system design, security, routing protocols and embedded operating systems. These individuals have worked in leading computer data networking and telecommunications companies. In addition to building complex hardware and operating systems, the engineering team has experience in delivering highly integrated ASICs and scalable technology.

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

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

**Manufacturing and Operations**

As of December 31, 2006, we employed 149 people in manufacturing and operations who primarily manage relationships with our contract manufacturers, manage our supply chain, and monitor and manage product testing and quality.

We have historically had manufacturing relationships primarily with Celestica and Plexus, under which we have subcontracted the majority of our manufacturing activity. During 2006 we made a strategic decision to expand our manufacturing capabilities into China to supplement our existing manufacturing in the United States and Canada. As a result, we expanded our relationship with Celestica in China, and added Flextronics as an additional contract manufacturer in China.

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

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

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

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

Our ASICs are manufactured primarily by sole or limited sources, such as IBM Corporation and Toshiba Corporation, each of whom is responsible for all aspects of the production of the ASICs using our proprietary designs.

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

**Backlog**

Our sales are made primarily pursuant to standard purchase orders for delivery of products or services or purchase orders under framework agreements with our customers. At any given time, we have orders for products that have not been shipped and for services that have not yet been performed for various reasons. Because of industry practice that allows customers to cancel or change orders with limited advance notice prior to shipment or performance, as well as our own history of allowing such changes and cancellations, we do not consider this backlog to be firm.

**Competition**

Competition in the markets for our infrastructure and SLT products is intense.

*Infrastructure Business.* In the network infrastructure business, Cisco Systems has historically been the dominant player in the market. However, other companies such as Alcatel-Lucent, Ericsson, Huawei Technologies Co., Ltd., and Nortel Networks Corporation, are providing competitive products in the marketplace.

Many of our current and potential competitors, such as Cisco, Alcatel-Lucent, Huawei and Nortel have significantly broader product lines than we do and may bundle their products with other networking products in a manner that may discourage customers from purchasing our products. In addition, consolidation among competitors, or the acquisition of our partners and resellers by competitors, can increase the competitive pressure faced by us. For example, in 2006 Alcatel combined with Lucent Technologies, Inc. and Ericsson acquired Redback Networks. Also, many of our current and potential competitors have greater name recognition and more extensive customer bases that could be leveraged. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share, any of which could seriously harm our operating results.

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

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

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

As a result, we expect to face increased competition in the future from larger companies with significantly more resources than we have. Although we believe that our technology and the purpose-built features of our products make them unique and will enable us to compete effectively with these companies, we cannot guarantee that we will be successful.

**Intellectual Property**

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

While we rely on patent, copyright, trade secret and trademark law to protect our technology, we also believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements and reliable product

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maintenance are essential to establishing and maintaining a technology leadership position. There can be no assurance that others will not develop technologies that are similar or superior to our technology.

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

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

**Employees**

As of December 31, 2006, we had 4,833 full-time employees, 412 of whom were in general and administrative functions. We have not experienced any work stoppages and we consider our relations with our employees to be good. Competition for personnel in our industry is intense. We believe that our future success depends in part on our continued ability to hire, motivate and retain qualified personnel. We believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

Our future performance depends in significant part upon the continued service of our key technical, sales and senior management personnel, none of whom is bound by an employment agreement requiring service for any defined period of time. The loss of the services of one or more of our key employees could have a material adverse effect on our business, financial condition and results of operations. Our future success also depends on our continuing ability to attract, train and retain highly qualified technical, sales and managerial personnel. Competition for such personnel is intense, and there can be no assurance that we can retain our key personnel in the future.

**Executive Officers of the Registrant**

The following sets forth certain information regarding our executive officers as of February 1, 2007.

| NAME | AGE | POSITION |
|---|---|---|
| Scott Kriens | 49 | Chief Executive Officer and Chairman of the Board |
| Pradeep Sindhu | 54 | Chief Technical Officer and Vice Chairman of the Board |
| Robert R.B. Dykes | 57 | Executive Vice President, Business Operations and Chief Financial Officer |
| Stephen Elop | 43 | Chief Operating Officer |
| Edward Minshull | 48 | Executive Vice President, Field Operations |
| Kim Perdikou | 49 | Executive Vice President, Infrastructure Products Group and General Manager, Service Provider Business Team |
| Robert Sturgeon | 45 | Executive Vice President, Service Layer Technology Group and General Manager, Enterprise Business Team |

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

PRADEEP SINDHU co-founded Juniper Networks in February 1996 and served as Chief Executive Officer and Chairman of the board of directors until September 1996. Since then, Dr. Sindhu has served as Vice Chairman of the board of directors and Chief Technical Officer of Juniper Networks. From September 1984 to February 1991, Dr. Sindhu worked as a Member of the Research Staff, and from March 1987 to February 1996, as the Principal Scientist, and from February 1994 to February 1996, as Distinguished Engineer at the Computer Science Lab, Xerox Corporation, Palo Alto Research Center, a technology research center. Dr. Sindhu holds a B.S.E.E. from the Indian

Institute of Technology in Kanpur, an M.S.E.E. from the University of Hawaii and a Masters in Computer Science and Ph.D. in Computer Science from Carnegie-Mellon University.

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

STEPHEN ELOP joined Juniper Networks in January 2007 from Adobe Systems where he served the role of President, Worldwide Field Operations. Mr. Elop joined Adobe Systems in December 2005 when it acquired Macromedia Inc. where he was President and CEO. During his tenure at Macromedia from March 1998 to December 2005, Mr. Elop had also held various senior management positions including COO, Executive Vice President of Worldwide Field Operations. Mr. Elop held a number of Chief Information Officer and executive positions prior to Macromedia. Mr. Elop holds a Bachelor degree in Computer Engineering and Management from McMaster University, Hamilton, in Ontario, Canada.

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

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

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

**Available Information**

We file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the SEC electronically. The public may read or copy any materials we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the day of filing with the SEC on our website at http://www.juniper.net, by contacting the Investor Relations Department at our corporate offices by calling (888) 586-4737 or by sending an e-mail message to investor-relations@juniper.net.

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## ITEM 1A. Risk Factors

### Factors That May Affect Future Results

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

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

Our historical stock option granting practices and the restatement of our financial statements have exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions. For more information regarding our current litigation and related inquiries, please see Part I, Item 3- Legal Proceedings as well as the other risk factors related to litigation set forth in this section. We have provided the results of our internal review and independent investigation to the Securities and Exchange Commission ( SEC ) and the United States Attorney s Office for the Northern District of California, and in that regard we have responded to formal and informal requests for documents and additional information. We intend to continue to cooperate with these governmental agencies. No assurance can be given regarding the outcomes from litigation, regulatory proceedings or government enforcement actions relating to our past stock option practices. The resolution of these matters will be time consuming, expensive, and may distract management from the conduct of our business. Furthermore, if we are subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, we could be required to pay damages or penalties or have other remedies imposed, which could harm our business, financial condition, results of operations and cash flows.

In addition, while we believe that we have made appropriate judgments in determining the correct measurement dates for our stock option grants, the SEC may disagree with the manner in which we accounted for and reported, or not reported, the corresponding financial impact. Accordingly, there is a risk that we may have to further restate our prior financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

Also, in August 2006, we received a NASDAQ Staff Determination letter stating that, as a result of the delayed filing of our quarterly report on Form 10-Q for the quarter ended June 30, 2006 (the Second Quarter Form 10-Q ), we were not in compliance with the filing requirements for continued listing as set forth in Marketplace Rule 4310(c)(14) and were therefore subject to delisting from the NASDAQ Global Select Market. In November 2006, we received an additional letter from NASDAQ of similar substance related to our Form 10-Q for the quarter ended September 30, 2006 (the Third Quarter Form 10-Q ). In December 2006, the NASDAQ Listing Qualifications Panel granted our request for continued listing, provided that we file a written summary of our audit committee s findings with NASDAQ as well as the Second Quarter Form 10-Q, the Third Quarter Form 10-Q and any required restatements with the SEC on or before February 12, 2007. In January, we received a notice from the NASDAQ Listing and Hearings Review Council which advised us that any delisting determination by the NASDAQ Listing Qualifications Panel has been stayed pending further review by the Review Council. We have been given until March 30, 2007 to submit additional information to assist the Review Council in their assessment of our listing status. On February 20, 2007, we filed a written summary of our audit committee s findings with NASDAQ. In addition, on March 9, 2007, we filed the Second Quarter Form 10-Q and the Third Quarter Form 10-Q with the SEC. We consider that the filing of these materials has remedied our non-compliance with Marketplace Rule 4310(c)(14), subject to NASDAQ s affirmative completion of its compliance protocols and its notification to us accordingly. However, if NASDAQ disagrees with our position or if the SEC disagrees with the manner in which we have accounted for and reported, or not reported, the financial impact of past stock option grants, there could be further delays in filing subsequent SEC reports or other actions that might result in delisting of our common stock from the NASDAQ Global Select Market.

***Fluctuating economic conditions make it difficult to predict revenues for a particular period and a shortfall in revenues may harm our operating results.***

Our revenues depend significantly on general economic conditions and the demand for products in the markets in which we compete. Economic weakness, customer financial difficulties and constrained spending on network expansion have previously resulted (for example, in 2001 and 2002), and may in the future result, in decreased revenues and earnings and could negatively impact our ability to forecast and manage our contract manufacturer relationships. Economic downturns may also lead to restructuring initiatives and associated expenses and impairment of investments. In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses are, and will continue to be, fixed in the short-term. Uncertainty about future economic conditions makes it difficult to forecast operating results and to make decisions about future investments. Future economic weakness, customer financial difficulties and reductions in spending on network expansion could have a material adverse effect on demand for our products and consequently on our results of operations and stock price.

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

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

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

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

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

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

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

A substantial majority of our net revenues depend on sales to a limited number of customers and distribution partners. Siemens accounted for greater than 10% of our net revenues during the years ended 2006, 2005 and 2004. This customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. Any downturn in the business of our key customers or potential new customers could significantly decrease sales to such customers, which could adversely affect our net revenues and results of operations. In addition, there has been and continues to be consolidation in the telecommunications industry (for example, the acquisitions of AT&T Inc., MCI, Inc. and BellSouth Corporation) and consolidation among the large vendors of telecommunications equipment and services (for example, the combination of Alcatel and Lucent and the acquisition of Redback by Ericsson). Such 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 that could harm our business and operating results.

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

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added reseller and distribution partners. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell competitors products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our value-added resellers or distributors could materially reduce our revenues. During 2006, Alcatel, another value-added reseller and a competitor of ours, acquired Lucent, one of our largest value-added resellers. In addition, our largest customer, Siemens, has announced that it will be transferring its telecommunications business to a joint venture between Siemens and Nokia. Our competitors may in some cases be effective in providing incentives to current or potential resellers and distributors to favor their products or to prevent or reduce sales of our products. If we fail to maintain relationships with our partners, fail to develop new relationships with value-added resellers and distributors in new markets or expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively or if these partners are not successful in their sales efforts, sales of our products may decrease and our operating results would suffer.

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

Further, in order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support it, and those processes and procedures may become increasingly complex and inherently difficult to manage. Our failure to successfully manage and develop our distribution channel and the processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

***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 or ability to recognize revenues.***

Traditional telecommunications companies and other large companies, because of their size, generally have had greater purchasing power and, accordingly, have requested and received more favorable terms, which often translate into more onerous terms and conditions for their vendors. As we seek to sell more products to this class of customer, we may be required to agree to such terms and conditions, which may include terms that affect the timing of our ability to recognize revenue and have an adverse effect on our business and financial condition.

For example, many customers in this class have purchased products from other vendors who promised certain functionality and failed to deliver such functionality and/or had products that caused problems and outages in the networks of these customers. As a result, this class of customers may request additional features from us and require substantial penalties for failure to deliver such features or may require substantial penalties for any network outages that may be caused by our products. These additional requests and penalties, if we are required to agree to them, would affect our ability to recognize the revenues from such sales, which may negatively affect our business and our financial condition. For example, in April 2006, we announced that we would be required to defer a large amount of revenue from a customer due to the contractual obligations required by that customer.

For arrangements with multiple elements, vendor specific objective evidence of fair value is required in order to separate the components and to account for elements of the arrangement separately. Vendor specific objective evidence of fair value is based on the price charged when the element is sold separately. However, customers may require terms and conditions that make it more difficult or impossible for us to maintain vendor specific objective evidence of fair value for the undelivered elements to a similar group of customers, the result of which could cause us to defer the entire arrangement fees for a similar group of customers (product, maintenance, professional services, etc.) and recognize revenue only when the last element is delivered or if the only undelivered element is maintenance revenue would be recognized ratably over the contractual maintenance period which is generally one year.

***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 with other companies such as Alcatel-Lucent, Ericsson, Huawei, and Nortel providing products to a smaller segment of the market. In addition, a number of other small public and private companies have products or have announced plans for new products to address the same challenges that our products address.

In the service layer technologies market, we face intense competition from a broader group of companies including appliance vendors such as Cisco, Fortinet, F5 Networks, Nortel and Riverbed, and software vendors such as CheckPoint. In addition, a number of other small public and private companies have products or have announced plans for new products to address the same challenges that our products address.

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

***If we do not successfully anticipate market needs and develop products and product enhancements that meet those needs, or if those products do not gain market acceptance, we may not be able to compete effectively and our ability to generate revenues will suffer.***

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

***We are a party to lawsuits, which are costly to investigate and defend and, if determined adversely to us, could require us to pay damages, any or all of 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. For example, the SEC and U.S. Attorney s office have inquired regarding our stock option pricing practices, and we have been served with lawsuits related to the alleged backdating of stock options and other related matters, a description of which can be found below in Part I, Item 3 Legal Proceedings. There can be no assurance that these or any actions that have been or may be brought against us will be resolved in our favor. Regardless of whether they are resolved in our favor, these lawsuits are, and any future lawsuits to which we may become a party will likely be, expensive and time consuming to investigate, defend and/or resolve. Such costs of investigation and defense, as well as any losses resulting from these claims, could significantly increase our expenses and adversely affect our profitability and cash flow.

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

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

***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.

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

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

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

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

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

Third parties have asserted and may in the future assert claims or initiate litigation related to patent, copyright, trademark and other intellectual property rights to technologies and related standards that are relevant to our products. For example, in 2003, Toshiba Corporation filed a lawsuit against us, alleging that our products infringe certain Toshiba patents. The asserted claims and/or initiated litigation may include claims against us or our manufacturers, suppliers or customers, alleging infringement of their proprietary rights with respect to our products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and may require us to develop non-infringing technologies or enter into license agreements. Furthermore, because of the potential for high awards of damages or injunctive relief that are not necessarily predictable, even arguably unmeritorious claims may be settled for significant amounts of money. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to settle litigation for significant amounts of money, or if we fail to develop non-infringing technology or license required proprietary rights on commercially reasonable terms and conditions, our business, operating results and financial condition could be materially and adversely affected.

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

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

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

With the current demand for electronic products, component shortages are possible and the predictability of the availability of such components may be limited. Growth in our business and the economy is likely to create greater pressures on us and our suppliers to accurately project overall component demand and to establish optimal component levels. If shortages or delays persist, the price of these components may increase, or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner and our revenues and gross margins could suffer until other sources can be developed. For example, throughout the first quarter of 2006 we experienced component shortages that resulted in delays of shipments of product until late in the quarter and in an increase in our day sales outstanding. We currently purchase numerous key components, including ASICs, from single or limited sources. The development of alternate sources for those components is time consuming, difficult and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. In the event of a component shortage or supply interruption from these suppliers, we may not be able to develop alternate or second sources in a timely manner. If, as a result, we are unable to buy these components in quantities sufficient to meet our requirements on a timely basis, we will not be able to deliver product to our customers, which would seriously 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.

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

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

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

We have made, and may continue to make, acquisitions in order to enhance our business. In 2005 we completed the acquisitions of Funk, Acorn, Peribit, Redline and Kagoor. Acquisitions involve numerous risks, including problems combining the purchased operations, technologies or products, unanticipated costs, diversion of management s attention from our core businesses, adverse effects on existing business relationships with suppliers and customers, risks associated with entering markets in which we have no or limited prior experience and potential loss of key employees. There can be no assurance that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire. The integration of businesses that we have acquired has been, and will continue to be, a complex, time consuming and expensive process. For example, although we completed the acquisition of NetScreen in April 2004, integration of the NetScreen products is a continuing activity and will be for the foreseeable future. Acquisitions may also require us to issue common stock that dilutes the ownership of our current stockholders, assume liabilities, record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets, and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our operating results and financial condition.

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

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***We are required to expense equity compensation given to our employees, which has reduced our reported earnings, will significantly harm our operating results in future periods and may reduce our stock price and 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 require companies to record a charge to earnings for employee stock option grants and other equity incentives. We adopted this standard effective January 1, 2006. By causing us to record significantly increased compensation costs, such accounting changes have reduced, and will continue to reduce, our reported earnings, will significantly harm our operating results in future periods, and may 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. Moreover, if securities analysts, institutional investors and other investors adopt financial models that include stock option expense in their primary analysis of our financial results, our stock price could decline as a result of reliance on these models with higher expense calculations. Each of these results could materially and adversely affect our business.

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

Some of our business processes depend upon our information technology systems and on interfaces with the systems of third parties. For example, our order entry system feeds information into the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail, our processes may function at a diminished level or not at all. This could negatively impact our ability to ship products or otherwise operate our business, and our financial results could be harmed. For example, although it did not adversely affect our shipments, an earthquake in late December of 2006 disrupted communications with China, where a significant part of our manufacturing occurs.

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

Our products are highly technical and complex, are critical to the operation of many networks and, in the case of our security products, provide and monitor network security and may protect valuable information. Our products have contained and may contain one or more undetected errors, defects or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by end customers. Any errors or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business and results of operations. In addition, we could face claims for product liability, tort or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management s attention. In addition, if our business liability insurance coverage is inadequate or future coverage is unavailable on acceptable terms or at all, our financial condition could be harmed.

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

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

***If 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

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

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

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

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

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

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

Currently, we hedge only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and periodically will hedge anticipated foreign currency cash flows. The hedging activities undertaken by us are intended to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. If our attempts to hedge against these risks are not successful, our net income could be adversely impacted.

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

Our ability to successfully offer our products and services in a rapidly evolving market requires an effective planning, forecasting, and management process to enable us to effectively scale our business and adjust our business in response to fluctuating market opportunities and conditions. In periods of market expansion, we have increased investment in our business by, for example, increasing headcount and increasing our investment in 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. Many of our expenses, such as real estate expenses, can not be rapidly or easily adjusted as a result of fluctuations in our business or numbers of employees. Moreover, rapid changes in the size of our workforce could adversely affect the ability to develop and deliver products and services as planned or impair our ability to realize our current or future business objectives.

***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, or prohibition on the importation or exportation of our products and could have a material adverse effect on our business.

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

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

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

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

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

The telecommunications industry is highly regulated and our business and financial condition could be adversely affected by the changes in the regulations relating to the telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or commerce on IP networks. We could be adversely affected by regulation of IP networks and commerce in any country where we operate. Such regulations could address matters such as voice over the Internet or using Internet Protocol, encryption technology, and access charges for service providers. In addition, regulations have been adopted with respect to environmental matters, such as the Waste Electrical and Electronic Equipment (WEEE) and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) regulations adopted by the European Union, as well as regulations prohibiting government entities from purchasing security products that do not meet specified local certification criteria. Compliance with such regulations may be costly and time-consuming for us and our suppliers and partners. The adoption and implementation of such regulations could decrease demand for our products, and at the same time could increase the cost of building and selling our products as well as impact our ability to ship products into affected areas and recognize revenue in a timely manner, which could have a material adverse effect on our business, operating results and financial condition.

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

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

## ITEM 1B. Unresolved Staff Comments

None.

## ITEM 2. Properties

We lease approximately 1.5 million square feet worldwide, with nearly 75 percent being in North America. Our corporate headquarters is located in Sunnyvale, California and consists of five buildings totaling approximately 0.6 million square feet. Each building is subject to an individual lease or sublease, which provides various option, expansion and extension provisions. The corporate headquarters leases expire between January 2008 and May 2014. We also own approximately 80 acres of land adjacent to our leased corporate headquarters location. Additionally, we lease an approximately 0.2 million square foot facility in Westford, Massachusetts. The leases expire between January and March 2011.

In addition to our offices in Sunnyvale and Westford, we also lease offices in various locations throughout the United States, Canada, South America, Europe, the Middle East, Africa, and the Asia Pacific region, including offices in China, India, Ireland, Israel, Hong Kong, Japan, the Netherlands, Russia, United Arab Emirates, and the United Kingdom. Our longest lease expires in May 2016. Our current offices are in good condition and appropriately support our business needs.

## ITEM 3. Legal Proceedings

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

### Stock Option Lawsuits

***Federal Derivative Lawsuits***

Between May 24, 2006 and August 17, 2006, seven purported shareholder derivative actions were filed in the United States District Court for the Northern District of California against us and certain of our current and former officers and directors. The lawsuits allege that our officers and directors either participated in illegal back-dating of stock option grants or allowed it to happen. The lawsuits assert causes of action for violations of federal securities laws, violations of California securities laws, breaches of fiduciary duty, aiding and abetting breaches of fiduciary duty, abuse of control, corporate waste, breach of contract, unjust enrichment, gross mismanagement, insider selling and constructive fraud. The actions also demand an accounting and rescission of allegedly improper stock option grants. On October 19, 2006, the Court ordered the consolidation of these actions as *In Re Juniper Derivative Actions*, No. 06-03396, and appointed as the lead plaintiffs Timothy Hill, Employer-Teamsters Local Nos. 175 & 505 Pension Trust Fund, and Indiana State District Council of Laborers and HOD Carriers Pension Fund. The Court ordered lead plaintiffs to file a consolidated complaint no later than January 12, 2007. On February 14, 2007, the parties agreed to extend the deadline for plaintiffs to file a consolidated complaint until thirty days after we complete the filing of our restated financial statements with the Securities Exchange Commission and the court approved the stipulation on February 15, 2007.

***State Derivative Lawsuits California***

On May 24 and June 2, 2006, two purported shareholder derivative actions were filed in the Santa Clara County Superior Court in the State of California against us and certain of our current and former officers and directors. These two actions were consolidated as *In re Juniper Networks Derivative Litigation,* No. 1:06CV064294, by order dated June 20, 2006. A consolidated complaint was filed on July 17, 2006. The consolidated complaint alleges that certain of our current and former officers and directors either participated in illegal back-dating of stock options or allowed it to happen. The complaint asserts causes of action for unjust enrichment, breach of fiduciary duty, abuse of control, gross mismanagement, waste, and violations of California securities laws for insider selling. Plaintiffs also demand an accounting and rescission of allegedly improper stock options grants. On July 28, 2006, the defendants filed a motion

to stay all discovery in this action. On August 16, 2006, the defendants filed a motion to dismiss or stay this action in favor of the federal derivative actions pending in the Northern District of California. Plaintiffs have not yet filed their oppositions to those two motions. On November 6, 2006, the parties stipulated that the plaintiffs could file a motion to amend their complaint and a motion to compel responses to discovery no later than thirty days after we complete the filing of our restated financial statements, and that the hearing on the defendants two pending motions will be heard on the same date as the plaintiffs two contemplated motions.

***Federal Securities Class Actions***

On July 14, 2006, a purported class action complaint styled *Garber v. Juniper Networks, Inc., et al.,* No. C-06-4327 MJJ, was filed in the Northern District of California against us and certain of our officers and directors. The plaintiff filed a Corrected Complaint on July 28, 2006. The *Garber* class action is brought on behalf of all purchasers of Juniper Networks common stock between September 1, 2003 and May 22, 2006. On August 29, 2006, another purported class action complaint styled *Peters v. Juniper Networks, Inc., et al.,* No. C 06 5303 JW, was filed in the Northern District of California against us and certain of our officers and directors. The *Peters* class action is brought on behalf of all purchasers of Juniper Networks common stock between April 10, 2003 and August 10, 2006. Both of these purported class actions allege that we and certain of our officers and directors violated federal securities laws by manipulating stock option grant dates to coincide with low stock prices and issuing false and misleading statements including, among others, incorrect financial statements due to the improper accounting of stock option grants. On November 20, 2006, the Court appointed the New York City Pension Funds as lead plaintiffs. The lead plaintiffs filed a Consolidated Class Action Complaint on January 12, 2007. The Consolidated Complaint asserts claims on behalf of all purchasers of, or those who otherwise acquired, Juniper Networks publicly traded securities from April 10, 2003 through and including August 20, 2006. The Consolidated Complaint alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 by us and certain of our current and former officers and directors. On February 15, 2007, the parties agreed that plaintiffs may file an Amended Consolidated Complaint within thirty days after we file our restated financial statements with the Securities Exchange Commission and the court approved the stipulation on February 16, 2007.

**Other Matters**

***IPO Allocation Case***

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

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

In June 2004, a stipulation for the settlement and release of claims against the issuer defendants, including us, was submitted to the Court for approval. The terms of the settlement, if approved, would dismiss and release all claims against participating defendants (including us). In exchange for this dismissal, Directors and Officers insurance carriers would agree to guarantee a recovery by the plaintiffs from the underwriter defendants of at least $1.0 billion, and the issuer defendants would agree to an assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. On August 31, 2005, the Court confirmed preliminary approval of the settlement. On April 24, 2006, the Court held a fairness hearing in connection with the motion for final approval of the settlement. The Court did not issue a ruling on the motion for final approval at the fairness hearing. The settlement remains subject to a number of conditions, including final court approval. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court s October 2004 order certifying a class in the case against us, which along with five other issuers, was

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selected as a test case by the underwriter defendants and plaintiffs in the coordinated proceeding. It is unclear what impact this will have on the settlement and the case against us.

***Toshiba Patent Infringement Litigation***

On November 13, 2003, Toshiba Corporation filed suit in the United States District Court in Delaware against us, alleging that certain of our products infringe four Toshiba patents, and seeking an injunction and unspecified damages. A Markman hearing was held in April 2006, and a ruling favorable to us was issued on June 28, 2006. Toshiba stipulated to non-infringement of the four patents and filed a notice of appeal with the Court of Appeals for the Federal Circuit. The Delaware court has removed the trial, previously scheduled for August 2006, from its calendar, pending resolution of the appeal. We expect the appeal will not be heard before July 2007.

***IRS Notices of Proposed Adjustments***

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

In conjunction with the IRS income tax audit, certain of our US payroll tax returns are currently under examination for fiscal years 1999 2001, and we received a second NOPA in the amount of $11.7 million for employment tax assessments primarily related to the timing of tax deposits related to employee stock option exercises. We responded to this NOPA in February 2005, and intend to dispute this assessment with the IRS. An initial appeals conference was held on January 31, 2006 and October 3, 2006. The appeals process available to the Company has not been concluded. In the event that this issue is resolved unfavorably to us, there exists the possibility of a material adverse impact on our results of operations.

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

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

## PART II

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

(a) Our common stock is quoted on the NASDAQ Global Select Market under the symbol JNPR , and has been quoted on NASDAQ since June 25, 1999. Prior to that time, there was no public market for the common stock. All stock information has been adjusted to reflect the three-for-one split, effected in the form of a stock dividend to each stockholder of record as of December 31, 1999 and a two-for-one split, effected in the form of a stock dividend to each stockholder of record as of May 15, 2000. Juniper Networks has never paid cash dividends on its common stock and has no present plans to do so. There were approximately 1,555 stockholders of record at January 31, 2007 and we have a substantially larger number of beneficial owners. The following table sets forth the high and low closing bid prices as reported on NASDAQ:

| 2006 | High | Low |
|---|---|---|
| First quarter | $22.38 | $17.06 |
| Second quarter | $20.30 | $14.55 |
| Third quarter | $17.34 | $12.20 |
| Fourth quarter | $21.56 | $16.77 |
| **2005** | | |
| First quarter | $26.82 | $20.75 |
| Second quarter | $27.12 | $19.75 |
| Third quarter | $26.53 | $22.33 |
| Fourth quarter | $24.60 | $21.31 |

(b) None

(c) None

(d) The description of equity compensation plans required by Regulation S-K, Item 201(d) is incorporated by reference to Part III, Item 12 of this Form 10-K.

(e) The graph below shows the cumulative total stockholder return over a five year period assuming the investment of $100 on December 31, 2001 in each of Juniper Networks common stock, the NASDAQ Composite Index and the NASDAQ Telecommunications Index.

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## ITEM 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the notes thereto in Item 8 Consolidated Financial Statements and Supplementary Data.

The information presented below reflects the impact of certain significant transactions and the adoption of certain accounting pronouncements, which makes a direct comparison difficult between each of the last five fiscal years. Reclassifications have been made to prior year balances to conform to the current year presentation. For a complete description of matters affecting the results in the tables below, including acquisitions by the Company during the three years ended December 31, 2006, see Notes to the Consolidated Financial Statements in Item 8.

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2006 (a)** | **2005 (b)** | **2004 (c)** | **2003 (d)** | **2002 (e)** |
| | | As Restated (1) | As Restated (1) | As Restated (2) (Unaudited) | As Restated (2) (Unaudited) |
| Net revenues | $ 2,303.6 | $ 2,064.0 | $ 1,336.0 | $ 701.4 | $ 546.5 |
| Cost of revenues | 754.3 | 653.5 | 415.1 | 259.9 | 234.1 |
| Gross margin | 1,549.3 | 1,410.5 | 920.9 | 441.5 | 312.4 |
| Operating expenses | 2,547.1 | 969.5 | 728.6 | 403.8 | 487.4 |
| Operating (loss) income | (997.8) | 441.0 | 192.3 | 37.7 | (175.0) |
| Other income and expense | 100.7 | 56.5 | 15.8 | 1.9 | 11.8 |
| (Loss) income before income taxes | (897.0) | 497.5 | 208.1 | 39.6 | (163.2) |
| Provision for income taxes | (104.4) | (146.8) | (79.9) | (8.9) | (4.5) |
| Net (loss) income | (1,001.4) | 350.7 | 128.2 | 30.7 | (167.7) |
| Net (loss) income per share: | | | | | |
| Basic | $ (1.76) | $ 0.63 | $ 0.26 | $ 0.08 | $ (0.48) |
| Diluted | $ (1.76) | $ 0.58 | $ 0.24 | $ 0.07 | $ (0.48) |
| Shares used in computing net (loss) income per share: | | | | | |
| Basic | 567.5 | 554.2 | 493.1 | 382.2 | 350.7 |
| Diluted | 567.5 | 600.2 | 543.7 | 414.1 | 350.7 |

(a) Includes the following significant pre-tax items: goodwill and intangible assets impairment charges of $1,283.4 million, stock-based compensation of $87.6 million, stock option investigation costs of

$20.5 million and other tax related charges of $10.1 million.

(b) Includes the following significant pre-tax items: stock-based compensation expense of $22.3 million, in-process research and development charges of $11.0 million, a gain from the sale of equity investment of $1.7 million, a patent related charge of $10.0 million, a charge of $5.9 million from the impairment of certain purchased intangible assets and a reversal of acquisition related reserves of $6.6 million.

(c) Includes the following significant pre-tax items: stock-based compensation expense of $54.9 million, in-process research and development charges of $27.5 million, merger integration costs of $5.1 million, loss on redemption of the convertible subordinated notes of $4.1 million, an investment write-down charge of $2.9 million, and a credit of $5.1 million from changes in restructuring estimates.

(d) Includes the following significant pre-tax items: stock-based compensation expense of $21.4 million, restructuring charges of $14.0 million and gains on the sale of investments of $8.7 million.

(e) Includes the following significant pre-tax items: stock-based compensation expense of $48.5 million, restructuring charges of $20.2 million, in-process research and development charges of $83.5 million, merger integration charges of $2.5 million, gains on the retirement of convertible subordinated notes of $62.9 million and an investment write-down charge of $50.5 million.

(1) See the Explanatory Note immediately preceding Part I, Item 1 and Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K.

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(2) The Selected Financial Data for 2003 and 2002 has been restated to reflect adjustments related to stock-based compensation expense and the associated tax impact as further described in the Explanatory Note immediately preceding Part I, Item 1. Consequently, net income was decreased by $8.5 million for the year ended December 31, 2003 and net loss was increased by $48.0 million for the year ended December 31, 2002, as follows:

| | Fiscal Year ended, December 31, 2003 | | | Fiscal year ended December 31, 2002 | | |
|---|---|---|---|---|---|---|
| | As previously Reported (1) | Adjustments | As restated (Unaudited) | As previously Reported (1) | Adjustments | As restated (Unaudited) |
| Net revenues | $701.4 | $ | $701.4 | $ 546.5 | $ | $ 546.5 |
| Gross margin | 444.0 | (2.5) | 441.5 | 315.4 | (3.0) | 312.4 |
| Operating expenses | 387.0 | 16.8 | 403.8 | 442.4 | 45.0 | 487.4 |
| Operating income (loss) | 57.0 | (19.3) | 37.7 | (127.0) | (48.0) | (175.0) |
| Other income and expense | 1.9 | | 1.9 | 11.8 | | 11.8 |
| Income (loss) before taxes | 58.9 | (19.3) | 39.6 | (115.2) | (48.0) | (163.2) |
| | (19.7) | 10.8 | (8.9) | (4.5) | | (4.5) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income taxes (provision) benefit | | | | | | |
| Net income (loss) | 39.2 | (8.5) | 30.7 | (119.7) | (48.0) | (167.7) |
| Net income (loss) per share: | | | | | | |
| Basic | $ 0.10 | $ (0.02) | $ 0.08 | $ (0.34) | $ (0.14) | $ (0.48) |
| Diluted | $ 0.10 | $ (0.03) | $ 0.07 | $ (0.34) | $ (0.14) | $ (0.48) |
| Shares used in computing net income (loss) per share: | | | | | | |
| Basic | 382.2 | | 382.2 | 350.7 | | 350.7 |
| Diluted | 403.1 | 11.0 | 414.1 | 350.7 | | 350.7 |

(1) See the Explanatory Note immediately preceding Part I, Item 1 and Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K. Prior period amounts have been reclassified in order to conform to the current year presentation.

**Consolidated Balance Sheet Data** (in millions)

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | **2006** | **2005** | **2004** | **2003** | **2002** |
| | | As Restated (1) | As Restated (2) (Unaudited) | As Restated (2) (Unaudited) | As Restated (2) (Unaudited) |
| Cash, cash equivalents and available-for-sale investments | $ 2,614.3 | $ 2,047.1 | $ 1,713.1 | $ 975.8 | $ 1,162.1 |
| Working capital | 1,759.2 | 1,261.4 | 903.9 | 423.2 | 436.0 |
| Goodwill | 3,624.7 | 4,879.7 | 4,409.4 | 983.4 | 987.7 |
| Total assets | 7,368.4 | 8,183.6 | 6,981.3 | 2,411.1 | 2,614.7 |
| Total long-term liabilities | 490.7 | 468.0 | 504.1 | 583.3 | 942.1 |
| Total stockholders equity | 6,115.1 | 7,088.2 | 5,974.3 | 1,562.4 | 1,430.5 |

(1)

See the Explanatory Note immediately preceding Part I, Item 1 and Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K.

(2) The Selected Financial Data for 2003 and 2002 has been restated to reflect adjustments related to stock-based compensation expense and the associated tax impact as further described in the Explanatory Note immediately preceding Part I, Item 1 and Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K. Consequently, previously reported net stockholders equity as of December 31,

2004 decreased by $18.5 million. There were no material changes to the previously reported other balance sheet data as of December 31, 2004. There were no material changes to the previously reported net stockholders equity and other balance sheet data as of December 31, 2003 and 2002.

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

*This Annual Report on Form 10-K ( Report ), including the Management s Discussion and Analysis of Financial Condition and Results of Operations , contains forward-looking statements regarding future events and the future results of our Company that are based on current expectations, estimates, forecasts, and projections about the industry in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates, variations of such wor and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled Risk Factors in Item 1A of Part I and elsewhere, and in other reports we file with the Securities and Exchange Commission ( SEC ), specifically the most recent reports on Form 10-Q. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.*

The information below has been adjusted to reflect the restatement of our financial results which is more fully described in the Explanatory Note immediately preceding Part I, Item 1, and in Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements of this Form 10-K.

The following discussion is based upon our Consolidated Financial Statements included elsewhere in this report, 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. In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the manufacturing and shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory and spare parts, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives. On an on-going basis, we evaluate our estimates, including those related to sales returns, pricing credits, warranty costs, allowance for doubtful accounts, impairment of long-term assets, especially goodwill and intangible assets, contract manufacturer exposures for carrying and obsolete material charges, assumptions used in the valuation of stock-based compensation, and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

**Overview of the Results of Operations**

To aid in understanding our operating results for each of the three years in the period ended December 31, 2006, we believe an overview of the significant events that affected those periods and a discussion of the nature of our operating expenses is helpful.

**Significant Events**

***Business and Market Environment***

The year of 2006 marked our 10th anniversary and a year of considerable progress which culminated with record revenue results for both the year and in the fourth quarter. In addition, Standard & Poor s ( S&P ) has added the company to the S&P 500 Index as of the close of trading on June 1, 2006. During 2006, there has been and continues to be consolidation in the telecommunications industry (for example, the acquisitions of AT&T Inc., MCI, Inc. and BellSouth Corporation) and consolidation among the large vendors of telecommunications equipment and services, such as the combination of Alcatel S.A. and Lucent Technologies Inc. and the acquisition of Redback Networks, Inc. by Ericsson.

We believe our innovation and market momentum have also allowed us to build partnerships with other market leaders, which we announced in 2006, including Avaya Inc., Microsoft Corporation, NEC and Symantec Corporation.

Our total installed base of products has grown to approximately $8.6 billion across more than 100 countries worldwide. These numbers are the result of more than 400,000 units shipped to over 20,000 customers thanks to the help of more than 9,000 partners since our inception.

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In 2006, we had major Next Generation Network ( NGN ) wins in the service provider marketplace, helping us to achieve an overall installed base of over 2,500 units of the T-series in North America, EMEA and selected countries in Asia. We saw significant success in carriers selecting equipment for the core of their networks designed to provide multiple types of services, such as voice, data and video, so called multi-play , a strategic focus for us and an important growth opportunity for the future. We have also seen an increased level of interest in our SLT portfolio and a growing number of service providers using our SLT products for both managed service offerings and outsourced solutions for their customers. In fact, the number of service providers buying our SLT products increased 50% from 2005 to 2006. We successfully delivered the products we planned to deliver in 2006 despite the risks associated with the long length of product development, testing and acceptance cycles involved with these products in these markets. We have made good progress in 2006 and we are building a product portfolio in a market with solid demand for IP infrastructure.

***Restatement of Previously Issued Financial Statements***

In this Form 10-K as of and for the year ended December 31, 2006 (the 2006 Form 10-K ), we are restating our consolidated balance sheet as of December 31, 2005 and the related consolidated statements of operations, shareholders equity, and cash flows for each of the fiscal years ended December 31, 2005 and 2004 as a result of an independent stock option investigation commenced by the Board of Directors and Audit Committee. This restatement is more fully described in Note 2, Restatement of Consolidated Financial Statements, to Consolidated Financial Statements and in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations . This 2006 Form 10-K will also reflect the restatement of Selected Consolidated Financial Data in Item 6 for the fiscal years ended December 31, 2005, 2004, 2003 and 2002. In addition, we are restating our unaudited quarterly financial information and financial statements for interim periods of 2005, and unaudited condensed financial statements for the three months ended March 31, 2006.

Financial information included in the reports on Form 10-K, Form 10-Q and Form 8-K filed by us prior to August 10, 2006, and the related opinions of our independent registered public accounting firm, and all earnings press releases and similar communications issued by us, prior to August 10, 2006 should not be relied upon and are superseded in their entirety by this Report and other reports on Form 10-Q and Form 8-K filed by us with the SEC on or after August 10, 2006.

*Stock Option Investigation*

On May 22, 2006, we issued a press release and Form 8-K announcing that we had received a request for information relating to our stock option granting practices from the U.S. Attorney s Office for the Eastern District of New York. In the same press release and Form 8-K, we announced that our Board of Directors (the Board ) had directed the Board s Audit Committee, comprised of outside directors, to conduct a review of our stock option granting practices. On May 24, 2006, we received a letter from the SEC indicating that the SEC was conducting an inquiry regarding Juniper Networks.

The investigation was conducted with the assistance of independent counsel and forensic accountants (collectively the Investigative Team ). The investigation focused on all stock option grants made to all employees, officers, directors and consultants during the period following our initial public offering ( IPO ) on June 24, 1999 to May 23, 2006 (the relevant period ). In addition, the Audit Committee investigation involved testing and analyses of our hiring, termination, leave of absence, grant notification and exercise practices regarding stock options and certain issues regarding grants made before the IPO. The scope of the investigation did not include a review of options granted by companies acquired by us. All of the companies acquired by us, with one exception, were privately held companies. None of the acquisitions was accounted for as a pooling of interests. All of the acquisitions were accounted for under the purchase method as provided by Statement of Financial Standards No. 141, *Business Combinations* and its predecessor Accounting Principles Board Opinion No. 16, *Business Combinations*.

In connection with the investigation, more than 785,000 physical and electronic documents were reviewed and 35 current and former directors, officers, employees and agents were interviewed.

On December 20, 2006, we announced key findings of the Audit Committee. Key findings of the Audit Committee are:

- There were numerous instances in which grant dates were chosen with the benefit of hindsight as to the price of our stock, so as to give favorable exercise prices. In this regard, the Audit Committee identified serious concerns regarding the actions of certain former management in connection with the stock option granting process

Formal documentation of stock option grants often lagged the referenced grant date

Grants were made by persons or committees who did not have the proper authority to make the grants in question

Management failed to exercise sufficient responsibility for the stock option granting process

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Our CEO, Scott Kriens, received two stock option awards whose measurement dates for financial accounting purposes differ from the recorded grant dates for such awards. However, both options were exchanged and cancelled unexercised in 2001 as part of a company-wide option re-pricing program. Mr. Kriens has not exercised any stock options since 1998, approximately nine months before our IPO

There were substantial changes to our granting procedures after June 9, 2003 and again in 2005. No grants subsequent to 2004 required new measurement dates

There was no improper conduct by our Compensation Committee or Board of Directors regarding the granting of stock options by those bodies

Our Audit Committee expressed their continuing confidence in Scott Kriens and the current management of the Company

Consistent with the accounting literature and recent guidance from the SEC, we have organized the grants during the relevant period into categories based on grant type and the process by which the grant was finalized. We analyzed the evidence from the Audit Committee s investigation related to each category including, but not limited to, physical documents, electronic documents, underlying electronic data about documents, and witness interviews. Based on the relevant facts and circumstances, we applied the then appropriate accounting standards to determine, for every grant within each category, the proper measurement date. If the measurement date was not the originally assigned grant date, accounting adjustments were made as required, resulting in stock-based compensation expense and related tax effects.

*Grants made by our Board of Directors or Compensation Committee to Officers or Directors*

We have concluded that the measurement dates of several grants to executive officers who were reporting persons as that term is defined under Section 16 of the Securities Exchange Act of 1934, as amended, ( Officers ) and members of the Board of Directors made between June 1999 and June 2003 were incorrect. In general, during the relevant period, the Board or the Compensation Committee of the Board made grants to Officers and directors. Grants were sometimes approved at meetings of these bodies or by action by unanimous written consent. There were several instances in which grants to Officers or directors were given grant dates (and corresponding exercise prices) prior to the date on which formal corporate action making the grant was taken. In general, this appears to have been done to make the grant date coincide with either a specific event, such as the appointment or re-election of a director or with the purported date options were granted to non-Officers. In these cases, we have determined that the correct measurement date is the date on which our Board or Compensation Committee took the action to approve the grant. We also identified instances in which grants to Officers were granted effective upon a future event, such as the commencement of employment or closing of an acquisition. In these cases, we have determined that the date of the future event is the correct measurement date for such grants. We also identified instances where grants to Officers were made by a body not authorized by our Board to make grants to Officers and were subsequently ratified by our Board. In those instances, we determined that the correct measurement date is the date on which such ratification occurred. In connection with the application of these measurement principles, and after accounting for forfeitures, we have adjusted the measurement of compensation cost for options covering 5.6 million shares of common stock resulting in an incremental stock-based compensation expense of $80.3 million on a pre-tax basis over the respective awards vesting terms.

In addition, there was one other grant to an Officer where approval of such grant was not reflected in minutes of a meeting or an action by unanimous written consent of our Board of Directors or the Compensation Committee. For that grant, the measurement date was determined based on the terms of the Officer s offer letter and the date his employment commenced. With respect to that grant, we have adjusted the measurement of compensation cost for options covering 1.5 million shares of common stock resulting in an incremental stock-based compensation expense of $6.5 million on a pre-tax basis over the award s vesting terms after accounting for forfeitures.

*Grants to Non-Officers*

We have concluded that the measurement dates of a large number of grants to non-Officers during the period between June 1999 and December 2004 were incorrect. Our practice has been to grant stock options, except where prohibited, to nearly all full-time employees in connection with joining us. To facilitate the granting of options to our rapidly growing workforce, the Board of Directors established a Stock Option Committee to grant options to non-Officer employees. Between June 1999 and June 2003, the dates for a large number of grants made by our Stock Option Committee were chosen with the benefit of hindsight as to the price of our stock, so as to give favorable exercise prices. Moreover, our Stock Option Committee s process for finalizing and documenting these grants was often completed after the originally assigned grant date. Beginning with grants dated June 20, 2003, we implemented a number of new procedures and policies regarding the granting of options to non-Officer employees. After that, we have concluded that the pattern of consciously looking back for the most favorable dates for the employees ceased. However, the documentation and written approvals of grant dates still generally trailed the recorded grant dates. Based on all available facts and circumstances, the originally recorded measurement dates for the grants made by our Stock Option Committee during the period from July 1999 through December 2004 can not be relied upon in isolation as the correct measurement dates. In 2005, we made additional changes to our procedures. No grants in 2005 and 2006 required new measurement dates.

APB 25 defines the measurement date for determining stock-based compensation expense as the first date on which both (1) the number of shares that an individual employee is entitled to receive and (2) the option or purchase price, are known. Throughout the relevant period, the Company s stock administration department entered the option grant information for grants made by the Stock Option Committee into its Equity Edge stock administration system. This system was used to monitor and administer our stock option program. The data in Equity Edge were sent on a regular basis to designated brokers, allowing grantees to view their options information in their accounts via the Internet.

For grants made by the Stock Option Committee between June 1999 and December 2004, where there is no other reliable objective evidence pointing to an earlier single specific date that the number of shares and the individuals entitled to receive them and the price had become final, we have determined the Equity Edge entry date to be the most reliable measurement date for calculating additional stock-based compensation expense under APB 25. Using this measurement date, and after accounting for forfeitures, we have adjusted the measurement of compensation cost for options covering 74.2 million shares of common stock resulting in an incremental stock-based compensation expense of $636.7 million on a pre-tax basis over the respective awards vesting terms.

In many of the cases where the Equity Edge entry date was used as the measurement date, the formal Stock Option Committee granting documentation (consisting of unanimous written consents or minutes and related lists of recipients, amounts and types of awards) was not created or completed until a later date. Because the awards listed in the formal granting documentation did not differ from the grants entered into Equity Edge, the notice of the awards was made available to employees prior to the creation or completion of the granting documents, and because the completion of the documentation was treated as perfunctory, we determined that the Equity Edge entry date was the proper measurement date under APB 25 rather than the date the Stock Option Committee granting documentation was completed.

In a number of cases, there was reliable objective evidence pointing to a single specific date that the number of shares and the individuals entitled to receive them and the price had become final. Such evidence primarily consisted of electronic data indicating that the granting instrument and schedule were created prior to the Equity Edge entry date. We also relied on other evidence such as emails or written agreements to determine the date certain options became final. Such evidence was used to determine the measurement dates for options for which we have adjusted the measurement of compensation cost for options covering 27.9 million shares of common stock resulting in incremental stock-based compensation expense of $141.2 million on a pre-tax basis over the respective awards vesting terms.

We also concluded that there were instances in which clerical errors or omissions regarding the persons to receive an award or the number of options to be granted were corrected after the date of award. In the case of most additions made to correct omissions and other corrections that were not reflected on the grant documentation at the time of the applicable grant date or in documentation existing at the time of grant, we have determined that a new measurement date should be established. We considered whether certain of such changes or additions should give rise to variable accounting treatment and concluded that such treatment was not appropriate because the grants represented independent decisions or events rather than a continuation or modification of the other grants. We believe that the correct measurement date for these grants is the date Stock Administration entered the correction or addition into Equity Edge, except where objective evidence identifies an earlier date on which the correction was approved. After accounting for forfeitures, we have adjusted the measurement of compensation cost for options covering 1.3 million shares of common stock resulting in incremental stock-based compensation of $11.9 million on a pre-tax basis over the respective awards vesting terms.

*Stock Option Grant Modifications Connected with Terminations or Leaves of Absences and Other Matters*

Compensation expense was also recognized as a result of modifications that were made to certain employee option grant awards in connection with certain employees terminations or leaves of absence. Typically such modifications related to extensions of the time employees could exercise options following their termination of employment or that enabled the employee to vest in additional shares in relation to a leave of absence. For example, in connection with reductions in work force in 2001 and 2002, we increased the period for affected employees to exercise their options from 30 days to 90 days. We have incremental stock-based compensation expense associated with such terminations or leaves of absence of $20.0 million on a pre-tax basis in the period of modification.

Compensation expense of $0.2 million on a pre-tax basis was also recognized as a result of non-employee grants to consultants in exchange for services and other matters.

*Judgment*

In light of the significant judgment used in establishing revised measurement dates, alternate approaches to those used by us could have resulted in different compensation expense charges than those recorded by us in the restatement. We considered various alternative approaches. For example, in those cases where the formal documentation of a grant was completed after the date the grant was entered in Equity Edge, an alternative measurement date to using the Equity Edge entry date could be the creation date of the documentation. Changing the measurement dates for grants made by our Stock Option Committee from the Equity Edge entry date to the later of the electronic data creation date of the unanimous written consent or the related schedule of grants would cause the pre-tax compensation charges of $636.7 million discussed above to increase by approximately $10.6 million. Conversely, where we established a new measurement date prior to the Equity Edge entry date for grants made by our Stock Option Committee to non-Officers based on other evidence, such as the electronic data indicating the initial creation date of the granting instrument and schedule, an alternative measurement date could be the Equity Edge entry date. Changing the measurement dates for these grants by the Stock Option Committee from a date prior to Equity Edge entry date to the Equity Edge entry would increase the $141.2 million of the pre-tax compensation charges discussed above by approximately $37.7 million. We believe that the approaches we used were the most appropriate under the circumstances.

*Summary of Stock-Based Compensation Adjustments*

We adjusted the measurement dates for options covering a total of 110.5 million, or 76%, of the 146.0 million shares of common stock covered by options granted during the relevant period.

The impact from on the consolidated statement of operations from recognizing stock-based compensation expense through December 31, 2006 resulting from the investigation is summarized as follows (in millions):

| Fiscal Year | Pre-Tax Expense | After Tax Expense |
|---|---|---|
| 1998 | $ | $ |
| 1999 | 15.3 | 15.3 |
| 2000 | 283.3 | 201.6 |
| 2001 | 513.1 | 488.1 |
| 2002 | 48.0 | 48.0 |
| 2003 | 19.4 | 8.6 |
| Subtotal | 879.1 | 761.6 |
| 2004 | 10.9 | 7.5 |
| 2005 | 4.7 | 3.3 |
| Total | $ 894.7 | $ 772.4 |

In addition to the $894.7 million recognized through fiscal 2005, $2.1 million of unamortized deferred compensation remained as of December 31, 2005, bringing the total incremental impact from the investigation to approximately $896.8 million. As required by SFAS 123R, which was adopted on January 1, 2006, the unamortized deferred compensation of $2.1 million has been reclassified to additional paid-in capital, along with the unamortized deferred compensation for stock options assumed from past acquisitions, in our consolidated balance sheet. Beginning in 2006, the incremental amortization resulting from the investigation is included in stock-based compensation expense under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ). The incremental stock-based compensation expense from the restatement of employee stock options was $0.6 million, on a pre-tax basis, for the year ended December 31, 2006.

*Other Matters*

After considering all available evidence, primarily the then current 2005 operating projections of future income, which remain appropriate, we have concluded that the previously recorded valuation allowance related to the tax benefit of stock options deductions should have been reversed in the fourth quarter of 2005. Accordingly, we decreased the valuation allowance as of December 31, 2005 by $158.0 million with a corresponding credit to additional paid in capital. The remaining valuation allowance balance of $40.6 million relates to capital losses which will carry forward to offset future capital gains.

Additionally, we misclassified the tax benefit from deductions from stock options assumed in acquisitions. Accordingly, we have reduced additional paid-in capital for the years ended December 31, 2005 and 2004 by $6.0 million and $18.5 million, respectively, with a corresponding decrease to goodwill. The total reduction to both additional paid-in capital and goodwill as of December 31, 2005 was $24.5 million.

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Because virtually all holders of options issued by us were not involved in or aware of the incorrect pricing, we have taken and intend to take actions to deal with certain adverse tax consequences that may be incurred by the holders of certain incorrectly priced options. The primary adverse tax consequence is that incorrectly priced stock options vesting after December 31, 2004 may subject the option holder to a penalty tax under IRC Section 409A (and, as applicable, similar penalty taxes under California and other state tax laws). We recorded $10.1 million as other charges in operating expense for 2006 in relation to these items and other tax related items. We expect to incur future charges to resolve the adverse tax consequences of incorrectly priced options

We misclassified the gains and losses from the retirement of our treasury shares in fiscal 2004. Accordingly, we reduced our retained earnings (accumulated deficit) as of December 31, 2004 and 2005 by $63.6 million with a corresponding increase to additional paid-in capital.

The impact of recognizing additional stock compensation and other adjustments on each component of stockholders equity at the end of each year is summarized as follows (in millions):

| Fiscal Year | Common Stock & Additional Paid-In Capital | Deferred Stock Compensation | Accumulated Deficit | Net Impact to Stockholders Equity |
|---|---|---|---|---|
| 1998 | $ | $ | $ | $ |
| 1999 | 215.3 | (200.0) | (15.3) | |
| 2000 | 479.6 | (278.0) | (201.6) | |
| 2001 | 74.9 | 413.2 | (488.1) | |
| 2002 | 21.5 | 26.5 | (48.0) | |
| 2003 | (10.6) | 19.2 | (8.6) | |
| Subtotal | 780.7 | (19.1) | (761.6) | |
| 2004 | 41.3 | 11.3 | (71.1) | (18.5) |
| 2005 | 204.6 | 5.7 | (3.3) | 207.0 |
| Total | $ 1,026.6 | $ (2.1) | $ (836.0) | $ 188.5 |

***NASDAQ Listing Status***

In August 2006, we received a NASDAQ Staff Determination letter stating that, as a result of the delayed filing of our quarterly report on Form 10-Q for the quarter ended June 30, 2006 (the Second Quarter Form 10-Q ), we were not in compliance with the filing requirements for continued listing as set forth in Marketplace Rule 4310(c)(14) and were therefore subject to delisting from the NASDAQ Global Select Market. In November 2006, we received an additional letter from NASDAQ of similar substance related to our Form 10-Q for the quarter ended September 30, 2006 (the Third Quarter Form 10-Q ). In December 2006, the NASDAQ Listing Qualifications Panel granted our request for continued listing, provided that we file a written summary of our audit committee s findings with NASDAQ as well as the Second Quarter Form 10-Q, the Third Quarter Form 10-Q and any required restatements with the SEC on or before February 12, 2007. In January 2007, we received a notice from the NASDAQ Listing and Hearings Review Council which advised us that any delisting determination by the NASDAQ Listing Qualifications Panel has been stayed pending further review by the Review Council. We have been given until March 30, 2007 to submit additional information to assist the Review Council in their assessment of our listing status. On February 20, 2007, we filed a written summary of our Audit Committee s findings with NASDAQ. In addition, on March 9, 2007, we filed the Second Quarter Form 10-Q and the Third Quarter Form 10-Q with the SEC. We consider that the filing of these materials has remedied our non-compliance with Marketplace Rule 4310(c)(14), subject to NASDAQ s affirmative completion of its compliance protocols and its notification to us accordingly. However, if NASDAQ disagrees with our position or if the SEC disagrees with the manner in which we have accounted for and reported, or not reported, the financial impact of past stock option grants, there could be further delays in filing subsequent SEC reports or other actions that might result in delisting of our common stock from the NASDAQ Global Select Market.

***Impairment of Goodwill and Intangible Assets***

We recorded a $1,280.0 million non-cash goodwill impairment charge in our consolidated statements of operations within the SLT segment to adjust the estimated carrying value of our goodwill for the three and six months ended June 30, 2006. The impairment of goodwill was primarily attributable to the decline in the Company s market capitalization that occurred over a period of approximately six months prior to the impairment review and, to a lesser extent, a decrease in the forecasted future cash flows used in the income approach. Future impairment indicators, including further declines in our market capitalization or a decrease in revenue or profitability levels, could require additional impairment charges to be recorded.

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the undiscounted future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment charge to be recognized is measured by the amount by which the carrying amount of the asset exceeds its estimated fair value. We assess the recoverability of our long-lived and intangible assets by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows. In 2006 and 2005, we recorded impairment charges of $3.4 million and $5.9 million, respectively, related to certain Kagoor purchased intangibles as a result of a significant reduction in our forecasted revenue associated with the session border control products.

***Stock-Based Compensation***

We adopted the fair value recognition provisions of SFAS 123R effective January 1, 2006, using the modified prospective transition method and, therefore, have not revised prior periods results. During 2006, we issued stock options to the members of our Board ( outside directors ) and stock options, restricted stock units ( RSUs ) and shares of common stock pursuant to equity incentive plans. Prior to the adoption of SFAS 123R, our Board of Directors approved the acceleration of the vesting of certain unvested and out-of-the-money stock options that had an exercise price per share equal to or greater than $22.00, all of which were previously granted under our stock option plans and that were outstanding on December 16, 2005. The options accelerated excluded options previously granted to certain employees, including all of the executive officers and the Board of Directors of Juniper Networks. Under SFAS 123R, we recorded pre-tax stock-based compensation expense of $87.6 million in 2006 compared to $22.3 million in 2005 when we recognized stock-based compensation expense under the intrinsic value recognition provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ).

Beginning in May 2006, we have adopted the 2006 Equity Incentive Plan ( 2006 Plan ) which provides for a maximum term of seven years from the grant date for non-statutory stock options and for incentive stock options (except that the maximum term is five years from the grant date for incentive stock options granted to a holder of more than 10% of the Company s stock). The 2006 Plan also provides for a defined option granting schedule for our outside directors. Details of the 2006 Plan are described in Note 6, Stockholders Equity, in Notes to Consolidated Financial Statements of this Form 10-K.

***Stock Repurchase Activities***

In July 2004, our Board of Directors authorized a stock repurchase program. This program authorized repurchases of up to $250.0 million of our common stock. In the first quarter of 2006, we repurchased and retired 10,071,100 shares of common stock at an average price of $18.51 per share as part of our Common Stock Repurchase Program. No shares were repurchased after the three months ended March 31, 2006. As of December 31, 2006, a total of 12,939,700 common shares had been repurchased and retired since the inception of the program, equating to approximately $250.0 million at an average price of $19.32 per share.

In July 2006, our Board authorized a new stock repurchase program under which we are authorized to repurchase up to $1.0 billion of our Company s common stock. In February 2007, our Board approved an increase of $1.0 billion under this new share repurchase program. Coupled with the original $1.0 billion approved in July 2006, we are now authorized to repurchase up to $2.0 billion of our common stock. Purchases under this plan will be subject to a review of the circumstances in place at the time. Acquisitions under the share repurchase program will be made from time to time as permitted by securities laws and other legal requirements. The program may be discontinued at any time.

***Business Acquisitions***

We had no acquisitions in the year ended December 31, 2006. We completed a total of six acquisitions in the years ended December 31, 2005 and 2004. The main purposes of these acquisitions were to expand our product portfolio and customer base. The results of the following acquisitions have been included in our consolidated statements of operations beginning on their respective acquisition dates.

The following is a summary of our acquisitions in 2004 and 2005:

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

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

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

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

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

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

*Acquisition Related Liabilities*

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

In 2005, we recorded liabilities of $4.5 million for the five acquisitions of that year, primarily related to future lease, severance, and other contractual obligations. As of December 31, 2006, there was $1.2 million remaining to be paid, primarily related to future leases that extend through 2009 and other contractual obligations.

At the time of the NetScreen acquisition in 2004, we accrued $21.3 million primarily related to professional services, severance and facility charges. As of December 31, 2006, there was approximately $1.6 million remaining to be paid, primarily for facility leases that extend through 2008.

At the time of the acquisition of Unisphere Networks, Inc. ( Unisphere ) in 2002, we accrued $14.8 million primarily related to professional services, severance and facility charges. As of December 31, 2006, there was approximately $0.8 million remaining to be paid, primarily for facility leases that extend through March 2011.

***Restructuring and Other Related Charges***

*Restructuring Reserves*

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

In 2006, we implemented a restructuring plan which provided for a reduction of 33 employees within the Infrastructure segment during the second and third quarters of 2006. Total accrual of $2.1 million, consisting primarily of severance and purchase commitment charges, was recognized as restructuring charges in operating expense and cost of product revenues in 2006. As of December 31, 2006, we had related restructuring reserves of $0.1 million recorded in short-term liabilities in the consolidated balance sheet.

In 2004, we implemented a restructuring plan at the time of the acquisition of NetScreen. We initially recorded a charge of approximately $0.4 million primarily related to workforce reduction costs, which has been completely paid as of December 31, 2006.

In 2003, we implemented a restructuring plan, under which we announced that we would no longer develop our G-series CMTS products and recorded a charge that was comprised of workforce reduction costs, non-inventory asset impairment, costs associated with vacating facilities and terminating contracts and other related costs. We initially recorded a charge of approximately $14.0 million that was comprised of workforce reduction costs, non-inventory asset impairment, vacating facilities costs, the costs associated with termination of contracts and other related costs. As of December 31, 2006, approximately $1.0 million remained unpaid primarily for a facility lease that extends through July 2008.

In 2002, we implemented a restructuring plan at the time of the Unisphere acquisition. We initially recorded a charge of $14.9 million, of which approximately $0.5 million remained unpaid as of December 31, 2006, primarily for facility leases that extend through April 2009.

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

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

***Tax Repatriation***

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

**Nature of Expenses**

We have an extensive distribution channel in place that we use to target new customers and increase sales. We have made substantial investments in our distribution channel during 2006, 2005 and 2004.

Most of our manufacturing, repair and supply chain operations are outsourced to independent contract manufacturers; accordingly, most of our cost of revenues consists of payments to our independent contract manufacturers for the standard product costs. The independent contract manufacturers produce our products using design specifications, quality assurance programs and standards that we establish. Controls around manufacturing, engineering and documentation are conducted at our facilities in Sunnyvale, California and Westford, Massachusetts. Our independent contract manufacturers have facilities primarily in Canada, China, Malaysia, and the United States. We generally do not own the components and title to products transfers from the contract manufacturers to us and immediately to our customers upon shipment.

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

Employee related costs have historically been the primary driver of our operating expenses and we expect this trend to continue. Employee related costs include items such as wages, commissions, bonuses, vacation, benefits and travel. We added over 688 employees in 2006 primarily in engineering and customer service functions as a result of increased investment in customer service operations to support investment in the enterprise market. In 2005, we added 420 employees across all functions primarily as a result of acquisitions. We had 4,833, 4,145 and 2,948 employees as of December 31, 2006, 2005 and 2004, respectively.

Facility and information technology departmental costs are allocated to other departments based on headcount. These departmental costs have increased each of the last two years due to increases in headcount and facility leases resulting from acquisitions and additional infrastructure systems to support our growth. We expect to further invest in our internal information technology infrastructure in 2007.

Research and development expenses include:

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

Several components of our research and development effort require significant expenditures, such as the development of new components and the purchase of prototype equipment, the timing of which can cause quarterly variability in our expenses. We expense our research and development costs as they are incurred. We plan to increase our investment in research and development during 2007 compared to 2006 to further advance our competitive advantage.

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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 continue our investment in sales and marketing activities in both direct and channel sales. We will expand into new markets, particularly emerging markets, and continue to expand both our service provider and enterprise focus. We will also further develop our distribution channel in 2007 in an effort to expand and grow our presence in new markets, serving both private and public networks with a full portfolio of networking products.

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

**Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from management s estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

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

***Revenue Recognition.*** Our products are integrated with software that is essential to the functionality of our equipment. Additionally, we provide unspecified upgrades and enhancements related to our integrated software through our maintenance contracts for most of its products. Accordingly, we accounts for revenue in accordance with Statement of Position No. 97-2, *Software Revenue Recognition*, and all related interpretations. We recognize revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Evidence of an arrangement generally consists of customer purchase orders and, in certain instances, sales contracts or agreements. Shipping terms and related documents, or written evidence of customer acceptance, when applicable, are used to verify delivery or performance. We assess whether the sales price is fixed or determinable based on payment terms and whether the sales price is subject to refund or adjustment. We assess collectibility based on the creditworthiness of the customer as determined by credit checks and the customer s payment history to us.

For arrangements with multiple elements, we allocate revenue to each element using the residual method based on vendor specific objective evidence of fair value of the undelivered items. Vendor specific objective evidence of fair value is based on the price charged when the element is sold separately We then recognize revenue on each deliverable in accordance with our policies for product and service revenue recognition. Our ability to recognize revenue in the future may be affected if actual selling prices are significantly less than fair value. In addition, our ability to recognize revenue in the future could be impacted by conditions imposed by our customers.

For sales to direct end-users and value-added resellers, we recognize product revenue upon transfer of title and risk of loss, which is generally upon shipment. For our end-users and value-added resellers, there are no significant obligations for future performance such as rights of return or pricing credits. A portion of our sales are made through distributors under agreements allowing for pricing credits and/or rights of return. We recognize product revenue on sales made through these distributors upon sell-through as reported to us by the distributors. We recognize service revenue as the services are completed or ratably over the period of the obligation.

We record reductions to revenue for estimated product returns and pricing adjustments, such as rebates and price protection, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns and price protection credits, specific criteria included in rebate agreements, and other factors known at the time. Additional reductions to revenue would result if actual product returns or pricing adjustments exceed our estimates.

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

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***Contract Manufacturer Liabilities.*** We outsource most of our manufacturing, repair and supply chain management operations to our independent contract manufacturers and a significant portion of our cost of revenues consists of payments to them. Our independent contract manufacturers procure components and manufacture our products based on our demand forecasts. These forecasts are based on our estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and marketing organizations, adjusted for overall market conditions. We establish reserves for carrying charges and obsolete material charges for excess components purchased based on historical trends. If the actual component usage and product demand are significantly lower than forecasted, which may be caused by factors outside of our control, we have contractual liabilities and exposures with the independent contract manufacturers, such as carrying costs and obsolete material exposures, which would have an adverse impact on our gross margins and profitability.

***Warranty Reserve.*** We generally offer a one-year warranty on all of our hardware products and a 90-day warranty on the media that contains the software embedded in the products. We establish reserves for estimated product warranty costs at the time revenue is recognized. Although we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, use of materials and technical labor costs and associated overhead incurred in correcting any product failure. Should actual product failure rates, use of materials or service delivery costs differ from our estimates, additional warranty reserves could be required, which could reduce gross margins.

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

***Stock-Based Compensation.*** We account for stock-based compensation in accordance with SFAS No. 123R. Under the provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the award s fair value as calculated by the Black-Scholes-Merton ( BSM ) option-pricing model and is recognized as expense ratably over the requisite service period. The BSM model requires various highly subjective assumptions including volatility, forfeiture rates, and expected option life. If any of the assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In conjunction with the adoption of SFAS 123R, we also adopted the single-approach method for valuing our stock-based awards as well as the straight-line method for amortizing the related stock-based compensation expense.

In connection with our restatement of the consolidated financial statements, we have applied judgment in choosing whether to revise measurement dates and if revised which measurement date to select for prior option grants. Information regarding the restatement, including ranges of possible additional stock-based compensation expense if other measurement dates had been selected for certain grants, is set forth above under Restatement of Previously Issued Financial Statements and in Note 2, Restatement of Consolidated Financial Statements in Notes to Consolidated Financial Statements of this Form 10-K.

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

***Litigation and Settlement Costs.*** From time to time, we are involved in disputes, litigation and other legal actions. We are aggressively defending our current litigation matters; however, there are many uncertainties associated with any litigation, and we cannot assure you that these actions or other third party claims against us will be resolved without costly litigation and/or substantial settlement charges. In addition, the resolution of any future intellectual property litigation may require us to make royalty payments, which could adversely impact gross margins in future periods. If any of those events were to occur, our business, financial condition and results of operations and cash flows could be materially and adversely affected. We record a charge equal to at least the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. However, the actual liability in any such litigation may be materially different from our estimates, which could result in the need to record additional expenses.

***Loss Contingencies.*** We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

**Results of Operations**

The following table illustrates certain statement of operations data expressed as a percentage of net revenues:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | | As Restated (1) | As Restated (1) |
| Net revenues | 100% | 100% | 100% |
| Cost of revenues | 33% | 32% | 31% |
| Gross margin | 67% | 68% | 69% |
| Operating expenses: | | | |
| Research and development | 21% | 17% | 20% |
| Sales and marketing | 24% | 21% | 25% |
| General and administrative | 4% | 4% | 4% |
| Amortization of purchased intangible assets | 4% | 4% | 4% |
| In-process research and development | | 1% | 2% |
| Impairment of goodwill and intangibles | 56% | | |

| | | | |
|---|---|---|---|
| Other charges, net | 2% | | |
| Total operating expenses | 111% | 47% | 55% |
| (Loss) income from operations | (44%) | 21% | 14% |

(1) See Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements.

The increases in revenues, cost of expenses, and operating expenses in 2006 compared to 2005 were attributable to continued growth primarily driven by increased sales resulting from the consolidation in the large service providers market and increased success in the enterprise market in key areas like the U.S. Federal Government. In particular, we experienced sales growth in the emerging markets in Eastern Europe, the Middle East and Asia, as well as significant growth in our sales to the top 10 world-wide service

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providers. Our service revenue grew substantially as a result of an increased equipment base, increased attach rates (the rate that purchases of equipment are accompanied by purchases of related services) on new sales and new professional services. The cost of revenues and operating expenses increases were directly attributable to the revenue growth and investments in research and development efforts. In addition, we recognized impairment and other charges in 2006.

***Net Revenues***

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

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | |
| Net product revenues | $ 1,893.3 | 82% | $ 1,771.0 | 86% | $ 1,162.9 | 87% |
| Net service revenues | 410.3 | 18% | 293.0 | 14% | 173.1 | 13% |
| Total net revenues | $ 2,303.6 | 100% | $ 2,064.0 | 100% | $ 1,336.0 | 100% |

Our total net revenues increased $239.6 million, or 12%, to $2,303.6 million in 2006. Our total net revenues increased by $728.0 million, or 54%, to $2,064.0 million in 2005.

*Net Product Revenues*

The $122.3 million, or 7%, increase in our product net revenue from 2005 to 2006 was the result of increased activity in both service provider and enterprise markets. In particular we had success in selling our products to customers who are adopting next generation networks ( NGN ) IP networks, which are designed to reduce total operating costs and to be able to offer multiple services over a single network. In addition we had a number of new product releases during 2006 and expanded into new emerging markets. During 2006 and 2005, we recognized $4.2 million and $32.7 million, respectively, of product net revenue from shipments made to end-users and value-added resellers that were deferred at the end of the prior year.

Infrastructure products accounted for $1,413.4 million or 75% of our total net product revenues during 2006 and $1,371.6 million or 77% of our total net product revenues during 2005. Infrastructure product net revenue grew by $41.8 million or 3% from 2005 to 2006 primarily due to continued success from a very significant year of growth in 2005, which strengthened our position as a supplier to the largest service providers in the world, particularly in the United States and in EMEA. This success was partially offset by a pause in the build out of NGNs and associated purchase decisions, particularly in Japan, as major carriers prepare for the next stage of bandwidth and services expansion, and a large product revenue deferral for products shipped to Verizon that is expected to be recognized in 2007. Infrastructure product net revenue increased 40.6% from 2004 to 2005, primarily due to the increase in revenues from service providers and enterprises as a result of significant success selling into the broadband and core networks for the service providers across the world and the recognition in the market place of Juniper Networks world-class service provider solutions.

SLT products accounted for $479.9 million or 25% of our total product revenue in 2006 and $399.4 million or 23% of total net product revenues during 2005. SLT product net revenue increased $80.5 million or 20% from 2005 to 2006 due to a growing demand and brand recognition for our Security products from large enterprises and the U.S. Federal Government. In addition, the new products announced in 2006 and those added to our portfolio through the various acquisitions in 2005 contributed to this increase. In addition, we experienced good success in selling SLT products to service providers for both their own IT infrastructure and resale. Our SLT product revenue increase in 2005 was primarily driven by the increased demands in security products by the enterprise market. Additionally, the acquisitions completed in 2005 enabled us to cross sell infrastructure, security, and application acceleration products to existing customer bases.

An analysis of the change in revenue by Infrastructure and SLT segments, and the change in units, can be found below in the section titled Segment Information.

*Net Service Revenues*

Net service revenues increased $117.3 million or 40% from 2005 to 2006 primarily due to an increase in the customer installed base that we are servicing, as well as increased attach rates on new product sales, improved enterprise service infrastructure allowing more rapid implementation of services and the addition of new professional service offerings. Professional service revenue also increased, to a lesser extent, in 2006 compared to 2005 due primarily to maintenance-related on-site engineering services as well as additional consulting projects in 2006. Net service revenues increased $119.9 million or 69% from 2004 to 2005 primarily due to the growth in support services and, to a lesser degree, the growth in professional services. A majority of our service revenue is earned from customers who purchase our products and enter into service contracts that are typically for one-year renewable periods. The increases in support service revenue were primarily due to the additional technical support service contract initiations associated with higher product sales, which have resulted in increased renewal and a larger installed base of equipment being serviced. These contracts are typically for services such as 24-hour customer support, non-specified updates and hardware repairs. We recognize revenue from service contracts as the services are completed or ratably over the period of the obligation. In addition to support services and professional services, we also provide educational services.

*Total Net Revenues*

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

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | |
| Americas: | | | | | | |
| United States | $ 953.0 | 41% | $ 879.0 | 43% | $ 561.5 | 42% |
| Other | 78.4 | 4% | 53.9 | 2% | 47.6 | 4% |
| Total Americas | 1,031.4 | 45% | 932.9 | 45% | 609.1 | 46% |
| Europe, Middle East, and Africa (EMEA) | 812.7 | 35% | 610.1 | 30% | 380.5 | 28% |
| Asia Pacific: | | | | | | |
| Japan | 159.3 | 7% | 204.8 | 10% | 155.7 | 12% |
| Other | 300.2 | 13% | 316.2 | 15% | 190.7 | 14% |
| Total Asia Pacific | 459.5 | 20% | 521.0 | 25% | 346.4 | 26% |
| Total | $ 2,303.6 | 100% | $ 2,064.0 | 100% | $ 1,336.0 | 100% |

We continue to experience varying distribution of revenue among our three geographic theaters, and we expect this trend to continue.

Net revenue in the United States increased by $74.0 million in 2006 from 2005 due to continued success both with enterprise customers such as the U.S. Federal Government, as well as with major service providers in the United States. The increase was also due in part to sales to major internet content providers and the cable providers. This success was partially offset by a significant product revenue deferral for product shipped to Verizon. Net revenue in the United States as a percentage of total net revenue decreased by two percentage points in 2006 compared to 2005 as a result of the strong growth in EMEA. Total 2006 revenue recorded by the Americas region grew by $98.5 million from its 2005 level and remained at 45% of worldwide revenue, as compared to 2005, due to significant success with the main service providers in Canada and various South American countries including Brazil and Argentina. Revenue in the EMEA region grew by $202.6 million or five percentage points in 2006 due to significant success with NGN deployments across the region, in particular Sweden, the Netherlands, France, and Germany, as well as sales growth in emerging regions including Russia, Eastern Europe and the Middle East. Revenue from the Asia Pacific region declined $61.5 million or 12% primarily due to the impact of certain NGN project decision delays in Japan driving revenue down year over year, partially offset by increased demands in China.

Net revenue in the United States as a percentage of total net revenue increased from 2004 to 2005 primarily due to the growth driven by increased demand within the service provider and enterprise markets. Net revenue in EMEA as a percentage of total net revenue increased in 2005 compared to 2004 primarily due to strength across the region, including Germany and the United Kingdom. Net revenue in other Asia Pacific countries as a percentage of total net revenue remained fairly consistent with prior years.

Siemens accounted for greater than 10% of our net product and service revenues for the years ended December 31, 2006, 2005, 2004. We expect that our largest customers, as well as key strategic partners, will continue to account for a substantial portion of our net revenue in 2007 and for the foreseeable future particularly due to the consolidation that continues to impact both our customers and partners.

***Cost of Revenues***

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

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | **GM%** | **2005** | **GM%** | **2004** | **GM%** |
| | | | As Restated (1) | | As Restated (1) | |
| Cost of product revenues | $ 555.1 | 71% | $ 506.3 | 71% | $ 318.8 | 73% |
| Cost of service revenues | 199.2 | 51% | 147.2 | 50% | 96.3 | 44% |
| Total cost of revenues | $ 754.3 | 67% | $ 653.5 | 68% | $ 415.1 | 69% |

(1) See Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements.

*Cost of Product Revenues*

Cost of product revenues increased $48.8 million or 10% in 2006 as compared to 2005. The increase was primarily attributable to increased product revenue in both the enterprise and service provider markets. Net product gross margin of 71% for 2006 fell by less than one percentage point compared to that in 2005 despite increased competitive pressure due to the impact of the mix of products; the mix of territories and reduced manufacturing costs. We expect to see increasing price competition and downward pressure on our product gross margins in the future. The increase in stock compensation expense in cost of product revenue from 2005 to 2006 of $0.9 million was primarily due to the impact of adopting SFAS 123R in 2006.

The two percentage point decrease in product gross margins from 2004 to 2005 was primarily due to increasing competition as certain of our products have become more mature in their product cycles. As we expanded our market share and entered more markets since 2004, we experienced increasing price competition. Nevertheless, higher product revenue volume contributed to the increased gross margin by $420.6 million, or 50%, in 2005 when compared to 2004.

*Cost of Service Revenues*

Cost of service revenues increased $52.0 million in 2006 as compared to that in 2005. The increase was a direct result of a larger installed base of products covered by service contracts. However, our service gross margin increased one percentage point from 2005 to 2006 as a result of improved efficiencies and economies of scale, which result in a better leveraged service organization. Total employee salary and related expenses as a percentage of service revenue were: 20% for 2006, 20% for 2005 and 26% for 2004; however, in absolute dollars, employee salary and related expenses increased $22.3 million from 2005 to 2006 primarily due to an investment in new customer service personnel, particularly to support our enterprise customers. Stock compensation expense in cost of service revenue also increased by $4.1 million from 2005 to 2006 primarily due to the impact of adopting SFAS 123R in 2006. In addition to personnel expenses, outside services costs increased $7.1 million from 2005 to 2006 primarily due to contracting for engineers to provide professional services revenue, particularly for the Middle East and other emerging markets. Spares and shipping expenses increased $7.3 million and $5.6 million, respectively, from 2005 to 2006 due to a significant investment in spares around the world to support the increase in customer contracts, particularly in the enterprise market. Finally, the costs associated with facilities, depreciation and other expenses increased $4.9 million in cost of service revenue from 2005 to 2006 due to increases in revenue and investment in infrastructure to support the growing business.

Service gross margins increased six percentage points from 2004 to 2005 and, increase was primarily attributable to a larger revenue increase when compared to the increase in cost of headcount, outside services, and spares purchases, all of which were needed to support the growing installed base. Total employee related expenses as a percentage of service revenue for 2005 decreased to 20% compared to 26% in 2004. Nevertheless, in absolute dollars, total service related costs increased $50.9 million from 2004 to 2005: employee related expenses increased $20.2 million, and outside service expenses increased by $17.5 million as a result of increased headcount during 2005. In addition, expense associated with spares increased by $7.1 million.

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

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

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | **2005** | | **2004** | |
| | | | As Restated (1) | | As Restated (1) | |
| Research and development | $ 480.2 | 21% | $ 357.3 | 17% | $ 264.4 | 20% |
| Sales and marketing | 558.0 | 24% | 441.6 | 21% | 324.3 | 24% |
| General and administrative | 97.1 | 4% | 75.0 | 4% | 55.5 | 4% |

(1) See Note 2, Restatement of Consolidated Financial Statements, in Notes to Consolidated Financial Statements.

*Research and Development Expenses*

Research and development expenses increased $122.9 million, or four percentage points of net revenue, in 2006 over 2005 as a result of our focus on the development of a broader portfolio of networking products. The increase in absolute dollars was primarily due to increases in personnel related expenses of $61.7 million, depreciation of $12.4 million, facility related expenses of $10.5 million, engineering and testing expenses of $8.3 million, outside service expenses of $3.5 million and equipment related expenses of $2.1 million. The increases in personnel related expenses in 2006 were primarily due to additional hires in the engineering organization across the Infrastructure and SLT segments. Headcount increased 19% from 1,736 individuals to 2,070 individuals during 2006. The headcount increase was attributable to product innovation efforts in areas including routers security and integration in order to capture potential future NGN infrastructure growth and other opportunities in the enterprise and the service provider markets. To a lesser extent, the increases in personnel expenses were attributable to merit-based salary increases beginning in April 2006. Facility, engineering and testing expense increased in 2006 to support our product innovation efforts. Outside service expenses increased in 2006 primarily due to additional consulting projects on developing future product roadmaps. The increase in stock compensation expense in research and development expenses from 2005 to 2006 of $24.0 million was primarily due to the impact of adopting SFAS 123R in 2006. We continue to invest in both stand-alone as well as integrated products in order to satisfy our customer needs. Our investment and expansion on our global research and development efforts were primarily in China and India.

Research and development expenses increased $92.9 million in 2005 compared to 2004, but decreased by 3% of total net revenues. The increase in absolute dollars was primarily due to increases in personnel related expenses of $66.4 million, facility related expenses of $14.1 million, engineering and testing expenses of $12.6 million, equipment related expenses of $8.5 million, and depreciation of $5.1 million. The increases in personnel related expenses in 2005 were primarily due to additional hires in the engineering organization, including those from the five acquisitions. The increase was partially offset by the decrease in research and development related stock compensation expense of $14.3 million compared to 2004 as a result of forfeitures of unvested options in 2005 and additional compensation expense recorded as a result of our restatement discussed in Note 2, Restatement of Consolidated Financial Statements. In addition, we invested and expanded on our global research and development efforts, specifically in China and India.

*Sales and Marketing Expenses*

Sales and marketing expenses increased $116.4 million in 2006 compared to 2005 and increased as a percent of total net revenues. The increase in absolute dollars was primarily due to increases in personnel related expenses of $58.9 million, increases in facility related expense of $12.0 million, increases in travel expenses of $10.3 million, increases in marketing related activities of $6.6 million, and increases in equipment related expenses of $2.6 million. Personnel related expenses increased in 2006 primarily due to additional hires to support the expansion of our distribution channels and customer base, as well as to support the larger portfolio of products. In particular, we expanded our enterprise sales force, and targeted key growth areas such as China, Middle East and India. We added 171 individuals to our sales and marketing function during 2006. Travel expense increased in 2006 due primarily to increased headcount and more activity in emerging markets. Marketing related activities increased primarily as a result of specific activities designed to expand and improve our brand recognition, support of our distribution channels, introduction of new products, targeted solution value propositions and increase awareness of our existing products to a broader range of customers. Equipment related expenses increased in 2006 due to the introduction of new products. The increase in stock compensation expense in sales and marketing from 2005 to 2006 of $24.5 million was primarily due to the impact of adopting SFAS 123R in 2006.

Sales and marketing expenses increased $117.3 million in 2005 compared to 2004 but decreased as a percent of total net revenues. The increase in absolute dollars was primarily due to increases in personnel related expenses of $97.3 million, increases in marketing related activities of $10.9 million, and increases in equipment related expenses of $2.6 million. Personnel related expenses increased in 2005 primarily due to additional hires, including acquisitions, to support the expansion of our distribution channels and customer base, as well as to support the larger portfolio of products. Marketing related activities increased primarily as a result of specific activities designed to expand and improve our distribution channels, introduction of new products, and increase awareness of our existing products to a broader range of customers. Stock-based compensation pertaining to sales and marketing functions was $6.8 million and $22.0 million for 2005 and 2004, respectively.

*General and Administrative Expenses*

General and administrative expenses increased $22.1 million in 2006 compared to 2005 and remained at 4% of total net revenues. The increase in absolute dollars was driven by increases in personnel related expenses of $5.6 million and other related expense. General and administrative world-wide headcount increased 11%, or by 24 individuals, during 2006, to support the overall growth in the business. The net change in bad debt expense reversal increased $2.3 million due primarily to the bad debt expense reversal in 2005. Facility and IT related expense increased $1.2 million as a result of our personnel growth and development of our systems infrastructure. The increase of general and administrative related stock compensation expense from 2005 to 2006 of $11.8 million was primarily due to the impact of adopting SFAS 123R in 2006.

General and administrative expenses increased $19.5 million in 2005 compared to 2004 and remained at 4% of total net revenues. The increase in absolute dollars was driven by increases in personnel related expenses of $10.6 million and a $10.0 million patent related expense. The $10.0 million patent expense pertained to an agreement we entered into with a third-party to avoid future disputes. Stock-based compensation pertaining to general and administrative function was $1.2 million and $2.2 million for 2005 and 2004, respectively.

***Other Operating Expenses***

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| Amortization of purchased intangible assets | $ 91.8 | $ 85.2 | $ 56.8 |
| Impairment of goodwill and intangibles | 1,283.4 | 5.9 | |
| In-process research and development | | 11.0 | 27.5 |
| Other charges, net: | | | |
| Restructuring and acquisition related charges, net | 5.9 | (6.5) | (5.1) |
| Integration costs | | | 5.1 |
| Stock option investigation costs | 20.5 | | |
| Tax related charges | 10.1 | | |
| Total other charges, net | $ 36.5 | $ (6.5) | $ |

*Amortization of Purchased Intangible Assets*

Amortization of purchased intangible assets increased $6.6 million in 2006 compared to 2005 as a result of recognizing a full year of amortization associated with the five acquisitions completed in 2005. The amortization of purchased intangible assets increased $28.4 million in 2005 compared to 2004 primarily due to the additional intangible assets from the five acquisitions completed in 2005. See Note 3 in Item 8 for more information on our purchased intangible assets.

*Impairment of Goodwill and Purchased Intangible Assets*

Impairment charges increased by $1,283.4 million in 2006 as a result of the impairment of both goodwill and purchased intangible assets during 2006. Due primarily to the decline in the Company s market capitalization that occurred over a period of approximately six months prior to the impairment review and, to a lesser extent, a decrease in the forecasted future cash flows used in the income approach, we evaluated the carrying value of our goodwill and reduced the goodwill within the SLT segment by $1,280.0 million. In addition, we recorded a $3.4 million impairment expense pertaining to a write-down of intangible assets as a result of a decrease in forecasted revenue for the SBC stand-alone products during the second quarter of 2006. In 2005, we wrote down $5.9 million of purchased intangible assets acquired from Kagoor.

*In-Process Research and Development*

No charges related to in-process research and development were incurred in 2006. In 2005, a total of $11.0 million was charged to IPR&D expense in connection with three of our five acquisitions during the year. Of the total Funk purchase price, $5.3 million was allocated to in-process research and development ( IPR&D ). Of the total Peribit purchase price, $3.8 million was allocated to IPR&D. Of the total Kagoor purchase price, $1.9 million was allocated to IPR&D. None of the Acorn or Redline purchase prices were allocated to IPR&D. In 2004, $27.5 million was allocated to IPR&D from the NetScreen acquisition and was expensed during the year.

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

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

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

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

For NetScreen, these efforts included integrating secure routers with embedded encryption chips, as well as other functions and features such as next generation Internet Protocol ( IP ), wireless and digital subscriber line connectivity and voice over IP capability. We utilized the discounted cash flow ( DCF ) method to value the IPR&D, using rates ranging from 20% to 25%, depending on the estimated useful life of the technology. In applying the DCF method, the value of the acquired technology was estimated by discounting to present value the free cash flows expected to be generated by the products with which the technology is associated, over the remaining economic life of the technology. To distinguish between the cash flows attributable to the underlying technology and the cash flows attributable to other assets available for generating product revenues, adjustments were made to provide for a fair return to fixed assets, working capital, and other assets that provide value to the product lines. At the time of the NetScreen acquisition, it was estimated that these development efforts would be completed over the next eighteen months at an estimated cost of approximately $25.0 million.

As of December 31, 2006, the estimated costs to complete the above research and development efforts were immaterial.

*Other Charges, Net*

Other charges are summarized as follows:

§ *Restructuring and Acquisition Related Reserves.* We recorded net restructuring and acquisition related bonus expenses of $5.9 million in 2006, of which $5.6 million pertained to bonus accruals associated with the Funk and Acorn acquisitions and $0.3 million pertained to net restructuring related charges. During 2006, we accrued $0.7 million in restructuring charges due to the initiation of a restructuring plan which focused on some product development costs reductions and the discontinuation of our SBC product. The $6.5 million credit to restructuring and acquisition related expenses in 2005 primarily consisted of $6.9 million in adjustments related to our restructuring accrual when we re-occupied a portion of the former NetScreen facility that was previously included in this acquisition related restructuring reserve, partially offset by a $0.3 million bonus and earn-out accrual related to the Funk and Acorn acquisitions. In 2004, we also recorded net adjustments of $5.1 million to the previously established restructuring reserves primarily for changes in estimates related to changes in lease and sublease assumptions.

- § *Integration Costs.* We had no significant costs in either 2006 or 2005 related to the integration of acquired product lines or business units during those years. We recognized $5.1 million in integration costs for the NetScreen acquisition in 2004. Integration expenses are incremental costs directly related to the integration of the two companies. The integration expenses consisted principally of facility related expenses, workforce related expenses and professional fees. We estimate that the majority of the integration costs related to our 2005 and 2004 acquisitions have been incurred and that there will be an immaterial amount of additional integration costs for these acquisitions in the foreseeable future.
- § *Stock Option Investigation Costs.* We recorded expenses of $20.5 million in 2006 relating to professional fees and other costs necessary to conduct our independent stock option investigation.
- § *Tax Related Charges.* We recorded $10.1 million in operating expense during 2006 in relation to certain taxes associated with stock option grants to employees.

***Other Income and Expenses***

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| Interest and other income | $104.3 | $59.1 | $28.2 |
| Interest and other expense | (3.6) | (3.9) | (5.4) |
| Write-down of equity investments | | (0.4) | (2.9) |
| Loss on redemption of convertible subordinated notes | | | (4.1) |
| Gain on sale of equity or available-for-sale investments | | 1.7 | |

Interest and other income increased $45.2 million from 2005 to 2006 and $30.9 million from 2004 to 2005 as a result of higher cash, cash equivalents and investment balances, and an increase in rates of return realized from our investments.

Interest expense decreased $0.3 million from 2005 and 2006 primarily due to lower portfolio management fees. Interest and other expenses decreased $1.5 million from 2004 to 2005 primarily due to the retirement of our subordinated notes during 2004, resulting in savings of $2.5 million, which was partially offset by foreign exchange related losses from balance sheet revaluation and bank fees.

We have certain minority equity investments in privately held companies that are carried at cost, adjusted for any impairment, as we do not have a controlling interest and do not have the ability to exercise significant influence over these companies. In 2006, there were no permanent changes in the market value of these holdings, and therefore we made no change to the valuation of these assets. During 2005 and 2004, we wrote-down these investments by $0.4 million and $2.9 million respectively, for changes in market value that we believed were other than temporary.

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

***Provision for Income Taxes***

Provision for income taxes decreased to $104.4 million in 2006 from $146.8 million in 2005. The 2006 effective rate was (11.6%) and differs from the federal statutory rate of 35% primarily due to the inability to benefit from a substantial portion of the goodwill impairment charge recorded in 2006.

Provision for income taxes increased to $146.8 million in 2005 from $79.9 million in 2004. The 2005 effective rate was 29.5% and differs from the federal statutory rate of 35% due primarily to the benefit of tax credits, income in foreign jurisdictions taxed at lower rates and a reduction in deferred tax liabilities related to the repatriation in 2005 of $225.0 million under the American Jobs Creation Act of 2004.

The provision for income taxes presented for 2005 and 2004 has been reduced by approximately $1.4 million and $3.4 million, respectively, due to the tax effect of the restatement for stock compensation charges. See Note 2 for additional details.

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***Segment Information***

A description of the products and services for each segment can be found in Note 12 to the Consolidated Financial Statements. We began to track financial information by our three operating segments during 2006 and 2005 as our management structure and responsibilities began to measure the business based on management operating income. We have included segment financial data for each of the three years in the period ended December 31, 2006 for comparative purposes.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | | As Restated (1) | As Restated (1) |
| Net Revenues: | | | |
| Infrastructure | $ 1,413.4 | $ 1,371.6 | $ 975.7 |
| Service Layer Technologies | 479.9 | 399.4 | 187.2 |
| Service | 410.3 | 293.0 | 173.1 |
| Total net revenues | 2,303.6 | 2,064.0 | 1,336.0 |
| Operating Income: | | | |
| Management operating income: | | | |
| Infrastructure | 420.0 | 487.4 | 304.4 |
| Service Layer Technologies | (12.8) | 9.6 | (5.5) |
| Service | 101.3 | 71.9 | 32.6 |
| Total management operating income | 508.5 | 568.9 | 331.5 |
| Amortization of purchased intangible assets (2) | (97.3) | (85.2) | (56.8) |
| Stock-based compensation expense | (87.6) | (22.3) | (54.9) |
| Impairment of goodwill and intangible assets | (1,283.4) | (5.9) | |
| In-process research and development | | (11.0) | (27.5) |
| Other expense, net (3) | (38.0) | (3.5) | |
| Total operating (loss) income | (997.8) | 441.0 | 192.3 |
| Interest and other income | 104.3 | 59.1 | 28.2 |
| Interest and other expense | (3.6) | (3.9) | (5.4) |
| Gain on (write-down of) investment, net | | 1.3 | (2.9) |
| Loss on redemption of convertible subordinated notes | | | (4.1) |
| (Loss) income before income taxes | $ (897.1) | $ 497.5 | $ 208.1 |

(1) Stock-based compensation expense for the 2005 and 2004 periods has been restated as a result of the stock option

investigation. In addition, prior period amounts have been reclassified to reflect the reorganization of certain research and development activities and changes in allocation methodologies.

(2) Amount includes amortization expense of purchased intangible assets in operating expenses and in costs of revenues.

(3) Other expense for 2006 includes charges such as restructuring, acquisition related charges, stock option investigation costs and tax related charges, as well as certain restructuring costs that were included in cost of revenues. Other expense for 2005 includes charges such as restructuring, acquisition related charges and patent

related charges.

*Infrastructure Operating Segment*

Infrastructure segment net revenues increased from 2005 to 2006 primarily due to increases in revenue from higher-end infrastructure chassis products and increased penetration by our core and edge router portfolio as a result service providers acquiring products for their NGNs and multi-play service offerings. In addition we believe there is increased demand for our products due to the adoption and expansion of IP networks as a result of peer to peer interaction, increased broadband usage, video, IPTV and an increasing reliance on the network as a mission critical business tool in the strategies of our IP customers, and of their enterprise customers. Infrastructure segment net revenues increased from 2004 to 2005 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.

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Infrastructure chassis revenue units | 10,211 | 9,977 | 7,102 |
| Infrastructure ports shipped | 160,318 | 153,763 | 115,255 |

Chassis revenue units increased from 2005 to 2006 due primarily to the sales of higher-end T-series and M-series products and the inclusion of the chassis units related to a 2005 acquisition, partially offset by decreases in sales of lower-end E-series and M-series products. Sales of higher-end chassis units increased as our customers continued to adopt and expand IP networks in order to reduce total operating costs and to be able to offer multiple services over a single network. Port shipment units increased from 2005 to 2006 primarily due to the increase in port demands driven by the larger expansion capacity in the higher-end chassis revenue units shipped during 2006, partially offset by the lower port capacity in CTP-series chassis revenue units. Chassis revenue units increased from 2004 to 2005 due primarily to investment in new broadband and other service provider networks during this time. Port shipment units increased from 2004 to 2005 primarily due to the growth in subscribers and services utilizing the networks.

Infrastructure management operating income decreased from 2005 to 2006 primarily due to higher personnel related costs associated with our investments in product innovation for next generation core and edge infrastructure products as well as increased operating expenses associated with marketing related efforts and improvements to our internal infrastructure, partially offset by savings in sales expense during 2006 as we increasingly leveraged our existing distribution channel. Infrastructure management operating income increased from 2004 to 2005 primarily due to increases in revenue as evident by the increase in chassis revenue units and the productivity leverage such increase created. The increase was partially offset by higher personnel related costs primarily related to support product innovation and the expansion of our sales channels.

*SLT Operating Segment*

The SLT operating segment consists of security products and application acceleration products. The following table shows SLT revenue units recognized:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| SLT revenue units | 183,575 | 170,181 | 81,015 |

SLT net revenue increased from 2005 to 2006 primarily attributable to sales increases across various SLT product families including firewalls/VPN, IDP, J-series, DX, and SSL/VPN. The full year of inclusion of the DX and application acceleration products from the acquisitions completed in 2005 also contributed to the SLT revenue increases in 2006. Another part of the increase was driven by cross selling our SLT products into service providers for internal use and managed services; and a further part of the increase was due to successfully selling to much larger enterprise customers with increased footprint and complexity.

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

SLT segment incurred a management operating loss in 2006, compared to the management operating income in 2005, due primarily to higher product and personnel related costs despite the higher SLT net revenues and gross margin. Increases in personnel related costs were primarily related to headcount growth in order to support product innovation, new products sales and a larger customer base. We have made a strategic decision to invest more into the enterprise and SLT markets to drive increased revenues and SLT productivity in the future. SLT Management operating income increased from 2004 to 2005 primarily due to increases in net revenue, partially offset by increased expenses primarily related to product innovation and the expansion of our sales channels. Additionally, the purchase accounting adjustments related to the NetScreen acquisition negatively impacted the revenue and management operating results in 2004.

*Service Operating Segment*

Net service revenues increased from 2005 to 2006 mainly due to the growth in support services, and to a lesser extent, the growth in professional services. The growth in the support services was largely due to increased technical support service contracts associated with higher product sales, which have resulted in our growing installed base of equipment being serviced. The growth in professional services was mainly due to resident engineering professional services and consulting projects in 2006. Service gross margin percentages as well as Service management operating income increased from 2005 to 2006 due primarily to improved economies of scale achieved by faster revenue growth through the Infrastructure products and the SLT products relative to the increases in operating costs. In absolute dollars, employee related expenses increased in 2006 as a result of increased service related headcount from 476 to 611 individuals. Expenses associated with spare components also increased in 2006 to support increased demands driven by additional service contracts as a result of our growing installed base.

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

**Key Performance Measures**

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| Days sales outstanding (DSO) (a) | 38.5 | 42.5 | 39.6 |

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

**Liquidity and Capital Resources**

***Overview***

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

| | As of December 31, | |
|---|---|---|
| | **2006** | **2005** |
| Working capital | $ 1,759.2 | $ 1,261.4 |
| Cash and cash equivalents | $ 1,596.3 | $ 918.4 |
| Short-term investments | 443.9 | 510.4 |
| Long-term investments | 574.1 | 618.3 |
| Restricted cash | 45.6 | 66.1 |

Working capital increased $497.8 million from 2005 to 2006 mainly due to cash provided by operating activities and investing activities, partially offset by cash used in financing activities. The significant components of our working capital are cash and cash equivalents, short-term investments and accounts receivable, reduced by accounts payable, accrued liabilities and deferred revenue.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term and long-term investments, together with cash generated from operations and from the exercise of employee stock options and the purchase of common stock through our employee stock purchase plan, will satisfy our working capital needs, capital expenditures, commitments, repurchases of our common stock, and other liquidity requirements associated with our existing operations through at least the next 12 months. However, it is possible that we may need to raise additional funds to finance our activities beyond the next 12 months or to consummate acquisitions of other businesses, assets, products or technologies. We could raise such funds by selling equity or debt securities to the public or to selected investors, or by borrowing money from financial institutions. In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons.

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, except the $2.0 billion stock repurchase program approved by the Board of Directors as described below. If we were to purchase $2.0 billion of our common stock, we would significantly reduce our working capital and we may elect to obtain additional debt or credit facilities to fund the repurchases.

Our future capital requirements may vary materially from those now planned depending on many factors, including:

- the overall levels of sales of our products and gross profit margins;
- our business, product, capital expenditure and research and development plans;
- the market acceptance of our products;
- repurchase of our common stock;
- issuance and repayment of debt;
- litigation expenses, settlements and judgments;
- volume price discounts and customer rebates;
- the levels of accounts receivable that we maintain;
- acquisitions of other businesses, assets, products or technologies;
- changes in our compensation policies;
- capital improvements for new and existing facilities;
- technological advances;
- our competitors responses to our products;
- our relationships with suppliers and customers;
- expenses related to our future restructuring plans, if any;
- legal and professional service fees associated with our stock option investigation activities;
- tax expense associated with stock-based awards;
- issuance of stock-based awards and the related payment in cash for withholding taxes in the current year and possibly during future years;
- the level of exercises of stock options and stock purchases under our Employee Stock Purchase Plan; and
- general economic conditions and specific conditions in our industry and markets, including the effects of recent international conflicts and related uncertainties.

***Cash Requirements***

In July 2006, our Board authorized a new stock repurchase program under which we are authorized to repurchase up to $1.0 billion of our Company s common stock. In February 2007, our Board approved an increase of $1.0 billion under this new share repurchase program. Coupled with the original $1.0 billion approved in July 2006, we are now authorized to repurchase up to $2.0 billion of our common stock. Purchases under this plan will be subject to a review of the circumstances in place at the time. Acquisitions under the share repurchase program will be made from time to time as permitted by securities laws and other legal requirements. The program may be discontinued at any time.

In May 2006, our audit committee commenced an independent review of our stock option practices and related accounting. The audit committee was assisted by independent legal counsel and accounting experts. We recognized $20.5 million of expense for legal and other professional services associated with this stock option review through December 31, 2006. In addition, we incurred tax related charges of $10.1 million in 2006. We expect to incur additional fees and other costs in 2007.

***Contractual Obligations***

The following table summarizes our principal contractual obligations at December 31, 2006 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in millions):

| | Total | Less Than 1 Year | 1 3 Years | 3 5 Years | More than 5 Years |
|---|---|---|---|---|---|
| Operating leases, net of committed subleases (a) | $ 182.2 | $ 40.8 | $ 60.9 | $ 47.0 | $ 33.5 |
| Senior Notes (b) | 399.9 | | 399.9 | | |
| Purchase commitments (c) | 120.5 | 120.5 | | | |
| Other contractual obligations (d) | 27.9 | 27.9 | | | |
| Total | $ 730.5 | $ 189.2 | $ 460.8 | $ 47.0 | $ 33.5 |

(a) We occupy approximately 1.5 million square feet world wide under operating leases. The majority of our office space is in North America, including our corporate headquarters in Sunnyvale, California. Our longest lease expires in May 2016.

(b) Our principal commitment as of December 31, 2006 was our outstanding Zero Coupon Convertible Senior Notes due June 15, 2008 ( Senior Notes ). The Senior Notes were issued in June 2003 and are senior unsecured obligations, rank on parity in right of payment with all of our existing and future senior unsecured debt, and rank senior to all of our existing and future debt that expressly provides that it is subordinated to the notes. The Senior Notes bear no interest, but are convertible into shares of our common stock, subject to certain conditions, at any time prior to maturity or their prior repurchase by Juniper Networks. The conversion rate is 49.6512 shares per each $1,000 principal amount of convertible notes, subject to adjustment in certain circumstances. The carrying value of the Senior Notes as of December 31, 2006 was $399.9 million.

(c) We do not have firm purchase commitments with our contract manufacturers. In order to reduce manufacturing lead times and ensure adequate component supply, the contract manufacturers place non-cancelable, non-returnable ( NCNR ) orders, which were valued at $120.5 million as of December 31, 2006, based on our build forecasts. We do not take ownership of the components and the NCNR orders do not represent firm purchase commitments pursuant to our agreements with the contract manufacturers. The components are used by the contract manufacturers to build products based on purchase orders we have received from our customers. We do not incur a liability for products built by the contract manufacturer until it fulfills our customer s order and the order ships. However, if the components go unused, we may be assessed carrying charges or obsolete charges. As of December 31, 2006, we had accrued $22.4 million based on our estimate of such charges.

(d) Other Contractual obligations consist of the following:

Escrow amount of $12.8 million related to the Funk acquisition to secure certain indemnity obligations. One-half of the escrow expired in January 2007 and the remaining one-half will expire in June 2007. Also included is a contingent bonus payable, based on certain milestones, of $5.0 million, which was earned over a one year period ending in 2006.

Escrow amount of $1.6 million related to the Acorn acquisition to secure certain indemnity obligations. The escrow period will expire in May 2007. Also included is a contingent earn-out payable to former Acorn stockholders, based on certain milestones, of up to $2.2 million, and a contingent bonus payable to employees related to continued employment of up to $0.5 million. The earn-out and bonus amounts will be paid, to the extent earned, in 2007 and 2008.

Escrow amount related to the Redline and Kagoor acquisitions of $0.7 million and $5.1 million, respectively, to secure certain indemnity obligations.

There was 0.8 million shares of the Company s common stock with a fair value of $17.6 million, established as of the acquisition date, were held in escrow to secure certain indemnity obligations for the Peribit acquisition. Almost all of the escrow shares were distributed in February 2007 at the then current market value of $19.15 per share, or an aggregate fair value of $14.1 million.

***Summary of Cash Flows***

*Operating Activities*

Net cash provided by operating activities was $755.6 million, $642.9 million and $439.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The cash provided by operating activities for each period was due to our net income (loss) adjusted by:

§ Non-cash charges of $1,536.4 million, $307.4 million, and $254.0 million for 2006, 2005 and 2004, respectively, primarily related to depreciation and amortization expenses, stock-based compensation, tax benefit of employee stock option plans, in-process research and development from acquisitions, debt issuance costs, loss on disposal of property and equipment, restructuring expense, and impairment charges. Non-cash charges in 2006 included a $1,283.4 million impairment of goodwill and intangible assets. In 2005 and 2004, non-cash charges included $128.1 million and $62.6 million of tax benefit from employee stock options while tax benefit from employee stock options which in accordance with SFAS 123R are no longer included in cash flows from operations beginning in 2006 but rather are included in financing activities. In 2006, tax benefits from tax deductions in excess of the stock-based compensation expense recognized was presented as a financing activity in the Consolidated Statements of Cash Flows of 2006. Non-cash charges in 2005 also included a benefit from the reversal of NetScreen s acquisition related liabilities and a loss due to the impairment of an equity investment, partially offset by gains associated with available-for-sale investments. In 2004, non-cash charges also included a loss from the redemption of the 4.75% Convertible Subordinated Notes and a loss due to the write-down of equity investments.

§ Net changes in operating assets and liabilities of $220.6 million, $(15.1) million, and $57.2 million for 2006, 2005 and 2004, respectively, were in the normal course of business. These changes are highlighted as follows:

§ Net cash increases in 2006 are primarily attributable to increases in deferred revenue of $132.8 million due to the growing installed base and customer payments in advance of product acceptance. The increase in operating cash flows was also due to the decreases in accounts receivable of $20.7 million and aggregate decreases in prepaid expenses, other current assets and other long-term assets of $23.0 million. Accounts payable increased $13.6 million and accrued compensation increased $12.7 million primarily due to the costs of headcount increases and related employee bonuses. Changes in taxes payable and other accrued liabilities contributed $18.3 million to cash flows from operations in 2006.

§ Net cash used during the year ended December 31, 2005 from changes in account balances was primarily attributable to increases in net accounts receivable of $68.1 million and decreases in other accrued liabilities of $100.7 million and accrued warranty of $3.7 million. Decreases in the prepaid expenses, other current assets and other long-term assets accounts of $5.3 million, the increases in income taxes payable of $26.6 million, deferred revenue of $64.3 million, accounts payable of $50.3 million and accrued compensation of $10.9 million contributed positively to cash flows from operations.

§ Net cash provided during the year ended December 31, 2004 was primarily attributable to increases in deferred revenue of $93.6 million due to increases in the Company s installed base. Increases in accrued compensation of $40.3 million, accounts payable of $29.4 million, income taxes payable of $16.9 million, other accrued liabilities of $11.0 million and accrued warranty of $3.6 million contributed to operating cash flows. These amounts were partially offset by increases in net accounts receivable of $81.4 million and prepaid expenses, other current assets, and other long-term assets of $56.3 million.

*Investing Activities*

Net cash provided in investing activities was $11.9 million for the year ended December 31, 2006. Net cash used in investing activities was $583.7 million and $58.5 million for the years ended December 31, 2005 and 2004, respectively. Investing activities included capital expenditures and the purchases and sale or maturities of available-for-sale securities, the purchase and sale of equity investments, and the acquisitions of businesses.

Capital expenditures increased $3.9 million to $102.1 million in 2006 and increased $35.0 million to $98.2 million in 2005 mainly due to new product developments and overseas expansions, and business acquisitions. Positive net cash flows of $115.9 million generated from the sales and purchases of available-for-sale securities in 2006 was primarily due to higher short-term interest rates. Purchases and sales of available-for-sale securities used $131.0 million and $34.7 million in 2005 and 2004, respectively. Other investing activities include:

§ $15.1 million of cash was used in the acquisitions during 2005, $20.5 million of cash was provided by the decrease of restricted cash, and $7.3 million of minority equity investment during 2006; $15.1 million of cash used in acquisition was due to the escrow payments related to the 2005 acquisitions. Restricted cash decreased by $20.5 million in 2006 primarily due to the $15.1 million escrow payments associated with the 2005 acquisitions. Another contributing factor to the decrease in restricted cash in 2006 was the reduction in deposit requirements of $5.9 million pertaining to letters of credit for facility leases;

§ $309.9 million of cash used in the 2005 acquisitions, $34.8 million of restricted cash funded to escrow accounts in relation to the 2005 acquisitions, and $9.8 million of minority equity investment during 2005; and

§ $40.9 million of cash and cash equivalents acquired in connection with the NetScreen acquisition during 2004.

*Financing Activities*

Net cash used in financing activities was $89.6 million for the year ended December 31, 2006. Net cash provided in financing activities was $146.0 million for the year ended December 31, 2005. Net cash used in financing activities was $33.4 million for the year ended December 31, 2004. Cash was provided during all periods from the issuance of common stock related to employee option exercises and stock purchase plans. In 2006, we repurchased 10,071,000 shares of our common stock at an average price of $18.51 per share, or a total of $186.4 million. Common stock issued in relation to employee stock option exercises and Employee Stock Purchase Plan generated total cash proceeds of $87.1 million during the 2006 period. Beginning in 2006, SFAS 123R requires excess tax benefits relating to exercises of employee options to be included in financing activities. In 2006, total tax benefits of $9.7 million from tax deductions in excess of the expense recognized for employee stock options was presented as financing cash flows due to the adoption of SFAS 123R beginning on January 1, 2006. Tax deductions in excess of the expense recognized for employee stock options were previously included in operating cash flows prior to 2006. In 2005, common stock issued in relation to employee option exercises and Employee Stock Purchase Plan generated total cash proceeds of $146.0 million. In 2004, common stock issued in relation to employee option exercises and Employee Stock Purchase Plan generated total cash proceeds of $175.2 million. During 2004, we spent $145.0 million to retire our Subordinated Notes and $63.6 million to retire 2.9 million shares of our common stock. The repurchase of our common stock did not have a material impact on our liquidity.

**Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* ( FIN 48 ). FIN 48 applies to all tax positions related to income taxes subject to FASB Statement 109, *Accounting for Income Taxes,* including uncertain tax positions. Under FIN 48 a company will recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how a company would measure the income tax benefits from the tax positions that are recognized, provides guidance as to the timing of the de-recognition of previously recognized tax benefits and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the income statement and presented in the balance sheet. Differences between the amounts recognized in the statements of financial position prior to and after the adoption of FIN 48 would be accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings. We are required to adopt FIN 48 as of January 1, 2007. Upon adoption, there is a possibility that the cumulative effect would result in an adjustment to the beginning balance of retained earnings. In addition, the application of FIN 48 may increase our future effective tax rates and its future intra-period effective tax rate volatility. We are currently evaluating the effect of the adoption of FIN 48 on our consolidated financial statements and are not yet in a position to determine such effects.

In September 2006, the FASB issued FASB Statement ( SFAS ) No. 157, *Fair Value Measurement,* ( SFAS 157 ). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The guidance clarifies the principle for assessing fair value based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data such as companies own data. Under this guidance, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating SFAS 157 and expect to adopt this guidance beginning on January 1, 2008.

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

**Interest Rate Risk**

We maintain an investment portfolio of various holdings, types and maturities. These securities are generally classified as available-for-sale and, consequently, are recorded on the consolidated balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss).

At any time, a rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, declines in interest rates could have a material impact on interest earnings of our investment portfolio. We do not currently hedge these interest rate exposures.

The following table presents hypothetical changes in fair value of the financial instruments held at December 31, 2006 that are sensitive to changes in interest rates (in millions):

| | Valuation of Securities Given an Interest Rate Decrease of X Basis Points (BPS) | | | Fair Value as of | Valuation of Securities Given an Interest Rate Increase of X BPS | | |
|---|---|---|---|---|---|---|---|
| | (150 BPS) | (100 BPS) | (50 BPS) | December 31, 2006 | 50 BPS | 100 BPS | 150 BPS |
| Government treasury and | $ 297.5 | $ 296.0 | $ 294.5 | $ 293.0 | $ 291.6 | $ 290.1 | $ 288.6 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| agencies | | | | | | | |
| Corporate bonds and notes | 520.4 | 517.7 | 515.0 | 512.3 | 509.6 | 506.8 | 504.1 |
| Asset backed securities and other | 333.9 | 333.4 | 332.9 | 332.4 | 331.9 | 331.4 | 331.0 |
| Total | $ 1,151.8 | $ 1,147.1 | $ 1,142.4 | $ 1,137.7 | $ 1,133.1 | $ 1,128.3 | $ 1,123.7 |

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

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

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

**Foreign Currency Risk and Foreign Exchange Forward Contracts**

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

We 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.

Periodically, we use foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. These derivatives are designated as cash flow hedges and have maturities of less than one year. The effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income, and upon occurrence of the forecasted transaction, is subsequently reclassified into the consolidated statements of operations line item to which the hedged transaction relates. We record any ineffectiveness of the hedging instruments, which was immaterial during the years ended December 31, 2006, 2005 and 2004, in other income (expense) in our results of operations.

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## ITEM 8. Consolidated Financial Statements and Supplementary Data

### Management s Annual Report on Internal Control Over Financial Reporting

Juniper Networks Inc. s management is responsible for establishing and maintaining adequate internal control over the company s financial reporting. We assessed the effectiveness of the company s internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework.

Based on our assessment using those criteria, we concluded that, as of December 31, 2006, Juniper Networks Inc. s internal control over financial reporting was effective.

Juniper Networks Inc. s independent registered public accounting firm, Ernst & Young LLP, audited the financial statements included in this Annual Report on Form 10-K and have issued an audit report on management s assessment of the company s internal control over financial reporting. This report appears on page 60 of this Annual Report on Form 10-K.

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

Sunnyvale, California
March 6, 2007

### Index to Consolidated Financial Statements

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## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Juniper Networks, Inc. as of December 31, 2006 and 2005 (restated), and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006 (restated). Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Juniper Networks, Inc. at December 31, 2006 and 2005 (restated), and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 (restated), in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

As discussed in Note 2, Restatement of Consolidated Financial Statements the Company has restated previously issued financial statements as of December 31, 2005 and for each of the years in the two year period ended December 31, 2005.

As discussed in Note 1 to the Consolidated Financial Statements, effective January 1, 2006, the Company adopted the provision of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Juniper Networks, Inc. s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
San Jose, California
March 6, 2007

## Report of Independent Registered Public Accounting Firm

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

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting, that Juniper Networks, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Juniper Networks, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management s assessment that Juniper Networks, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Juniper Networks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Juniper Networks, Inc. as of December 31, 2006 and 2005 (restated), and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2006 (restated), and our report dated March 6, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
San Jose, California
March 6, 2007

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

| | Year Ended December 31, 2006 | 2005 As Restated(1) | 2004 As Restated(1) |
|---|---|---|---|
| Net revenues: | | | |
| Product | $ 1,893,328 | $ 1,770,988 | $ 1,162,928 |
| Service | 410,252 | 292,969 | 173,091 |
| Total net revenues | 2,303,580 | 2,063,957 | 1,336,019 |
| Cost of revenues: | | | |
| Product(2) | 555,077 | 506,296 | 318,840 |
| Service(2) | 199,213 | 147,161 | 96,290 |
| Total cost of revenues | 754,290 | 653,457 | 415,130 |
| Gross margin | 1,549,290 | 1,410,500 | 920,889 |
| Operating expenses: | | | |
| Research and development(2) | 480,247 | 357,284 | 264,448 |
| Sales and marketing(2) | 557,990 | 441,596 | 324,322 |
| General and administrative(2) | 97,077 | 74,982 | 55,499 |
| Amortization of purchased intangibles | 91,823 | 85,174 | 56,782 |
| Impairment of goodwill and intangibles | 1,283,421 | 5,944 | |
| In-process research and development | | 11,000 | 27,500 |
| Other charges, net | 36,514 | (6,526) | 29 |
| Total operating expenses | 2,547,072 | 969,454 | 728,580 |
| Operating (loss) income | (997,782) | 441,046 | 192,309 |
| Interest and other income | 104,323 | 59,144 | 28,233 |
| Interest and other expense | (3,590) | (3,924) | (5,379) |
| Write-down of minority equity investments | | (448) | (2,939) |
| Loss on redemption of convertible subordinated notes | | | (4,107) |
| Gain on sale of equity or available-for-sale investments | | 1,698 | |
| Loss (income) before income taxes | (897,049) | 497,516 | 208,117 |
| Provision for income taxes | 104,388 | 146,815 | 79,889 |
| Net (loss) income | $ (1,001,437) | $ 350,701 | $ 128,228 |
| Net (loss) income per share: | | | |
| Basic | $ (1.76) | $ 0.63 | $ 0.26 |
| Diluted | $ (1.76) | $ 0.58 | $ 0.24 |
| Shares used in computing net (loss) income per share: | | | |

| | | | |
|---|---|---|---|
| Basic | 567,454 | 554,223 | 493,073 |
| Diluted | 567,454 | 600,189 | 543,688 |

(1) The Consolidated Statements of Operations for the years ended December 31, 2005 and 2004 have been restated to reflect the adjustments discussed in Note 2, Restatement of Consolidated Financial Statements.

(2) Stock-based compensation relates to the following categories by period:

| | | | |
|---|---|---|---|
| Cost of revenues Product | $ 1,881 | $ 1,031 | $ 1,224 |
| Cost of revenues Service | 5,642 | 1,525 | 3,332 |
| Research and development | 35,784 | 11,761 | 26,085 |
| Sales and marketing | 31,305 | 6,761 | 21,977 |
| General and administrative | 13,033 | 1,242 | 2,238 |
| Total | $ 87,645 | $ 22,320 | $ 54,856 |

See accompanying Notes to Consolidated Financial Statements

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

| | December 31, 2006 | December 31, 2005 As Restated(1) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,596,333 | $ 918,401 |
| Short-term investments | 443,910 | 510,364 |
| Accounts receivable, net of allowances for doubtful account of $7,255 for 2006 and $7,730 for 2005 | 249,445 | 268,907 |
| Deferred tax assets, net | 179,989 | 144,439 |
| Prepaid expenses and other current assets | 52,129 | 46,676 |
| Total current assets | 2,521,806 | 1,888,787 |
| Property and equipment, net | 349,930 | 319,885 |
| Long-term investments | 574,061 | 618,342 |
| Restricted cash | 45,610 | 66,074 |
| Goodwill | 3,624,652 | 4,879,701 |
| Purchased intangible assets, net | 169,202 | 269,920 |
| Long-term deferred tax assets, net | 51,499 | 111,236 |
| Other long-term assets | 31,635 | 29,666 |
| Total assets | $ 7,368,395 | $ 8,183,611 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 179,553 | $ 165,172 |
| Accrued compensation | 110,451 | 97,738 |
| Accrued warranty | 34,828 | 28,187 |
| Deferred revenue | 312,253 | 213,482 |
| Income taxes payable | 38,499 | 56,360 |
| Other accrued liabilities | 87,033 | 66,462 |
| Total current liabilities | 762,617 | 627,401 |
| Long-term deferred revenue | 73,326 | 39,330 |
| Other long-term liabilities | 17,424 | 28,687 |
| Long-term debt | 399,944 | 399,959 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Convertible preferred stock, $0.00001 par value; 10,000 shares authorized; none issued and outstanding | | |
| Common stock, $0.00001 par value, 1,000,000 shares authorized; 569,234 and 568,243 shares issued and outstanding at December 31, 2006 and 2005, | 6 | 6 |

| | | |
|---|---|---|
| respectively | | |
| Additional paid-in capital | 7,646,047 | 7,458,662 |
| Deferred stock compensation | | (17,700) |
| Accumulated other comprehensive income (loss) | 1,266 | (8,324) |
| Accumulated deficit | (1,532,235) | (344,410) |
| Total stockholders equity | 6,115,084 | 7,088,234 |
| Total liabilities and stockholders equity | $ 7,368,395 | $ 8,183,611 |

(1) The Consolidated Balance Sheet as of December 31, 2005 has been restated to reflect the correct information based on the adjustments discussed in Note 2, Restatement of Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | | As Restated(1) | As Restated(1) |
| OPERATING ACTIVITIES: | | | |
| Net (loss) income | $ (1,001,437) | $ 350,701 | $ 128,228 |
| Adjustments to reconcile net (loss) income to net cash from operating activities: | | | |
| Depreciation and amortization | 173,490 | 138,904 | 97,625 |
| Stock-based compensation | 87,645 | 22,320 | 54,856 |
| Non-cash portion of debt issuance costs and disposal of property and equipment | 1,512 | 1,735 | 4,094 |
| Restructuring, impairments, and special charges | 1,283,421 | 5,620 | 321 |
| In-process research and development | | 11,000 | 27,500 |
| (Gain) loss on sale or write-down of investments | | (364) | 2,939 |
| Loss on redemption of convertible subordinated notes | | | 4,107 |
| Tax benefit of employee stock option plans | | 128,140 | 62,605 |
| Excess tax benefit of employee stock option plans | (9,650) | | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | 20,745 | (68,053) | (81,398) |
| Prepaid expenses, other current assets and other long-term assets | 22,969 | 5,308 | (56,253) |
| Accounts payable | 13,644 | 50,310 | 29,390 |
| Accrued compensation | 12,712 | 10,901 | 40,296 |
| Accrued warranty | (514) | (3,723) | 3,597 |
| Income taxes payable | 8,934 | 26,566 | 16,937 |
| Other accrued liabilities | 9,367 | (100,702) | 10,956 |
| Deferred revenue | 132,766 | 64,280 | 93,648 |
| Net cash provided by operating activities | 755,604 | 642,943 | 439,448 |
| INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment | (102,093) | (98,192) | (63,185) |
| Purchases of available-for-sale investments | (516,144) | (936,031) | (739,437) |
| Maturities and sales of available-for-sale investments | 632,075 | 805,047 | 704,740 |
| Decrease (increase) in restricted cash | 20,464 | (34,848) | (249) |
| Minority equity investments | (7,274) | (9,823) | (1,225) |
| Acquisition of businesses, net of cash and cash equivalents acquired | (15,102) | (309,889) | 40,889 |
| Net cash provided by (used in) investing activities | 11,926 | (583,736) | (58,467) |
| FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of common stock | 87,140 | 146,029 | 175,172 |
| Redemption of convertible subordinated notes | | | (144,967) |
| Retirement of common stock | (186,388) | (17) | (63,610) |
| Excess tax benefit of employee stock option plans | 9,650 | | |

| | | | |
|---|---|---|---|
| Net cash (used in) provided by financing activities | (89,598) | 146,012 | (33,405) |
| Net increase in cash and cash equivalents | 677,932 | 205,219 | 347,576 |
| Cash and cash equivalents at beginning of period | 918,401 | 713,182 | 365,606 |
| Cash and cash equivalents at end of period | $ 1,596,333 | $ 918,401 | $ 713,182 |
| Supplemental Disclosures of Cash Flow Information: | | | |
| Cash paid for interest | $ | $ | $ 4,424 |
| Cash paid for taxes | 64,005 | 27,764 | 7,340 |
| Supplemental Schedule of Non-Cash Investing and Financing Activities: | | | |
| Common stock issued in connection with business combinations | $ | $ 221,221 | $ 3,651,226 |
| Stock options assumed in connection with business combinations | | 65,185 | 520,503 |
| Deferred stock compensation in connection with business combinations | | 19,035 | 93,558 |
| Common stock issued in connection with conversion of the Senior Notes | 15 | 41 | |

(1) The Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2004 have been restated to reflect the adjustments discussed in Note 2, Restatement of Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements

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

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Deferred Stock Compensation | Accumulated Other Comprehensive Income (loss) | Retained Earnings/ (Accumulated Deficit) | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2003 (previously reported) | 390,272 | $ 4 | $ 1,557,372 | $ (1,228) | $ 4,414 | $ 1,881 | $ 1,562,443 |
| Adjustment to opening stockholders equity | | | 780,673 | (19,063) | | (761,610) | |
| Balance at December 31, 2003 (as restated) | 390,272 | 4 | 2,338,045 | (20,291) | 4,414 | (759,729) | 1,562,443 |
| Issuance of shares in connection with Employee Stock Purchase Plan | 769 | | 11,791 | | | | 11,791 |
| Exercise of stock options by employees, net of repurchases | 20,236 | | 163,381 | | | | 163,381 |
| Issuance of shares in connection with acquisition | 132,118 | 1 | 4,171,730 | (93,558) | | | 4,078,173 |
| Issuance of shares in connection with convertible notes | | | 2 | | | | 2 |
| Repurchase and retirement of common stock | (2,869) | | | | | (63,610) | (63,610) |
| Stock-based compensation | | | (18,822) | 73,678 | | | 54,856 |
| Tax benefit from employee stock option plans | | | 62,776 | | | | 62,776 |
| Tax benefit from options assumed in acquisitions | | | (18,578) | | | | (18,578) |
| Other comprehensive | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| income: | | | | | | | |
| Change in unrealized gain on available-for-sale securities | | | | | (7,335) | | (7,335) |
| Foreign currency translation gains, net | | | | | 2,205 | | 2,205 |
| Net income | | | | | | 128,228 | 128,228 |
| Comprehensive income | | | | | | | 123,098 |
| Balance at December 31, 2004 (as restated) | 540,526 | 5 | 6,710,325 | (40,171) | (716) | (695,111) | 5,974,332 |
| Issuance of shares in connection with Employee Stock Purchase Plan | 912 | | 18,262 | | | | 18,262 |
| Exercise of stock options by employees, net of repurchases | 15,466 | 1 | 127,766 | | | | 127,767 |
| Issuance of shares in connection with acquisitions | 11,345 | | 286,406 | (19,035) | | | 267,371 |
| Issuance of shares in connection with conversion of the Zero Coupon Convertible Senior Notes | 2 | | 41 | | | | 41 |
| Retirement of common stock | (8) | | (17) | | | | (17) |
| Stock-based compensation | | | (19,186) | 41,506 | | | 22,320 |
| Tax benefit from employee stock option plans | | | 128,140 | | | | 128,140 |
| Tax benefit from options assumed in acquisitions and reversal of deferred tax assets valuation allowance | | | 212,885 | | | | 212,885 |
| Tax benefit from options assumed in acquisitions | | | (5,960) | | | | (5,960) |
| Other comprehensive income: | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Change in unrealized loss on available-for-sale securities | | | | | (3,983) | | (3,983) |
| Foreign currency translation losses, net | | | | | (3,625) | | (3,625) |
| Net income | | | | | | 350,701 | 350,701 |
| Comprehensive income | | | | | | | 343,093 |
| Balance at December 31, 2005 (as restated) | 568,243 | 6 | 7,458,662 | (17,700) | (8,324) | (344,410) | 7,088,234 |
| Elimination of unearned deferred compensation upon adoption of SFAS 123R | | | (17,700) | 17,700 | | | |
| Issuance of shares in connection with Employee Stock Purchase Plan | 1,748 | | 22,831 | | | | 22,831 |
| Exercise of stock options by employees, net of repurchases | 9,313 | | 64,309 | | | | 64,309 |
| Release of escrow | | | 10,343 | | | | 10,343 |
| Elimination of additional paid-in capital in connection with modification of stock options | | | (6,114) | | | | (6,114) |
| Issuance of shares in connection with conversion of the convertible senior notes | 1 | | 15 | | | | 15 |
| Repurchase and retirement of common stock | (10,071) | | | | | (186,388) | (186,388) |
| Stock-based compensation expense | | | 87,645 | | | | 87,645 |
| Tax benefit from employee stock option plans | | | 19,890 | | | | 19,890 |
| Adjustment to deferred tax | | | 6,166 | | | | 6,166 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| liabilities in connection with elimination of unearned deferred compensation balance and other | | | | | | | |
| Other comprehensive income (loss): | | | | | | | |
| Change in unrealized gain on available-for-sale securities | | | | | 5,199 | | 5,199 |
| Foreign currency translation gains, net | | | | | 4,391 | | 4,391 |
| Net loss | | | | | | (1,001,437) | (1,001,437) |
| Comprehensive loss | | | | | | | (991,847) |
| Balance at December 31, 2006 | 569,234 | $ 6 | $ 7,646,047 | $ | $ 1,266 | $ (1,532,235) | $ 6,115,084 |

See accompanying Notes to Consolidated Financial Statements

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**Juniper Networks, Inc.**
**Notes to Consolidated Financial Statements**

## Note 1. Description of Business

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

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

### Basis of Presentation

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

### Use of Estimates

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

### Cash and Cash Equivalents

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

### Investments

Management determines the appropriate classification of securities at the time of purchase and reevaluates such classification as of each balance sheet date. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in the Consolidated Statements of Operations. The Company s investments in publicly traded equity securities are classified as available-for-sale. Available-for-sale investments are initially recorded at cost and periodically adjusted to fair value through comprehensive income.

**Equity Investments**

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

**Fair Value of Financial Instruments**

The carrying value of the Company s financial instruments including cash and cash equivalents, accounts receivable, accrued compensation, and other accrued liabilities, approximates fair market value due to the relatively short period of time to maturity. The fair value of investments is determined using quoted market prices for those securities or similar financial instruments.

**Concentrations**

Financial instruments that subject Juniper Networks to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable. Juniper Networks maintains its cash and cash equivalents and investments in fixed income securities with high-quality institutions and only invests in high quality credit instruments. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and therefore bear minimal risk.

Generally, credit risk with respect to accounts receivable is diversified due to the number of entities comprising the Company s customer base and their dispersion across different geographic locations throughout the world. Juniper Networks performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. Juniper Networks maintains reserves for potential credit losses and historically such losses have been within management s expectations. One customer accounted for 14%, 14% and 15% of total net revenues during 2006, 2005 and 2004, respectively.

The Company relies on sole suppliers for certain of its components such as application-specific integrated circuits ( ASICs ) and custom sheet metal. Additionally, Juniper Networks relies primarily on two significant independent contract manufacturers for the production of all of its products. The inability of any supplier or manufacturer to fulfill supply requirements of Juniper Networks could negatively impact future operating results.

**Property and Equipment**

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful life, generally three to five years, or the lease term of the respective assets. Land is not subject to depreciation.

**Goodwill and Purchased Intangible Assets**

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

**Impairment**

The Company evaluates long-lived assets held-for-use for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The Company assesses the recoverability of its

long-lived and intangible assets by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows.

The Company evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies data. If the carrying value of the reporting unit exceeds the fair value, goodwill is considered impaired and a second step is performed to measure the amount of the impairment loss, if any. As discussed in Note 4, in the second quarter of 2006 the Company concluded that the carrying value of goodwill was impaired and recorded an impairment charge. After recording the impairment charge, Juniper Networks conducted its annual impairment test as of November 1, 2006 and determined that the carrying value of the remaining goodwill was not impaired. There were no events or circumstances from that date through December 31, 2006 that would impact this assessment. Future impairment indicators, including further declines in the Company s market capitalization or a decrease in revenue or profitability levels, could require additional impairment charges to be recorded.

**Revenue Recognition**

Juniper Networks sells products and services through its direct sales force and through its strategic distribution relationships and value-added resellers. The Company s products are integrated with software that is essential to the functionality of the equipment. Additionally, the Company provides unspecified upgrades and enhancements related to the integrated software through its maintenance contracts for most of its products. Accordingly, the Company accounts for revenue in accordance with Statement of Position No. 97-2, *Software Revenue Recognition*, and all related interpretations. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Evidence of an arrangement generally consists of customer purchase orders and, in certain instances, sales contracts or agreements. Shipping terms and related documents, or written evidence of customer acceptance, when applicable, are used to verify delivery or performance. In instances where final acceptance of the product, system or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. The Company assesses whether the sales price is fixed or determinable based on payment terms and whether the sales price is subject to refund or adjustment. Collectibility is assessed based on the creditworthiness of the customer as determined by credit checks and the customer s payment history to the Company. Accounts receivable are recorded net of allowance for doubtful accounts, estimated customer returns and pricing credits.

For arrangements with multiple elements, the Company allocates revenue to each element using the residual method based on vendor specific objective evidence of fair value of the undelivered items. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Vendor specific objective evidence of fair value is based on the price charged when the element is sold separately.

For sales to direct end-users and value-added resellers, the Company recognizes product revenue upon transfer of title and risk of loss, which is generally upon shipment. For the end-users and value-added resellers, the Company has no significant obligations for future performance such as rights of return or pricing credits. A portion of the Company s sales are made through distributors under agreements allowing for pricing credits and/or rights of return. Product revenue on sales made through these distributors is recognized upon sell-through as reported by the distributors to the Company. Deferred revenue on shipments to distributors reflects the effects of distributor pricing credits and the amount of gross margin expected to be realized upon sell through

Sales and transfers of financial instruments are accounted for under Statement of Financial Accounting Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ( SFAS 140 ). The Company sells interests in accounts receivables as part of a distributor accounts receivable financing arrangement which was established by the Company with a major financing company. Receivables sold under such arrangements are removed from the balance sheet and the related transaction fees are recorded in the statement of operations at the time they are sold in accordance with SFAS 140. Specifically, the receivables are legally isolated from the Company, the purchasers have the right to pledge or exchange the receivables and the purchasers obtain effective control over the receivables.

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

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Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenues. Costs associated with cooperative advertising programs are estimated and recorded as a reduction of revenue at the time the related sales are recognized.

Services include maintenance, training and professional services. In addition to providing unspecified upgrades and enhancements on a when and if available basis, the Company s maintenance contracts includes 24-hour technical support, and hardware repair and replacement parts. Maintenance is offered under renewable contracts. Revenue from maintenance contracts is deferred and recognized ratably over the contractual support period, generally one year. Revenue from training and professional services is recognized as the services are completed or ratably over the contractual period.

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts is based on the Company s assessment of the collectibility of customer accounts. Juniper Networks regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances and current economic conditions that may affect a customer s ability to pay.

**Warranties**

Juniper Networks generally offers a one-year warranty on all of its hardware products and a 90-day warranty on the media that contains the software embedded in the products. The warranty generally includes parts and labor obtained through the Company s 24-hour service center. On occasion, the specific terms and conditions of those warranties vary. The Company accrues for warranty costs based on estimates of the costs that may be incurred under its warranty obligations, including material costs, technical support labor costs and associated overhead. The warranty accrual is included in the Company s cost of revenues and is recorded at the time revenue is recognized. Factors that affect the Company s warranty liability include the number of installed units, its estimates of anticipated rates of warranty claims, costs per claim and estimated support labor costs and the associated overhead. The Company periodically assesses the adequacy of our recorded warranty liabilities and adjusts the amounts as necessary.

**Contract Manufacturer Liabilities**

The Company outsources most of its manufacturing, repair and supply chain management operations to its independent contract manufacturers and a significant portion of its cost of revenues consists of payments to them. Its independent contract manufacturers procure components and manufacture the Company s products based on the Company s demand forecasts. These forecasts are based on the Company s estimates of future demand for the Company products, which are in turn based on historical trends and an analysis from the Company s sales and marketing organizations, adjusted for overall market conditions. The Company establishes accrued liabilities, included in other current accrued liabilities on the accompanying consolidated balance sheets, for carrying charges and obsolete material charges for excess components purchased based on historical trends.

**Research and Development**

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

**Advertising**

Advertising costs are charged to sales and marketing expense as incurred. Advertising expense was $6.8 million, $6.6 million, and $7.9 million, for 2006, 2005 and 2004, respectively.

**Litigation and Settlement Costs**

From time to time, the Company is involved in disputes, litigation and other legal actions. The Company records a charge equal to at least the minimum estimated liability for a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. However the actual liability in any such litigation may be materially different from the Company s estimates, which could result in the need to record additional expenses.

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**Loss Contingencies**

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. It considers the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to its management to determine whether such accruals should be adjusted and whether new accruals are required.

**Stock-Based Compensation**

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ( SFAS 123R ) which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors including employee stock options, restricted stock units ( RSUs ) and purchases under the Company s Employee Stock Purchase Plan based on estimated fair values. SFAS 123R supersedes the previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ), as allowed under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ), for periods beginning in 2006. In March 2005, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 107 ( SAB 107 ) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in conjunction with its adoption of SFAS 123R.

The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company s fiscal year 2006. The Company s Consolidated Financial Statements as of and for the year ended December 31, 2006 reflect the impact of SFAS 123R. In accordance with the modified prospective transition method, the Company s consolidated financial statements for periods prior to 2006 have not been restated to reflect, and do not include, the impact of SFAS 123R.

SFAS 123R requires companies to estimate the fair value of stock-based awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes-Merton option pricing model to determine the fair value of stock options under SFAS 123R, consistent with that used for pro forma disclosures under SFAS 123. The fair value of an RSU is equivalent to the market price of the Company s common stock on the grant date. The value of the portion of the stock-based award that is ultimately expected to vest is recognized as expense over the requisite service periods, or in the period of grant if the requisite service period has been provided, in the Company s Consolidated Statement of Operations.

Stock-based compensation expense recognized in the Company s consolidated statement of operations for the year ended December 31, 2006 included (i) compensation expense for stock-based awards granted prior to, but not yet vested as of, December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123 and (ii) compensation expense for the stock-based awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In conjunction with the adoption of SFAS 123R, the Company changed its accounting policy of attributing the fair value of stock-based compensation to expense from the accelerated multiple-option approach provided by APB 25, as allowed under SFAS 123, to the straight-line single-option approach, as allowed under SFAS 123R. Compensation expense for all expected-to-vest stock-based awards that were granted on or prior to December 31, 2005 will continue to be recognized using the accelerated attribution method. Compensation expense for all expected-to-vest stock-based awards that were granted or modified subsequent to December 31, 2005 is recognized on a straight-line basis provided that the amount of compensation cost recognized at any date is no less than the portion of the grant-date value of the award that is vested at that date. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company s stock-based compensation expense required under APB 25 and the pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

Prior to the adoption of SFAS 123R, stock-based compensation expense was recognized in the Company s consolidated statement of operations under the provisions of APB 25. In accordance with APB 25, no compensation expense was required for the employee stock purchases under the Company s Employee Stock Purchase Plan under APB 25. Stock-based compensation expense of $22.3 million and $54.9 million for the years ended 2005 and 2004, respectively, was related to employee stock-based awards and stock options assumed from acquisitions. As a result of adopting SFAS 123R, stock-based compensation expense recorded for 2006 was $87.6 million, or $74.4 million higher than which would have been reported had the Company continued to account for stock-based compensation under APB 25. Net income for 2006 was approximately $51.4 million lower than that which would have been reported had the Company continued to account for stock-based compensation under APB 25. Unamortized deferred compensation associated with stock options assumed from past acquisitions and employee stock-based awards of $17.7 million has been reclassified to additional paid-in capital in the Company s consolidated balance sheet upon the adoption of SFAS 123R on January 1, 2006. Additional information is discussed in Note 2, Restatement of Consolidated Financial Statements, and Note 10, Stockholders Equity.

In accordance with SFAS 123R, the Company has presented as financing cash flows the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options beginning in 2006. Tax benefits from employee stock plans of $9.7 million, which related to tax deductions in excess of the compensation cost recognized, were presented as financing cash flows for 2006. Prior to the adoption of SFAS 123R, tax benefits from employee stock plans were presented as operating cash flows. Additionally, In accordance with SFAS 123R, SFAS No. 109, Accounting for Income Taxes ( SFAS 109 ), and EITF Topic D-32, Intra-period Tax Allocation of the Effect of Pretax Income from Continuing Operations, the Company has elected to recognize excess income tax benefits from stock option exercises in additional paid-in capital only if an incremental income tax benefit would be realized after considering all other tax attributes presently available to the Company.

The following table summarizes the pro forma net income and earnings per share, net of related tax effect, had the Company applied the fair value recognition provisions of SFAS 123 to employee stock benefits (in millions, except per share amounts):

| | **Years Ended December 31,** | |
|---|---|---|
| | **2005** | **2004** |
| | As Restated(1) | As Restated(1) |
| Net income as reported | $ 350.7 | $ 128.2 |
| Add: amortization of deferred stock compensation included in reported net income, net of tax | 14.2 | 34.8 |
| Deduct: total stock-based employee compensation expense determined under fair value based method, net of tax | (229.6) | (174.7) |
| Pro forma net income | $ 135.3 | $ (11.7) |
| Basic net income per share: | | |
| As reported | $ 0.63 | $ 0.26 |
| Pro forma | $ 0.24 | $ (0.02) |
| Diluted net income per share: | | |
| As reported | $ 0.58 | $ 0.24 |
| Pro forma | $ 0.22 | $ (0.02) |

(1) See Note 2, Restatement of Consolidated Financial Statements, to Consolidated Financial Statements.

**Derivatives**

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

Periodically, the Company uses foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. These derivatives are designated as cash flow hedges and have maturities of less than one year. The effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income, and upon occurrence of the forecasted transaction, is subsequently reclassified into the consolidated statements of operations line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during 2006, 2005 and 2004 in other income (expense) on its Consolidated Statements of Operations.

**Provision for Income Taxes**

Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences and carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company regularly assesses the likelihood that its deferred tax assets will be realized from recoverable income taxes or

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recovered from future taxable income based on the realization criteria set forth under SFAS 109, *Accounting for Income Taxes,* and records a valuation allowance to reduce its deferred tax assets to the amount that it believes to be more likely than not realizable. The Company believes it is more likely than not that forecasted income together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if the Company subsequently realizes deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in a positive adjustment to earnings or a decrease in goodwill in the period such determination is made. In addition, the calculation of its tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes potential liabilities based on its estimate of whether, and the extent to which, additional taxes will be due.

**Comprehensive Income**

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

**Foreign Currency Translation**

Assets and liabilities of foreign operations with non-U.S. dollar functional currency are translated to U.S. dollars using exchange rates in effect at the end of the period. Revenue and expenses are translated to U.S. dollars using average exchange rates for the period. Foreign currency translation gains and losses were not material for the years ended December 31, 2006, 2005 and 2004. The effect of exchange rate changes on cash balances held in foreign currencies were immaterial in the years presented.

**Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* ( FIN 48 ). FIN 48 applies to all tax positions related to income taxes subject to SFAS 109, *Accounting for Income Taxes,* including uncertain tax positions. Under FIN 48 a company will recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how a company would measure the income tax benefits from the tax positions that are recognized, provides guidance as to the timing of the de-recognition of previously recognized tax benefits and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the income statement and presented in the balance sheet. Differences between the amounts recognized in the statements of financial position prior to and after the adoption of FIN 48 would be accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings. Upon adoption, there is a possibility that the cumulative effect would result in an adjustment to the beginning balance of retained earnings. In addition, the application of FIN 48 may increase the Company s future effective tax rates and its future intra-period effective tax rate volatility. The Company is required to adopt FIN 48 as of January 1, 2007. The Company is currently evaluating the effect of the adoption of FIN 48 on its consolidated financial statements and is not yet in a position to determine such effects.

In September 2006, the FASB issued FASB Statement ( SFAS ) No. 157, *Fair Value Measurement,* ( SFAS 157 ). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The guidance clarifies the principle for assessing fair value based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data such as companies own data. Under this guidance, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating SFAS 157 and expects to adopt this guidance beginning on January 1, 2008.

**Reclassifications**

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

## Note 2. Restatement of Consolidated Financial Statements

### Restatement of Previously Issued Financial Statements

In this Form 10-K as of and for the year ended December 31, 2006 (the 2006 Form 10-K ), Juniper Networks is restating its consolidated balance sheet as of December 31, 2005 and the related consolidated statements of operations, shareholders equity, and cash flows for each of the fiscal years ended December 31, 2005 and 2004 as a result of an independent stock option investigation commenced by our Board of Directors and Audit Committee. This 2006 Form 10-K will also reflect the restatement of Selected Consolidated Financial Data in Item 6 for the fiscal years ended December 31, 2005, 2004, 2003 and 2002. In addition, the Company is restating the unaudited quarterly financial information and financial statements for interim periods of 2005, and unaudited condensed financial statements for the three months ended March 31, 2006.

Financial information included in the reports on Form 10-K, Form 10-Q and Form 8-K filed by Juniper Networks prior to August 10, 2006, and the related opinions of its independent registered public accounting firm, and all earnings press releases and similar communications issued by the Company, prior to August 10, 2006 should not be relied upon and are superseded in their entirety by this Report and other reports on Form 10-Q and Form 8-K filed by the Company with the SEC on or after August 10, 2006.

### Stock Option Investigation

On May 22, 2006, the Company issued a press release and Form 8-K announcing that it had received a request for information relating to the Company s stock option granting practices from the U.S. Attorney s Office for the Eastern District of New York. In the same press release and Form 8-K, the Company announced that its Board of Directors (the Board ) had directed the Board s Audit Committee, comprised of outside directors, to conduct a review of the Company s stock option granting practices. On May 24, 2006, Company counsel received a letter from the SEC indicating that the SEC was conducting an inquiry regarding Juniper Networks.

The investigation was conducted with the assistance of independent counsel and forensic accountants (collectively the Investigative Team ). The investigation focused on all stock option grants made to all employees, officers, directors and consultants during the period following the Company s initial public offering ( IPO ) on June 24, 1999 to May 23, 2006 (the relevant period ). In addition, the Audit Committee investigation involved testing and analyses of the Company s hiring, termination, leave of absence, grant notification and exercise practices regarding stock options and certain issues regarding grants made before the IPO. The scope of the investigation did not include a review of options granted by companies acquired by Juniper Networks. All of the companies acquired by Juniper Networks, with one exception, were privately held companies. None of the acquisitions was accounted for as a pooling of interests. All of the acquisitions were accounted for under the purchase method as provided by Statement of Financial Standards No. 141, *Business Combinations* and its predecessor Accounting Principles Board Opinion No. 16, *Business Combinations.*

Consistent with the accounting literature and recent guidance from the SEC, the Company organized the grants during the relevant period into categories based on grant type and the process by which the grant was finalized. The Company analyzed the evidence from the Audit Committee s investigation related to each category including, but not limited to, physical documents, electronic documents, underlying electronic data about documents, and witness interviews. Based on the relevant facts and circumstances, the Company applied the then appropriate accounting standards to determine, for every grant within each category, the proper measurement date. If the measurement date is not the originally assigned grant date, accounting adjustments were made as required, resulting in stock-based compensation expense and related tax effects.

***Grants made by the Board of Directors or Compensation Committee to Officers or Directors***

The Company has concluded that the measurement dates of several grants to executive officers who were reporting persons as that term is defined under Section 16 of the Securities Exchange Act of 1934, as amended, ( Officers ) and members of the Board of Directors made between June 1999 and June 2003 were incorrect. In general, during the relevant period, the Board or the Compensation Committee of the Board made grants to Officers and directors. Grants were sometimes approved at meetings of these bodies or by action by unanimous written consent. There were several instances in which grants to Officers or directors were given grant dates (and corresponding exercise prices) prior to the date on which formal corporate action making the grant was taken. In general, this appears to have been done to make the grant date coincide with either a specific event, such as the appointment or re-election of a director or with the purported date options were granted to non-Officers. In these cases, the Company has determined that the correct measurement date is the date on which the Board or Compensation Committee took the action to approve the grant. The Company also identified instances in which grants to Officers were granted effective upon a future event, such as the commencement of employment or closing of an acquisition. In these cases, the Company has determined that the date of the future event is the correct measurement date for such grants. In connection with the application of these measurement principles, and after accounting for forfeitures, the Company has adjusted the measurement of compensation cost for options covering 5.6 million shares of common stock resulting in an incremental stock-based compensation expense of $80.3 million on a pre-tax basis over the respective awards vesting terms. Juniper Network s CEO, Scott Kriens, received two stock option awards whose measurement dates for financial accounting purposes differ from the recorded grant dates for such awards. However, both options were exchanged and cancelled unexercised in 2001 as part of a company-wide option re-pricing program. Mr. Kriens has not exercised any stock options since 1998, approximately nine months before the Company s IPO.

In addition, there was one other grant to an Officer where approval of such grant was not reflected in minutes of a meeting or an action by unanimous written consent of the Board of Directors or the Compensation Committee. For this grant, the measurement date was determined based on the terms of the Officer s offer letter and the date his employment commenced. With respect to that grant, the Company has adjusted the measurement of compensation cost for options covering 1.5 million shares of common stock resulting in an incremental stock-based compensation expense of $6.5 million on a pre-tax basis over the award s vesting terms after accounting for forfeitures.

***Grants to Non-Officers***

The Company has concluded that the measurement dates of a large number of grants to non-Officers during the period between June 1999 and December 2004 were incorrect. The Company s practice has been to grant stock options, except where prohibited, to nearly all full-time employees in connection with joining the Company. To facilitate the granting of options to Juniper Networks rapidly growing workforce, the Board of Directors established a Stock Option Committee to grant options to non-Officer employees. Between June 1999 and June 2003, the dates for a large number of grants made by the Stock Option Committee were chosen with the benefit of hindsight as to the price of the Company s stock, so as to give favorable exercise prices. Moreover, the Stock Option Committee s process for finalizing and documenting these grants was often completed after the originally assigned grant date. Beginning with grants dated June 20, 2003, the Company implemented a number of new procedures and policies regarding the granting of options to non-Officer employees. After that, the pattern of consciously looking back for the most favorable dates for the employees ceased. However, the documentation and written approvals of grant dates still generally trailed the recorded grant dates. Based on all available facts and circumstances, the originally recorded measurement dates for the grants made by the Stock Option Committee during the period from July 1999 through December 2004 can not be relied upon in isolation as the correct measurement dates. In 2005, the Company made additional changes to its procedures. No grants in 2005 and 2006 required new measurement dates.

APB 25 defines the measurement date for determining stock-based compensation expense as the first date on which both (1) the number of shares that an individual employee is entitled to receive and (2) the option or purchase price, are known. Throughout the relevant period, the Company s stock administration department entered the option grant information for grants made by the Stock Option Committee into its Equity Edge stock administration system. This system was used to monitor and administer the Company s stock option program. The data in Equity Edge were sent on a regular basis to designated brokers, allowing grantees to view their options information in their accounts via the Internet.

For grants made by the Stock Option Committee between June 1999 and December 2004, where there is no other reliable objective evidence pointing to an earlier single specific date that the number of shares and the individuals entitled to receive them and the price had become final, the Company has determined the Equity Edge entry date to be the most reliable measurement date for calculating additional stock-based compensation expense under APB 25. Using this measurement date, and after accounting for forfeitures, the Company has adjusted the measurement of compensation cost for options covering 74.2 million shares of common stock resulting in an incremental stock-based compensation expense of $636.7 million on a pre-tax basis over the respective awards vesting terms.

In many of the cases where the Equity Edge entry date was used as the measurement date, the formal Stock Option Committee granting documentation (consisting of unanimous written consents or minutes and related lists of recipients, amounts and types of awards) was not created or completed until a later date. Because the awards listed in the formal granting documentation did not differ from the grants entered into Equity Edge, the notice of the awards was made available to employees prior to the creation or completion of the granting documents, and because the completion of the documentation was treated as perfunctory, the Company determined that the Equity Edge entry date was the proper measurement date under APB 25 rather than the date the Stock Option Committee granting documentation was completed.

In a number of cases, there was reliable objective evidence pointing to a single specific date that the number of shares and the individuals entitled to receive them and the price had become final. Such evidence primarily consisted of electronic data indicating that the granting instrument and schedule were created prior to the Equity Edge entry date. The Company also relied on other evidence such as emails or written agreements to determine the date certain options became final. Such evidence was used to determine the measurement dates for options for which the Company has adjusted the measurement of compensation cost for options covering 27.9

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million shares of common stock resulting in an incremental stock-based compensation expense of $141.2 million on a pre-tax basis over the respective awards vesting terms.

The Company also concluded that there were instances in which clerical errors or omissions regarding the persons to receive an award or the number of options to be granted were corrected after the date of award. In the case of most additions made to correct omissions and other corrections that were not reflected on the grant documentation at the time of the applicable grant date or in documentation existing at the time of grant, the Company has determined that a new measurement date should be established. The Company considered whether certain of such changes or additions should give rise to variable accounting treatment and concluded that such treatment was not appropriate because the grants represented independent decisions or events rather than a continuation or modification of the other grants. The Company believes that the correct measurement date for these grants is the date Stock Administration entered the correction or addition into Equity Edge, except where objective evidence identifies an earlier date on which the correction was approved. After accounting for forfeitures, the Company has adjusted the measurement of compensation cost for options covering 1.3 million shares of common stock resulting in an incremental stock-based compensation of $11.9 million on a pre-tax basis over the respective awards vesting terms.

***Stock Option Grant Modifications Connected with Terminations or Leaves of Absences and Other Matters***

Compensation expense was also recognized as a result of modifications that were made to certain employee option grant awards in connection with certain employees terminations or leaves of absence. Typically such modifications related to extensions of the time employees could exercise options following their termination of employment or that enabled the employee to vest in additional shares in relation to a leave of absence. For example, in connection with reductions in work force in 2001 and 2002, the Company increased the period for affected employees to exercise their options from 30 days to 90 days. The Company has incremental stock-based compensation expense associated with such terminations or leaves of absence of $20.0 million on a pre-tax basis in the period of modification.

Compensation expense of $0.2 million on a pre-tax basis was also recognized as a result of non-employee grants to consultants in exchange for services and other matters.

***Judgment***

In light of the significant judgment used in establishing revised measurement dates, alternate approaches to those used by the Company could have resulted in different compensation expense charges than those recorded in the restatement. The Company considered various alternative approaches. For example, in those cases where the formal documentation of a grant was completed after the date the grant was entered in Equity Edge, an alternative measurement date to using the Equity Edge entry date could be the creation date of the documentation. The Company believes that the approaches used by it were the most appropriate under the circumstances.

***Summary of Stock-Based Compensation Adjustments***

The Company adjusted the measurement dates for options covering a total of 110.5 million, or 76%, of the 146.0 million shares of common stock covered by options granted during the relevant period.

The incremental impact on the consolidated statement of operations from recognizing stock-based compensation expense through December 31, 2006 resulting from the investigation is as follows (in millions):

| **Fiscal Year** | **Pre-Tax Expense** | **After Tax Expense** |
|---|---|---|
| 1998 | $ | $ |
| 1999 | 15.3 | 15.3 |
| 2000 | 283.3 | 201.6 |
| 2001 | 513.1 | 488.1 |
| 2002 | 48.0 | 48.0 |
| 2003 | 19.4 | 8.6 |
| Subtotal | 879.1 | 761.6 |
| 2004 | 10.9 | 7.5 |
| 2005 | 4.7 | 3.3 |

| | | | | |
|---|---|---|---|---|
| Total | $ | 894.7 | $ | 772.4 |

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In addition to the $894.7 million recognized through fiscal 2005, $2.1 million of unamortized deferred compensation remained as of December 31, 2005, bringing the total incremental impact from the investigation to approximately $896.8 million. As required by SFAS 123R which was adopted on January 1, 2006, the unamortized deferred compensation of $2.1 million has been reclassified to additional paid-in capital, along with the unamortized deferred compensation for stock options assumed from past acquisitions, in the Company s consolidated balance sheet. Beginning in 2006, the incremental amortization resulting from the investigation is included in stock-based compensation expense under the provisions of SFAS 123R. The incremental pre-tax stock compensation expense from the restatement of employee stock options was $0.6 million, on a pre-tax basis, for the year ended December 31, 2006 and was recorded in the fourth quarter of 2006.

Additionally, the Company has restated the pro forma amortization of deferred stock compensation included in reported net income, net of tax, and total stock-based employee compensation expenses determined under fair value based method, net of tax, under SFAS 123 in Note 1 to reflect the impact of the stock-based compensation expense resulting from the correction of these past stock options grants. The Company also determined that the previously reported pro forma compensation expense for options assumed in a 2004 acquisition was inadvertently based on an incorrect fair value. The amount of pro forma stock-based compensation expense reported in the table below has been revised to reflect the proper fair value for options assumed from the 2004 acquisition. Such adjustment was previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

The following table presents the effect of the related adjustments on the pro forma calculation of the net income and income per share for the years ended December 31, 2005 and 2004, respectively (in millions, except per share amounts):

| | Year ended December 31, 2005 | | | Year Ended December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | **As previously reported** | **Adjustments** | **As restated** | **As previously reported** | **Adjustments** | **As restated** |
| Net income | $ 354.0 | $ (3.3) | $ 350.7 | $ 135.7 | $ (7.5) | $ 128.2 |
| Add: Stock-based employee compensation expense included in reported net income, net of tax | 10.9 | 3.3 | 14.2 | 27.3 | 7.5 | 34.8 |
| Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of tax | (204.5) | (25.1) | (229.6) | (114.2) | (60.5) | (174.7) |
| Pro forma net income (loss) | $ 160.4 | $ (25.1) | $ 135.3 | $ 48.8 | $ (60.5) | $ (11.7) |
| Net income per share basic, as reported | $ 0.64 | $ (0.01) | $ 0.63 | $ 0.28 | (0.02) | $ 0.26 |
| Net income (loss) per share basic, pro forma | $ 0.29 | $ (0.05) | $ 0.24 | $ 0.10 | $ (0.12) | $ (0.02) |
| | $ 0.59 | $ (0.01) | $ 0.58 | $ 0.25 | $ (0.01) | $ 0.24 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net income per share diluted, as reported | | | | | | | | | | | | |
| Net income (loss) per share diluted, pro forma | $ | 0.27 | $ | (0.05) | $ | 0.22 | $ | 0.08 | $ | (0.10) | $ | (0.02) |

**Other Matters**

After considering all available evidence, primarily the then current 2005 operating projections of future income, which remain appropriate, management has concluded that the previously recorded valuation allowance related to the tax benefit of stock options deductions should have been reversed in the fourth quarter of 2005. Accordingly, the Company decreased the valuation allowance as of December 31, 2005 by $158.0 million with a corresponding credit to additional paid in capital. The remaining valuation allowance balance of $40.6 million relates to capital losses that will carry forward to offset future capital gains.

Additionally, the Company misclassified the tax benefit from deductions from stock options assumed in acquisitions. Accordingly, the Company has reduced additional paid-in capital for the years ended December 31, 2005 and 2004 by $6.0 million and $18.5 million, respectively, with a corresponding decrease to goodwill. The total reduction to both additional paid-in capital and goodwill as of December 31, 2005 was $24.5 million.

Because virtually all holders of options issued by the Company were not involved in or aware of the incorrect pricing, the Company has taken and intends to take actions to deal with certain adverse tax consequences that may be incurred by the holders of certain incorrectly priced options. The primary adverse tax consequences are that incorrectly priced stock options vesting after December 31, 2004 may subject the option holder to a penalty tax under IRC Section 409A (and, as applicable, similar penalty taxes under California and other state tax laws). The Company recorded a $10.1 million as other charges in operating expense for 2006 in relation to these items and other tax related items. The Company expects to incur future charges to resolve the adverse tax consequences of incorrectly priced options

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The Company misclassified the losses from the retirement of its treasury shares in fiscal 2004. Accordingly, the Company reduced its retained earnings (accumulated deficit) as of December 31, 2005 and 2004 by $63.6 million with a corresponding increase to additional paid-in capital.

**Effects of the Restatement Adjustments**

The following table presents the effects of the restatement adjustments upon the Company s previously reported consolidated statements of operations (in millions):

| | Year ended December 31, 2005 | | | Year ended December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | **As previously Reported (1)** | **Adjustments** | **As restated** | **As previously Reported (1)** | **Adjustments** | **As restated** |
| Net revenues: | | | | | | |
| Product | $ 1,771.0 | $ | $ 1,771.0 | $ 1,162.9 | $ | $ 1,162.9 |
| Service | 293.0 | | 293.0 | 173.1 | | 173.1 |
| Total net revenues | 2,064.0 | | 2,064.0 | 1,336.0 | | 1,336.0 |
| Cost of revenues: | | | | | | |
| Product(2) | 506.1 | 0.2 | 506.3 | 318.1 | 0.7 | 318.8 |
| Service(2) | 146.8 | 0.4 | 147.2 | 95.3 | 1.0 | 96.3 |
| Total cost of revenues | 652.9 | 0.6 | 653.5 | 413.4 | 1.7 | 415.1 |
| Gross margin | 1,411.1 | (0.6) | 1,410.5 | 922.6 | (1.7) | 920.9 |
| Operating expenses: | | | | | | |
| Research and development(2) | 355.4 | 1.9 | 357.3 | 259.8 | 4.6 | 264.4 |
| Sales and marketing(2) | 439.6 | 2.0 | 441.6 | 320.0 | 4.3 | 324.3 |
| General and administrative(2) | 74.8 | 0.2 | 75.0 | 55.2 | 0.3 | 55.5 |
| Amortization of purchased intangibles | 85.2 | | 85.2 | 56.8 | | 56.8 |
| In-process research and development | 11.0 | | 11.0 | 27.5 | | 27.5 |
| Other charges. net | (0.6) | | (0.6) | 0.1 | | 0.1 |
| Total operating expenses | 965.4 | 4.1 | 969.5 | 719.4 | 9.2 | 728.6 |
| Operating income | 445.7 | (4.7) | 441.0 | 203.2 | (10.9) | 192.3 |
| Interest and other income | 59.1 | | 59.1 | 28.2 | | 28.2 |
| Interest and other expense | (2.6) | | (2.6) | (12.4) | | (12.4) |
| Income before income taxes | 502.2 | (4.7) | 497.5 | 219.0 | (10.9) | 208.1 |
| Provision (benefit) for income taxes | 148.2 | (1.4) | 146.8 | 83.3 | (3.4) | 79.9 |
| Net income | $ 354.0 | $ (3.3) | $ 350.7 | $ 135.7 | $ (7.5) | $ 128.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income per share: | | | | | | |
| Basic | $ 0.64 | $ (0.01) | $ 0.63 | $ 0.28 | $ (0.02) | $ 0.26 |
| Diluted | $ 0.59 | $ (0.01) | $ 0.58 | $ 0.25 | $ (0.01) | $ 0.24 |
| Shares used in computing net income per share: | | | | | | |
| Basic | $ 554.2 | $ | $ 554.2 | $ 493.1 | $ | $ 493.1 |
| Diluted | $ 598.9 | $ 1.3 | $ 600.2 | $ 542.6 | $ 1.1 | $ 543.7 |

(1) Prior period amounts have been reclassified in order to conform to the current year presentation.

(2) Amortization of stock-based compensation included in the following cost and expense categories by period:

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost of revenues Product | $ 0.8 | $ 0.2 | $ 1.0 | $ 0.5 | $ 0.7 | $ 1.2 |
| Cost of revenues Service | 1.1 | 0.4 | 1.5 | 2.3 | 1.0 | 3.3 |
| Research and development | 9.9 | 1.9 | 11.8 | 21.5 | 4.6 | 26.1 |
| Sales and marketing | 4.8 | 2.0 | 6.8 | 17.7 | 4.3 | 22.0 |
| General and administrative | 1.0 | 0.2 | 1.2 | 1.9 | 0.3 | 2.2 |
| Total | $ 17.6 | $ 4.7 | $ 22.3 | $ 43.9 | $ 10.9 | $ 54.8 |

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The following table presents the effects of the stock-based compensation, related tax impact and other adjustments upon the Company s previously reported consolidated balance sheet as of December 31, 2005 (in millions):

| | December 31, 2005 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 918.4 | $ | $ 918.4 |
| Short-term investments | 510.4 | | 510.4 |
| Accounts receivable, net | 268.9 | | 268.9 |
| Deferred tax assets, net | 74.1 | 70.3 (E) | 144.4 |
| Prepaid expenses and other current assets | 46.7 | | 46.7 |
| Total current assets | 1,818.5 | 70.3 | 1,888.8 |
| Property and equipment, net | 319.9 | | 319.9 |
| Long-term investments | 618.3 | | 618.3 |
| Restricted cash | 66.1 | | 66.1 |
| Goodwill | 4,904.2 | (24.5) (D) | 4,879.7 |
| Purchased intangible assets, net | 269.9 | | 269.9 |
| Long-term deferred tax assets, net | | 111.2 (E) | 111.2 |
| Other assets | 29.7 | | 29.7 |
| Total assets | $ 8,026.6 | $ 157.0 | $ 8,183.6 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 165.2 | $ | $ 165.2 |
| Accrued compensation | 97.7 | | 97.7 |
| Accrued warranty | 28.2 | | 28.2 |
| Deferred revenue | 213.5 | | 213.5 |
| Income taxes payable | 56.4 | | 56.4 |
| Other accrued liabilities | 66.4 | | 66.4 |
| Total current liabilities | 627.4 | | 627.4 |
| Long-term deferred revenue | 39.3 | | 39.3 |
| Other long-term liabilities | 60.2 | (31.5) (E) | 28.7 |
| Long-term debt | 400.0 | | 400.0 |
| Commitments and contingencies | | | |
| Stockholders equity: | | | |
| Common stock | | | |
| Additional paid-in capital | 6,432.0 | 1,026.6 (A)(B)(C)(D)(E) | 7,458.6 |
| Deferred stock compensation | (15.6) | (2.1) (C) | (17.7) |
| Accumulated other comprehensive (loss) gain | (8.3) | | (8.3) |
| Retained earnings (accumulated deficit) | 491.6 | (836.0) (A)(B) | (344.4) |

| | | | | | |
|---|---|---|---|---|---|
| Total stockholders equity | 6,899.7 | | 188.5 | | 7,088.2 |
| Total liabilities and stockholders equity | $ 8,026.6 | $ | 157.0 | $ | 8,183.6 |

(A) Includes impact of $772.4 million, net of tax, increase in additional paid-in capital with corresponding decrease in retained earnings (accumulated deficit) related stock-based compensation from the investigation.

(B) Includes impact of a $63.6 million increase in additional paid-in capital with a corresponding decrease in retained earnings (accumulated deficit) related to misclassified losses from the retirement of the Company s treasury shares.

(C) Includes impact of $2.1 million increase in additional paid-in capital with a corresponding increase in deferred compensation related to unamortized stock-based compensation.

(D) Includes impact of $24.5 million decrease in additional paid-in capital with corresponding decrease in goodwill related to misclassified tax benefit from deductions from stock options assumed in acquisitions.

(E) Includes impact of $158.0 million and $55.0 million increases in additional paid-in capital with a corresponding decrease in the valuation allowance related to deferred tax assets from stock options deductions and stock-based compensation from the investigation, respectively. Amounts impact current and long-term net deferred tax assets.

Details of the adjustments are summarized as follows (in millions):

| (Debit)/Credit | Adjustment (A) | Adjustment (B) | Adjustment (C) | Adjustment (D) | Adjustment (E) | Total |
|---|---|---|---|---|---|---|
| Goodwill | $ | $ | $ | $ 24.5 | $ | $ 24.5 |
| Deferred tax assets | | | | | (70.3) | (70.3) |
| Deferred tax assets non-current | | | | | (111.2) | (111.2) |
| Deferred tax liabilities | | | | | (31.5) | (31.5) |
| Stockholders equity: | | | | | | |
| Additional paid-in capital | $ 772.4 | $ 63.6 | $ 2.1 | $ (24.5) | $ 213.0 | $ 1,026.6 |
| Deferred compensation | | | (2.1) | | | (2.1) |
| Accumulated deficit | (772.4) | (63.6) | | | | (836.0) |
| Total stockholders equity | $ | $ | $ | $ (24.5) | $ 213.0 | $ 188.5 |

The effect of restatement adjustments on each component of stockholders equity at the end of each year is summarized as follows (in millions):

| Fiscal Year | Common Stock & Additional Paid-In Capital | Deferred Stock Compensation | Accumulated Deficit | Net Impact to Stockholders Equity |
|---|---|---|---|---|
| 1998 | $ | $ | $ | $ |
| 1999 | 215.3 | (200.0) | (15.3) | |
| 2000 | 479.6 | (278.0) | (201.6) | |
| 2001 | 74.9 | 413.2 | (488.1) | |
| 2002 | 21.5 | 26.5 | (48.0) | |
| 2003 | (10.6) | 19.2 | (8.6) | |
| Subtotal | 780.7 | (19.1) | (761.6) | |
| 2004 | 41.3 | 11.3 | (71.1) | (18.5) |
| 2005 | 204.6 | 5.7 | (3.3) | 207.0 |
| Total | $ 1,026.6 | $ (2.1) | $ (836.0) | $ 188.5 |

The following tables present the effects of the stock-based compensation and related tax adjustments upon the Company s previously reported consolidated statements of cash flows for the fiscal years ended December 31, 2005 and December 31, 2004 (in millions):

| | Fiscal year ended December 31, 2005 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| **Operating Activities** | | | |
| Net Income | $ 354.0 | $ (3.3) | $ 350.7 |

| | | | |
|---|---|---|---|
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation and amortization | 138.9 | | 138.9 |
| Stock-based compensation | 17.6 | 4.7 | 22.3 |
| Restructuring, impairment and acquisition-related expenses | 5.6 | | 5.6 |
| In-process research and development | 11.0 | | 11.0 |
| Non-cash portion of debt issuance costs and disposal of property and equipments | 1.7 | | 1.7 |
| Loss on sale or write-down of investments | (0.4) | | (0.4) |
| Loss on redemption of convertible subordinated notes | | | |
| Tax benefits from stock-based compensation | 129.5 | (1.4) | 128.1 |
| Changes in operation assets and liabilities | | | |
| Accounts receivable, net | (68.0) | | (68.0) |
| Prepaid expenses, other current assets and other long-term assets | (26.2) | 31.5 | 5.3 |
| Accounts payable | 50.3 | | 50.3 |
| Accrued compensation | 10.9 | | 10.9 |
| Accrued warranty | (3.7) | | (3.7) |
| Income taxes payable | 26.6 | | 26.6 |
| Other accrued liabilities | (69.2) | (31.5) | (100.7) |
| Deferred revenue | 64.3 | | 64.3 |
| Net cash provided by operating activities | 642.9 | | 642.9 |

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| | Fiscal year ended December 31, 2005 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| **Investing Activities** | | | |
| Purchases of property and equipment | (98.2) | | (98.2) |
| Purchases of available-for-sale investments | (936.0) | | (936.0) |
| Maturities and sales of available-for-sale investments | 805.0 | | 805.0 |
| Increase in restricted cash | (34.8) | | (34.8) |
| Minority equity investments | (9.8) | | (9.8) |
| Payments for business acquisitions, net of cash and cash equivalents | (309.9) | | (309.9) |
| Net cash used in investing activities | (583.7) | | (583.7) |
| **Financing Activities** | | | |
| Proceeds form issuance of common stock | 146.0 | | 146.0 |
| Purchases and subsequent retirement of common stock | | | |
| Tax benefits from stock-based compensation | | | |
| Net cash (used in) provided by financing activities | $ 146.0 | $ | $ 146.0 |
| Net (decrease) increase in cash and cash equivalents | $ 205.2 | $ | $ 205.2 |
| Cash and cash equivalents at beginning of period | $ 713.2 | $ | $ 713.2 |
| Cash and cash equivalents at end of period | $ 918.4 | $ | $ 918.4 |

| | Fiscal year ended December 31, 2004 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| **Operating Activities** | | | |
| Net Income | $ 135.7 | $ (7.5) | $ 128.2 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation and amortization | 97.6 | | 97.6 |
| Stock-based compensation | 44.0 | 10.9 | 54.9 |
| Restructuring, impairment and other acquisition related expenses | 0.3 | | 0.3 |
| In-process research and development | 27.5 | | 27.5 |
| (Gain) loss on sale or write-down of investments | 2.9 | | 2.9 |
| Loss on redemption of convertible subordinated notes | 4.1 | | 4.1 |
| Non-cash portion of debt issuance costs and disposal of property and equipments | 4.1 | | 4.1 |
| Tax benefits from stock-based compensation | 66.0 | (3.4) | 62.6 |
| Changes in operation assets and liabilities: | | | |

| | | | |
|---|---|---|---|
| Accounts receivable, net | (81.4) | | (81.4) |
| Prepaid expenses, other current assets and other long-term assets | (56.2) | | (56.2) |
| Accounts payable | 29.4 | | 29.4 |
| Accrued compensation | 40.3 | | 40.3 |
| Accrued warranty | 3.6 | | 3.6 |
| Income taxes payable | 16.9 | | 16.9 |
| Other accrued liabilities | 11.0 | | 11.0 |
| Deferred revenue | 93.6 | | 93.6 |
| Net cash provided by operating activities | 439.4 | | 439.4 |
| **Investing Activities** | | | |
| Purchases of property and equipment | (63.2) | | (63.2) |
| Purchases of available-for-sale investments | (739.4) | | (739.4) |
| Maturities and sales of available-for-sale investments | 704.7 | | 704.7 |
| Increase in restricted cash | (0.2) | | (0.2) |
| Minority equity investments | (1.2) | | (1.2) |
| Payments for business acquisitions, net of cash and cash equivalents | 40.9 | | 40.9 |
| Net cash used in investing activities | (58.4) | | (58.4) |
| **Financing Activities** | | | |
| Proceeds from issuance of common stock | 175.2 | | 175.2 |
| Redemption of convertible subordinated notes | (145.0) | | (145.0) |
| Purchases and subsequent retirement of common stock | (63.6) | | (63.6) |
| Net cash (used in) provided by financing activities | $ (33.4) | $ | $ (33.4) |
| Net (decrease) increase in cash and cash equivalents | $ 347.6 | $ | $ 347.6 |
| Cash and cash equivalents at beginning of period | $ 365.6 | $ | $ 365.6 |
| Cash and cash equivalents at end of period | $ 713.2 | $ | $ 713.2 |

**Note 3. Business Acquisitions**

Juniper Networks completed six purchase acquisitions during the three years ended December 31, 2006. There were no acquisitions in 2006. In 2005, the Company acquired Funk, Acorn, Peribit, Redline, and Kagoor. In 2004, the Company acquired NetScreen. The total purchase price for each acquisition, as of their respective acquisition dates and not including subsequent escrow and other adjustments, is outlined below (in millions):

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

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

**Allocation of Initial Purchase Consideration**

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