DOMTAR INC /CANADA
Form F-9/A
November 07, 2003

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Registration No. 333-110212

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO

FORM F-9

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Domtar Inc.

(Exact name of registrant as specified in its charter)

Canada	**2621**	**Not Applicable**
(Province or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number, if applicable)*	*(I.R.S. Employer Identification Number, if applicable)*

395 de Maisonneuve Blvd. West
Montréal, Québec, Canada H3A 1L6
(514) 848-5400
(Address and telephone number of Registrant s principal executive offices)

CT Corporation System
111 Eighth Avenue
New York, New York 10011
(212) 894-8690

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Copies of all communications to:

Alan H. Paley, Esq. **Debevoise & Plimpton** **919 Third Avenue** **New York, New York 10022** **(212) 909-6000**	**Gilles Pharand, Esq.** **General Counsel** **Domtar Inc.** **395 de Maisonneuve Blvd. West** **Montréal, Québec** **Canada H3A 1L6** **(514) 848-5400**

Approximate date of commencement of proposed sale to the public:

From time to time after this Registration Statement becomes effective.

Province of Québec, Canada
(Principal jurisdiction regulating this offering)

It is proposed that this filing shall become effective (check appropriate box):

A. o upon filing with the Commission, pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada).

B. x at some future date (check the appropriate box below).

1. o pursuant to Rule 467(b) on (*date*) at (*time*) (designate a time not sooner than 7 calendar days after filing).

2. o pursuant to Rule 467(b) on (*date*) at (*time*) (designate a time 7 calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification of clearance on (*date*).

3. x pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.

4. o after the filing of the next amendment to this Form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction s shelf prospectus offering procedures, check the following box. x

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The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registration Statement shall become effective as provided in Rule 467 under the Securities Act of 1933 or on such date as the Commission, acting pursuant to Section 8(a) of the Act, may determine.

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Prospectus

Debt Securities
US$500,000,000

By this prospectus, we may offer from time to time debt securities in an aggregate principal amount of up to US$500,000,000 (or its equivalent in any other currency used to denominate the debt securities) during the 25 month period that this short form base shelf prospectus, including any amendments hereto, remains valid.

We will provide specific terms of the debt securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest. A supplement may also change or update information contained in this prospectus.

We will not use this prospectus to confirm sales of any of the debt securities unless it is accompanied by a prospectus supplement.

Unless we state otherwise in a prospectus supplement, we will not list any of the debt securities on any securities exchange.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved these securities, or determined if this prospectus or any prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

Investing in the debt securities involves risks. See Risk Factors beginning on page 19 of this prospectus.

We are permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare this prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements in accordance with Canadian generally accepted accounting principles, and they are subject to foreign auditing and auditor independence standards. They may not be comparable to financial statements of United States companies.

Owning the debt securities may subject you to tax consequences both in the United States and Canada. This prospectus or any applicable prospectus supplement may not describe these tax consequences fully. You should read the tax discussion in any applicable prospectus supplement.

Your ability to enforce civil liabilities under the United States federal securities laws may be affected adversely because we are incorporated under the laws of Canada, some of our officers and directors and some of the experts named in this prospectus are Canadian residents, and certain of our assets and the assets of those officers, directors and experts are located outside the United States.

The date of this prospectus is November 7, 2003.

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You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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Unless otherwise specified or the context otherwise requires, in this prospectus, Domtar , we , us and our refer to Domtar Inc., its subsidiaries and its 50% investment interest in Norampac Inc. In accordance with industry practice, in this prospectus we use the term ton when referring to a short ton, an imperial unit of measurement which equals 0.9072 metric tonnes, and the term tonne when referring to a metric tonne. In this prospectus, unless otherwise indicated, all dollar amounts are expressed in, and the term dollars and the symbol $ refer to, Canadian dollars. The term US dollars and the symbol US$ refer to the United States dollars. Except as otherwise indicated, all financial statements and financial data contained in this prospectus and in the documents incorporated by reference in this prospectus have been prepared in accordance with Canadian generally accepted accounting principles, or Canadian GAAP, which may differ from United States generally accepted accounting principles, or US GAAP.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the *Commission des valeurs mobilières du Québec* in Canada and with the United States Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this process, we may sell the securities described in this prospectus from time to time. This prospectus provides you with a general description of the securities we may offer. Each time we sell debt securities under the registration statement, we will provide a prospectus supplement that will contain specific information about the terms of that offering of debt securities. The prospectus supplement may also add, update or change information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement. The Rules of the SEC and the Canadian securities commissions or similar authorities allow us to incorporate by reference information in this prospectus. The information incorporated by reference is considered to be a part of this prospectus, and certain information that we file or furnish later with the SEC or the Canadian securities commissions or similar authorities will automatically update and supersede this information. See Documents Incorporated by Reference.

You should read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find More Information.

No person has been authorized to give any information or to make any representations, other than those contained or incorporated by reference in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by Domtar, or any underwriter, agent or dealer. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of Domtar since the date hereof or that the information contained or incorporated by reference herein is correct as of any time subsequent to the date of such information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of Domtar, filed with the various securities commissions or similar authorities in each of the provinces and territories of Canada and with the SEC, are specifically incorporated by reference into and form an integral part of this short form prospectus:

- the Annual Information Form dated May 1, 2003 for the year ended December 31, 2002;
- the audited consolidated financial statements for the fiscal years ended December 31, 2002, 2001 and 2000, together with the related notes thereto and the auditors report on the audited consolidated financial statements;
- the Management s Discussion and Analysis for the fiscal year ended December 31, 2002;
- the Management Proxy Circular dated March 27, 2003 relating to the meeting of shareholders held on May 1, 2003; and
- the unaudited consolidated financial statements for the nine months ended September 30, 2003 (including Management s Discussion and Analysis relating thereto) and September 30, 2002.

Any documents of the type referred to in the preceding paragraph, any interim financial statements and any material change reports (excluding confidential material change reports) filed by us with the securities commissions or similar authorities in the provinces and territories of Canada, subsequent to the date of this prospectus and prior to the termination of this offering, shall be deemed to be incorporated by reference in this prospectus.

We also incorporate by reference each of the following documents that we will file with or furnish to the SEC during the 25 month period that this prospectus remains valid:

- reports filed or furnished pursuant to Sections 13(a) and (c) of the US Securities Exchange Act of 1934, as amended, or the Exchange Act; and
- any reports filed or furnished pursuant to Section 15(d) of the Exchange Act;

in each case, including reports on Form 6-K if and to the extent specified in such Form 6-K as being incorporated by reference in this prospectus.

Copies of the documents incorporated by reference and of the permanent information record may be obtained on request without charge from the secretary of Domtar Inc., 395 de Maisonneuve Boulevard West, Montréal, Quebec H3A 1L6 (telephone (514) 848-5400).

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus, to the extent that a statement contained in this prospectus or in any other subsequently filed document that also is or is deemed to be incorporated by reference in this prospectus modifies or replaces such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed in its unmodified or superseded form to constitute a part of this prospectus.

Upon a new annual information form and the related annual audited consolidated financial statements together with the auditors report thereon and management s discussion and analysis contained therein being filed by us with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this prospectus, the previous annual information form, the previous annual audited consolidated financial statements and all interim financial statements, quarterly management s discussion and analysis, material change reports and management proxy circulars filed prior to the commencement of the financial year in which the new annual information form was filed no longer shall be deemed to be incorporated by reference in this prospectus for the purpose of future offers and sale of debt securities hereunder.

A prospectus supplement containing the specific terms of an offering of debt securities, updated disclosure of earnings coverage ratios, if applicable, and other information in relation to those debt securities will be delivered to purchasers of such debt securities together with this prospectus and shall be deemed to be incorporated by reference into this prospectus as of the date of such prospectus supplement solely for the purposes of the offering of the debt securities covered by that prospectus supplement.

FORWARD-LOOKING STATEMENTS

This prospectus, and the documents incorporated by reference in this prospectus, may contain forward-looking statements relating to trends in, or representing management s beliefs about, Domtar s future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements are generally denoted by the use of words such as anticipate , believe , expect , intend and simila expressions. These statements reflect management s current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks, uncertainties and assumptions. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this prospectus, and the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, Domtar cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this prospectus, and Domtar assumes no obligation to update or revise them to reflect new events or circumstances. These risks, uncertainties and other factors include, among other things, those discussed under Risk Factors as well as those discussed elsewhere in this prospectus.

DOMTAR INC.

Domtar Inc. was formed in 1929 under the laws of Canada and was continued under the *Canada Business Corporations Act* by a certificate of continuance dated December 30, 1977 and subsequently amalgamated with certain wholly-owned subsidiaries by certificates of amalgamation dated December 31, 1977, October 31, 1978 and July 31, 1979. The first two of these certificates of amalgamation were issued in the course of the consolidation of substantially all of our Canadian operations into a single corporation. The July 31, 1979 certificate of amalgamation confirmed our amalgamation with two wholly-owned subsidiaries. On January 1, 2000, Domtar Inc. amalgamated with its wholly-owned subsidiary E.B. Eddy Forest Products Ltd., to continue under the name of Domtar Inc.

Our significant subsidiaries are Domtar Industries Inc., Domtar A.W. Corp., Domtar Maine Corp. and Ris Paper Company, Inc., all of which are 100% owned. Domtar Industries Inc., Domtar A.W. Corp. and Domtar Maine Corp. are incorporated in the State of Delaware and Ris Paper Company, Inc. is incorporated in the State of New York. We do not hold any non-voting shares in these subsidiaries.

Domtar has approximately 12,000 employees across North America. Our head and principal office is located at 395 de Maisonneuve Boulevard West, Montréal, Québec H3A 1L6 and our telephone number is (514) 848-5400.

Our reporting segments correspond to the following business activities: Papers, Paper Merchants, Wood and Packaging.

Papers

We are the third largest integrated manufacturer and marketer of uncoated freesheet paper in North America. We operate six pulp and paper facilities in Canada and five in the United States, with an annual paper production capacity of approximately 2.8 million tons of paper, which are complemented by strategically located warehouses and sales offices. More than 50% of our paper production capacity is located in the United States and approximately 85% of our paper sales are generated in that country. Uncoated and coated freesheet papers, our principal products, are used for business, commercial printing and publication, and technical and specialty applications.

We sell paper primarily through a large network of owned and independent merchants which distribute our paper products from over 350 locations throughout North America. We also sell our products to a variety of customers including business offices, office equipment manufacturers, retail outlets, commercial printers, publishers and converters. In addition, we sell pulp in excess of our own internal requirements. Also, we purchase pulp to optimize paper production and freight costs. At December 31, 2002, our net market pulp position (shipments less purchases) was approximately 630,000 tons.

Our Papers business is our most important segment and represented 59% of our consolidated net sales during the first nine months of 2003, or 65% when including sales of Domtar paper through our own Paper Merchants business.

Paper Merchants

Our Paper Merchants business comprises the purchasing, warehousing, sale and distribution of various products made by us, as well as by other manufacturers. These products include business and printing papers, graphic arts supplies and certain industrial products. Our Canadian paper merchants operate a total of eight branches in eastern Canada (three by Buntin Reid in Ontario, two by JBR/La Maison du Papier in Québec and three by The Paper House in the Atlantic Provinces) while our U.S. paper merchant (RIS Paper) services a large customer base from 20 locations in the Northeast, Midwest and the Mid-Atlantic regions of the United States. Our Paper Merchants business represented 22% of our consolidated net sales during the first nine months of 2003, or 16% when excluding sales of Domtar paper.

Wood

Our Wood business comprises the manufacture and marketing of lumber and wood-based value-added products, as well as the management of forest resources. We operate 11 sawmills, one planer mill and one remanufacturing facility, with an annual capacity of 1.2 billion board feet of lumber. We also have investments in three businesses (two of which are joint ventures) that produce wood products. We seek to optimize forestlands for which we are responsible through efficient management and the application of certified sustainable forest management practices such that a continuous supply of wood is available for future needs. Our Wood business represented 7% of our consolidated net sales during the first nine months of 2003.

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On June 19, 2003, we announced an agreement-in-principle with Tembec Inc., or Tembec, for the creation of a 50-50 joint venture that will merge our lumber operations in Ontario and Québec (except for our Lebel-sur-Quévillon sawmill). This joint venture will also market the softwood lumber from Tembec s British Columbia sawmill operations, as well as manage the operations and market the softwood lumber of our Lebel-sur-Quévillon sawmill.

This transaction is subject to certain conditions, including the completion of due diligence, the review of potential synergies, the negotiation of definitive agreements, as well as approvals by the respective boards of directors, the government, and other required approvals, most of which are currently underway.

Packaging

Our Packaging business comprises our 50% ownership interest in Norampac Inc. (Norampac), a joint venture between Domtar Inc. and Cascades Inc. The Board of Directors of Norampac is composed of four representatives from each of Domtar Inc. and Cascades Inc. The Chairman of the Board is a Domtar Inc. representative while the President and CEO is a Cascades Inc. representative. Norampac s debt is non-recourse to Domtar Inc. As required by Canadian GAAP, we account for our 50% interest in Norampac using the proportionate consolidation method. Norampac s network of 25 corrugated packaging plants, strategically located across Canada and including facilities in the United States and Mexico, provides full-service packaging solutions and produces a broad range of products. These facilities are fully integrated on a direct or indirect basis with Norampac s eight containerboard mills (located in Ontario, Québec, British Columbia, New York State and northern France) that have a combined annual capacity of more than 1.6 million tons. Our Packaging business represented 12% of our consolidated net sales during the first nine months of 2003.

USE OF PROCEEDS

Unless we state otherwise in a prospectus supplement, we will use the net proceeds from the sale of debt securities described in this prospectus for general corporate purposes, including refinancing of existing debt.

EARNINGS COVERAGE

The following consolidated earnings coverage ratios are calculated as at December 31, 2002 and September 30, 2003, and give effect to the issuance, repayment or redemption of all long term debt of Domtar Inc. and its subsidiaries since December 31, 2002. These earnings coverage ratios do not give effect to the proposed issuance of any debt securities pursuant to this prospectus and any prospectus supplement, since the aggregate principal amounts and the terms of such securities are not presently known. Domtar s interest requirements amounted to $191 million and $167 million for the 12 months ended December 31, 2002 and September 30, 2003, respectively. Domtar s earnings before interest, income tax and non-controlling interest for the 12 months ended December 31, 2002 and September 30, 2003, were $389 million and $273 million, respectively, which is 2.04 times and 1.63 times Domtar s interest requirements for these periods.

DESCRIPTION OF DEBT SECURITIES

We may issue the debt securities in one or more series under an indenture, which we refer to as the indenture, between us and JPMorgan Chase Bank, as trustee. The following description of the terms and provisions of the debt securities and the indenture is a summary. It summarizes only those portions of the indenture that we believe will be most important to your decision to invest in our debt securities. You should keep in mind, however, that it is the indenture, and not this summary, which defines your rights as a debtholder. There may be other provisions in the indenture which are also important to you. You should read the indenture for a full description of the terms of the debt securities. A copy of the form of indenture has been filed as an exhibit to the registration statement that includes this prospectus. See Where You Can Find More Information for information on how to obtain a copy of the indenture. In this section only, we , us , our or Domtar refer only to Domtar Inc. without any of its subsidiaries.

Under applicable Canadian law, a Canadian licensed trust company may be required to be appointed as co-trustee under the indenture in certain circumstances. We will apply to the appropriate Canadian regulatory authorities for exemptive relief from this and other requirements of Canadian law applicable to the indenture. If we do not obtain such relief, we will comply with the applicable legislative requirements at the time of the applicable offering.

The Debt Securities are Unsecured Obligations

Our debt securities will be unsecured obligations and will rank equally with all of our existing and future unsecured and

unsubordinated obligations. We conduct a substantial portion of our operations through subsidiaries and the debt securities will be effectively subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

Unless we state otherwise in the applicable prospectus supplement, the indenture will not limit us or our subsidiaries from incurring additional indebtedness or issuing other secured or unsecured debt under the indenture or any other indenture that we may have entered into or enter into in the future.

Terms of the Debt Securities

We may issue debt securities in one or more series, through a supplement to the indenture or through a resolution of our board of directors or an authorized committee of our board of directors. You should refer to the applicable prospectus supplement for the specific terms of the debt securities. These may include the following:

- the title, designation and purchase price;
- any limit upon the aggregate principal amount of the series;
- the maturity date(s) or the method of determining the maturity date(s);
- the interest rate(s), if any, or the method for calculating the interest rate(s), if any;
- the interest payment dates and the record dates for the interest payments;
- the circumstances, if any, in which interest may be deferred;
- the dates from which interest will accrue and the method of determining those dates;
- the place or places where we will pay principal, premium, if any, and interest and where you may present the debt securities for registration of transfer or exchange;
- the place or places where notices and demands relating to the debt securities and the indenture may be made;
- any redemption or early payment provisions;
- any sinking fund or other similar provisions;
- authorized denominations if other than denominations of US$1,000;
- currency, currencies, or currency units, if other than the currency of the United States, in which principal, premium, if any, and interest will be paid, or in which the debt securities will be denominated;
- any additions, modifications or deletions in the events of default or covenants specified in the indenture relating to the debt securities;
- if other than the principal amount of the debt securities, the portion of the principal amount of the debt securities that is payable upon declaration of acceleration of maturity;
- any additions or changes to the indenture necessary to permit or facilitate issuing the debt securities of any series in bearer form, registrable or not registrable as to principal, and with or without interest coupons;
- if the amount of payments of principal, premium, if any, and interest on the debt securities may be determined with reference to an index and how such amounts will be determined;

whether a temporary global security will be issued and the terms upon which temporary debt securities may be exchanged for definitive debt securities;

whether the debt securities will be issued in whole or in part in the form of one or more global securities;

the identity of the depositary for any global securities;

the appointment of any paying agent(s);

the terms and conditions of any obligation or right we would have or any option you would have to convert or exchange the debt securities into other securities or cash or property of Domtar or any other person and any changes to the indenture to permit or facilitate such conversion or exchange; and

other specific terms, including any additional events of default or covenants, not inconsistent with the provisions of the indenture. (Section 301 of the indenture)

Special Payment Terms of the Debt Securities

We may issue one or more series of debt securities at a substantial discount below their stated principal amount. These debt securities may bear no interest or interest at a rate which at the time of issuance is below market rates. We will describe any Canadian and United States federal tax consequences and special considerations relating to any series of debt securities in the applicable prospectus supplement.

The purchase price of the debt securities of any series may be payable in one or more foreign currencies or currency units. The debt securities of any series may be denominated in one or more foreign currencies or currency units, or the principal of, premium, if any, or interest on the debt securities of any series may be payable in one or more foreign currencies or currency units. We will describe the restrictions, elections, Canadian and United States federal income tax considerations, specific terms and other information relating to any such series of debt securities and any foreign currencies or foreign currency units in the applicable prospectus supplement.

If we use any index to determine the amount of payments of principal of, premium, if any, or interest on any series of debt securities, we will also describe in the applicable prospectus supplement the special Canadian and United States federal income tax, accounting and other considerations applicable to the debt securities of that series.

Denominations, Registration and Transfer

Unless we state otherwise in the applicable prospectus supplement, we will issue the debt securities in fully registered form without coupons and in denominations of US$1,000 and integral multiples of US$1,000. (Section 302 of the indenture)

Except as we may describe in the applicable prospectus supplement, debt securities of any series will be exchangeable for other debt securities of the same issue and series, in any authorized denominations, of a like aggregate principal amount and having the same terms. You may present debt securities for exchange as described above, or for registration of transfer, at the office of the security registrar. You will not incur a service charge but you will be required to pay any taxes and other governmental charges as described in the indenture. We will appoint the trustee as security registrar under the indenture. (Section 305 of the indenture)

Global Debt Securities

We may issue all or any part of a series of debt securities in the form of one or more global securities that will be deposited with a depositary. Unless we state otherwise in the applicable prospectus supplement, the depositary will be the Depository Trust Company, or DTC. We will issue global debt securities in registered form and in either temporary or definitive form. Unless it is exchanged for

individual debt securities, a global security may not be transferred except:

- by the depositary to its nominee;
- by a nominee of the depositary to the depositary or another nominee; or
- by the depositary or any nominee to a successor of the depositary, or a nominee of the successor. (Section 305 of the indenture)

We will describe the specific terms of the depositary arrangement in the applicable prospectus supplement. We expect that the following provisions will generally apply to these depositary arrangements.

Beneficial Interests in a Global Debt Security

If we issue a global debt security, the depositary for the global debt security or its nominee will credit on its book-entry registration and transfer system the principal amounts of the debt securities represented by the global debt security to the accounts of persons that have accounts with it. We refer to those persons as participants in this prospectus. The accounts will be designated by the dealers, underwriters or agents for the debt securities, or by us if the debt securities are offered and sold directly by us. Ownership of beneficial interests in a global debt security will be limited to participants or persons who may hold interests through participants. Ownership and transfers of beneficial interests in the global debt security will be shown on, and transactions can be effected only through, records maintained by the applicable depositary or its nominee, for interests of participants, and the records of participants, for interests of persons who hold through participants. The laws of some states may require that you take physical delivery of securities in definitive form. These limits and laws may impair your ability to transfer beneficial interests in a global debt security.

So long as the depositary or its nominee is the registered owner of a global debt security, the depositary or nominee will be considered the sole owner or holder of the debt securities represented by the global debt security for all purposes under the indenture. Except as provided below under Issuance of Individual Debt Securities , you

- will not be entitled to have any of the debt securities represented by the global debt security registered in your name;
- will not receive or be entitled to receive physical delivery of any debt securities in definitive form; and
- will not be considered the owner or holder of the debt securities under the indenture.

Payments of Principal, Premium and Interest

We will make principal, premium, if any, and interest payments on global debt securities to the depositary that is the registered holder of the global debt security or its nominee. The depositary for the global debt securities will be solely responsible and liable for all payments made on account of your beneficial ownership interests in the global debt security and for maintaining, supervising and reviewing any records relating to your beneficial ownership interests.

We expect that the depositary or its nominee, upon receipt of any principal, premium or interest payment, immediately will credit participants accounts with amounts in proportion to their respective beneficial interests in the principal amount of the global debt security as shown on the records of the depositary or its nominee. We also expect that payments by participants to you, as an owner of a beneficial interest in the global debt security held through those participants, will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name. These payments will be the responsibility of those participants.

Issuance of Individual Debt Securities

Unless we state otherwise in the applicable prospectus supplement, if a depositary for a series of debt securities is at any time unwilling, unable or ineligible to continue as depositary and we do not appoint a successor depositary within 90 days, we will issue individual debt securities in exchange for the global debt security. In addition, we may at any time and in our sole discretion, subject to any limitations described in the prospectus supplement relating to the debt securities, determine not to have any debt securities represented by one or more global debt securities. If that occurs, we will issue individual debt securities in exchange for the global

debt security.

Further, we may specify that you may, on terms acceptable to us, the trustee and the depositary, receive individual debt securities in exchange for your beneficial interest in a global debt security, subject to any limitations described in the prospectus supplement relating to the debt securities. In that instance, you will be entitled to physical delivery of individual debt securities equal in principal amount to that beneficial interest and to have the individual debt securities registered in your name. Unless we otherwise specify, we will issue those individual debt securities in denominations of US$1,000 and integral multiples of US$1,000. (Section 305 of the indenture)

Payment of Additional Amounts

The indenture provides that we will make all payments of principal, premium, if any, and interest on the debt securities of any series free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, levies, imposts, assessments or other governmental charges (which we refer to in this prospectus as taxes) imposed or levied by or on behalf of the government of Canada or of any province or territory thereof or any political subdivision thereof, or by any authority or agency therein or thereof having power to impose or levy taxes, unless such withholding or deduction is required by law or by the interpretation or administration thereof. In the event we are required to withhold or deduct, we will pay such additional amounts as may be necessary so that the net amount received by each holder of affected debt securities, after such withholding or deduction, will equal the amount that the holder would have received without such withholding or deduction. We refer to such payments in this prospectus as additional amounts. We will not pay additional amounts:

- to the extent that the taxes are imposed or levied by virtue of the beneficial owner of the debt securities being a natural or legal person with whom we do not deal at arm s length, for purposes of relevant Canadian tax law, at the time such payment is made;
- to the extent that the taxes are imposed or levied by virtue of the beneficial owner of the debt securities not complying with any certification, identification, information, documentation or reporting requirement if such compliance is legally required to exempt the beneficial owner from, or to reduce of the amount of, such deduction or withholding; or
- to the extent that the taxes are imposed or levied by virtue of the beneficial owner of the debt securities carrying on its business in or being connected with Canada or any province or territory thereof, other than by virtue of the mere holding of, or receiving payments on, the debt securities. (Section 1012 of the indenture)

Redemption

General

Unless we state otherwise in the applicable prospectus supplement, the debt securities will not be subject to any sinking fund.

Unless we state otherwise in the applicable prospectus supplement, we may, at our option and at any time, redeem any series of debt securities, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to but not including the redemption date. (Section 1101 of the indenture) We may redeem debt securities in part only in the amount of US$1,000 or integral multiples of US$1,000 or, if the authorized denomination of such debt securities is other than US$1,000, in the amount of such other denomination or integral multiples of such denomination. (Section 1102 of the indenture)

We will mail notice of any redemption of your debt securities at least 30 days but not more than 60 days before the redemption date to you at your registered address. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the debt securities or the portions called for redemption. (Sections 1105, 1107 of the indenture)

Covenants

Consolidation, Merger and Sale of Assets

We will not consolidate with, amalgamate with or merge into any other person or convey, transfer or lease our properties and assets substantially as an entirety to any person, and no person may consolidate with or merge into us, unless:

- we will be the surviving company in any merger, amalgamation or consolidation,

if we consolidate with, amalgamate with or merge into another person or convey or transfer our properties and assets substantially as an entirety to any person, the successor person is an entity organized and validly existing under the laws of the United States of America or any state thereof or the District of Columbia, or the laws of Canada or any province or territory thereof, and the successor entity expressly assumes our obligations relating to the debt securities,

immediately after giving effect to the consolidation, amalgamation, merger, conveyance or transfer, there exists no event of default, and no event which, after notice or lapse of time or both, would become an event of default, and

other conditions described in the indenture are met.

This covenant would not apply to the direct or indirect conveyance, transfer or lease of all or any portion of the stock, assets or liabilities of any of our wholly owned subsidiaries to us or to our other wholly owned subsidiaries. In addition, this covenant would not apply to any recapitalization transaction, a change of control of Domtar Inc. or a highly leveraged transaction unless such transaction or change of control were structured to include a merger, amalgamation or consolidation by us or the conveyance, transfer or lease of our properties and assets substantially as an entirety. (Section 801 of the indenture)

Negative Pledge

With certain exceptions set forth below, the indenture provides that neither we nor our restricted subsidiaries may create, incur, assume or permit to exist any indebtedness for borrowed money (including any guarantees of indebtedness for borrowed money) that is secured by a mortgage, lien, pledge, or other security interest (which we refer to in this prospectus as a mortgage) upon any principal property belonging to us or to any of our restricted subsidiaries, or on any shares of capital stock or debt of any of our restricted subsidiaries, whether such principal property, shares or debt are owned by us or our restricted subsidiaries on the date of the indenture or acquired in the future.

Unless we state otherwise in the applicable prospectus supplement, the indenture permits us to incur secured debt if we provide that the debt securities will be secured by a mortgage equally and ratably with or in priority to the new secured debt. In this event, we may also provide that any of our other debt, including indebtedness guaranteed by us or by any of our restricted subsidiaries, will be secured equally with or in priority to the new secured debt. In addition, the indenture provides that the restriction on incurring secured indebtedness will not apply to:

mortgages in favor of us or any wholly-owned restricted subsidiary;

any mortgage to secure a purchase money obligation, so long as the mortgage does not apply to other property owned by us or any restricted subsidiary:

at the time of the commencement of the construction or improvement of; or

immediately prior to the consummation of the acquisition of,

the property that is subject to the purchase money obligation;

mortgages existing upon any property or asset of the corporation or other entity which is amalgamated or merged with or into or is consolidated into, or substantially all the assets or shares of capital stock of which are acquired by, us or any of our restricted subsidiaries, at the time of such amalgamation, merger, consolidation or acquisition, so long as any such mortgage (1) does not extend to any other property or asset, other than improvements to the property or asset subject to such mortgage and (2) was not incurred in anticipation of such amalgamation, merger, consolidation or acquisition;

mortgages securing obligations issued by Canada or any province or territory thereof; the United States, any state thereof or the District of Columbia; or any political subdivision, agency or authority of any of the foregoing, to finance the acquisition, construction or improvement of property subject to such mortgages, including, among other things, mortgages incurred in connection with pollution control, industrial revenue or similar financings;

any mortgage required to be given or granted by any restricted subsidiary pursuant to the terms of any trust deed or similar document entered into by such restricted subsidiary prior to the date on which it became a restricted subsidiary;

mortgages existing as of the date of the indenture; and

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extensions, renewals, alterations or replacements of any mortgage referred to in the preceding six clauses, subject to certain limitations specified in the indenture. (Section 1008 of the indenture).

Limitation on Sale and Leaseback Transactions

The indenture also restricts transactions involving the sale and leaseback by us or any of our restricted subsidiaries of any of our or their principal property, except for leases which will not exceed three years, including renewals, unless the net proceeds of the sale or transfer of the property to be leased are at least equal to the fair market value of such property and unless:

- the indenture would have allowed us or any of our restricted subsidiaries to create a mortgage on such property to secure debt in an amount at least equal to the attributable obligation (as defined herein) in respect of such sale and leaseback transaction without securing the debt securities pursuant to the terms of the covenant described under Negative Pledge above; or

- within 180 days, we apply an amount equal to the greater of the net proceeds or fair value (as determined in accordance with the applicable provisions of the indenture) of the sale and leaseback transaction to:

  - the voluntary retirement of indebtedness for borrowed money incurred by us or any of our restricted subsidiaries and owed to an unrelated party, which indebtedness matures more than one year after the date on which it was incurred and which is senior to or ranks equally with the debt securities in right of payment; or

  - the purchase of additional property that will constitute or form a part of principal property, and which has a fair market value at least equal to the net proceeds or fair value of the sale and leaseback transaction. (Section 1009 of the indenture)

Exemption for Specified Secured Debt and Sale and Leaseback Transactions

We and any of our restricted subsidiaries may create additional mortgages securing debt (including extensions, renewals, alterations or replacements thereof) or enter into sale and leaseback transactions without being required to secure the debt securities (in the case of the creation of mortgages) or repay indebtedness or acquire property (in the case of sale and leaseback transactions) so long as the sum of the aggregate amount of this secured debt (not including secured debt that is otherwise permitted as described above under the second paragraph of Negative Pledge) and the value of all of these sale and leaseback transactions (not including transactions permitted as described under Limitation on Sale and Leaseback Transactions) does not exceed ten percent (10%) of our consolidated net tangible assets. (Sections 1008 and 1009 of the Indenture).

Certain Definitions

When we use the term attributable obligation , we mean, in respect of a sale and leaseback transaction, the present value (discounted at the rate of interest implicit in such transaction, if known, or at the rate of 10% if such implicit rate is not known) of the obligation of the lessee for the net rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended) entered into in connection therewith, such present value to be established as at the date as of which the amount of the payment is determined and in accordance with Canadian GAAP as in effect from time to time. The term net rental payments under any lease for any period means the sum of the rental and other payments required to be paid in such period by the lessee thereunder, not including, however, any amounts required to be paid by such lessee (whether or not designated as rental or additional rental) on account of indemnities (other than any constituting basic rent) or maintenance and repairs, insurance, taxes, assessments, water rates, utilities or similar charges required to be paid by such lessee thereunder or any amounts required to be paid by such lessee thereunder contingent upon the amount of sales, production or other measures of economic performance.

When we use the term consolidated net tangible assets , we mean, with respect to any person, the total of all assets appearing on the most recent consolidated balance sheet of such person, less the sum of the following amounts appearing on such consolidated balance sheet:

- amounts, if any, at which goodwill, trademarks, trade names, copyrights, patents and other similar intangible assets (other than timber licenses) and unamortized stock or debt commission, discount, expense and premium shall appear as assets,

- all amounts at which investments in subsidiaries which are not being consolidated shall appear on such consolidated balance sheet as assets,

- the amount of all liabilities appearing on such consolidated balance sheet as current liabilities, and

- any minority interest appearing on such consolidated balance sheet,

all as determined on a consolidated basis in accordance with Canadian GAAP as in effect from time to time, except that our investment in Norampac will be accounted for as an equity investment.

When we use the term principal facility , we mean any mill, converting plant or manufacturing plant owned or leased at the date of the indenture or acquired or leased by us or any subsidiary after such date and which is located within Canada or the United States,

other than any mill or plant the fair value of which as determined by our board of directors does not at the time exceed 1% of our consolidated net tangible assets.

When we use the term principal property , we mean, as the context may require, any real or immovable property forming part of or constituting any principal facility or timberlands.

When we use the term purchase money obligation , we mean any indebtedness, whether or not secured, incurred in respect of the cost of acquisition of any property (including shares of capital stock or debt, each as defined in the indenture) or of the cost of construction or improvement of any property acquired, constructed or improved after the date of the indenture, which indebtedness existed at the time of acquisition or was created, issued, incurred, assumed or guaranteed contemporaneously with the acquisition, construction or improvement or within 120 days after the completion thereof (or subsequently if created pursuant to a firm commitment financing arrangement obtained within such 120-day period, provided that the related indebtedness is created within 90 days after the expiration of such 120-day period) and includes any extension, renewal or refunding of any such indebtedness if the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased.

When we use the term restricted subsidiary , we mean (a) a subsidiary which, as at the end of our then most recently completed fiscal quarter, had consolidated net tangible assets representing 5% or more of our consolidated net tangible assets and owns or leases any interest in a principal property and (b) any other subsidiary which our board of directors shall have determined to be a restricted subsidiary. Any determination mentioned in (b) shall be irrevocable, *provided*, *however*, that our board of directors may determine that a restricted subsidiary described in (b) shall cease to be a restricted subsidiary if:

- a person other than us or a restricted subsidiary shall hold a minority interest in such restricted subsidiary of at least 15% of the common shareholders equity (or equivalent equity interests) of such restricted subsidiary, and

- immediately after such restricted subsidiary becomes an unrestricted subsidiary, no event of default or event which, with the giving of notice or passage of time, would constitute an event of default, shall exist.

When we use the term timberlands , we mean any real or immovable property located within Canada or the United States and (a) which is owned by us or any subsidiary and contains, or (b) with respect to which we or any subsidiary is entitled under any lease, license or similar agreement to cut and remove, standing timber which is (or upon completion of a growth cycle then in process is expected to become) of a commercial quantity and of merchantable quality, other than (i) any such property which at the time of determination is not held primarily for the production of lumber or other wood products, (ii) any such property the fair value of which as determined by our board of directors does not at the time exceed 1% of our consolidated net tangible assets or (iii) any reserves of oil and gas located under such property.

(Section 101 of the indenture)

Modification of the Indenture

We and the trustee under the indenture may, without the consent of any holders of debt securities, enter into supplemental indentures that amend, waive or supplement the terms of the indenture for specified purposes. These purposes include:

- to evidence the succession of another person to Domtar as the obligor under the indenture and the debt securities;

- to convey, transfer, assign, mortgage or pledge any property to or with the trustee;

- to surrender any right or power the indenture may confer on us;

- to provide for the issuance under the indenture of debt securities in bearer form and to provide for exchangeability of such securities for debt securities to be issued under the indenture in fully registered form;

- to establish the form or terms of debt securities of any series as permitted by the indenture;

- to add to the covenants made in the indenture for the benefit of the holders of all debt securities, or of all debt securities of any particular series;

- to add any additional events of default;

to secure the debt securities;

to evidence and provide for the acceptance of appointment by an additional or successor trustee with respect to the debt securities of one or more series;

- to cure any ambiguity, defect or inconsistency in the indenture, so long as the rights of any holder of debt securities are not adversely affected in any material respect; or

- to maintain the qualification of the indenture under the Trust Indenture Act or other applicable law.

(Section 901 of the indenture)

We and the trustee under the indenture may modify and amend the indenture with the consent of the holders of not less than a majority in aggregate principal amount of the series of debt securities affected. However, no modification or amendment may, without the consent of the holder of each outstanding debt security affected:

- change the stated maturity of the principal of, or any installment of interest payable on, any outstanding debt security;

- reduce the principal amount of, or the rate of interest on, any outstanding debt securities or the premium, if any, payable upon the redemption thereof, or the amount of principal of an original issue discount security, that would be due and payable upon redemption of such security or would be provable in bankruptcy, or adversely affect any right of repayment of the holder of any outstanding debt security;

- reduce the amount of principal of a debt security payable upon acceleration of the maturity thereof;

- change the place of payment or the currency in which the principal of or premium, if any, or the interest on any outstanding debt security is payable;

- impair your right to institute suit for the enforcement of any payment on or with respect to any outstanding debt security;

- reduce the percentage of the holders of outstanding debt securities necessary to modify or amend the indenture, to waive compliance with certain provisions of the indenture or certain defaults and consequences of the defaults or to reduce the quorum or voting requirements set forth in the indenture; or

- modify any of these provisions or any of the provisions relating to the waiver of certain past defaults or certain covenants, except to increase the required percentage to effect such action or to provide that certain other provisions may not be modified or waived without the consent of all of the holders of the debt securities affected; or

- modify the circumstances under which we must pay certain additional amounts to holders of the debt securities.

(Section 902 of the indenture)

The holders of not less than a majority in aggregate principal amount of the outstanding debt securities of any series may, on behalf of the holders of all debt securities of that series, waive compliance by us with certain restrictive provisions of the indenture. (Section 1011 of the indenture) The holders of not less than a majority in aggregate principal amount of the outstanding debt securities of a series may, on behalf of the holders of all debt securities of that series, waive past defaults by us under certain covenants of the indenture which relate to that series. However, a default in the payment of the principal of, premium, if any, or interest on, any debt security of that series or relating to a provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding debt security of that series affected cannot be so waived. (Section 513 of the indenture)

Events of Default

Under the terms of the indenture, each of the following constitutes an event of default for a series of debt securities:

- failure to pay principal, or premium, if any, when due;

- failure to pay any interest when due, continued for 30 days;

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failure to perform any other covenant contained in the indenture continued for 60 days, after written notice;

certain events of bankruptcy, insolvency or reorganization; and

any event of default described in the applicable supplemental indenture or board resolution under which the series of debt securities is issued.

(Section 501 of the indenture)

Effect of an Event of Default

If an event of default exists (other than an event of default in the case of certain events of bankruptcy), the trustee or the holders of not less than 25% in aggregate principal amount of a series of outstanding debt securities may declare the principal amount, or, if the debt securities are original issue discount securities, the portion of the principal amount as may be specified in the terms of that series, of the debt securities of that series to be due and payable immediately, by a notice in writing to us, and to the trustee if given by holders. Upon that declaration the principal (or specified) amount will become immediately due and payable. However, at any time after a declaration of acceleration has been made, but before a judgment or decree for payment of the money due has been obtained, the holders of not less than a majority in aggregate principal amount of a series of outstanding debt securities may, subject to conditions specified in the indenture, rescind and annul that declaration.

If an event of default in the case of certain events of bankruptcy exists, the principal amount of all debt securities outstanding under the indenture shall automatically, and without any declaration or other action on the part of the trustee or any holder of such outstanding debt, become immediately due and payable. (Section 502 of the indenture)

Subject to the provisions of the indenture relating to the duties of the trustee, if an event of default then exists, the trustee will be under no obligation to exercise any of its rights or powers under the indenture (other than the payment of any amounts on the debt securities furnished to it pursuant to the indenture) at your (or any other person s) request, order or direction, unless you have (or such other person has) offered to the trustee reasonable security or indemnity. Subject to the provisions for the security or indemnification of the trustee, the holders of a majority in aggregate principal amount of a series of outstanding debt securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee in connection with the debt securities of that series. (Sections 601, 512 of the indenture)

Legal Proceedings and Enforcement of Right to Payment

You will not have any right to institute any proceeding in connection with the indenture or for any remedy under the indenture, unless you have previously given to the trustee written notice of a continuing event of default with respect to debt securities of any series. In addition, the holders of at least 25% in aggregate principal amount of a series of the outstanding debt securities must have made written request, and offered reasonable security or indemnity, to the trustee to institute that proceeding as trustee, and, within 60 days following the receipt of that notice, the trustee must not have received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with that request, and must have failed to institute the proceeding. However, you will have an absolute and unconditional right to receive payment of the principal of, premium, if any, and interest on that debt security on or after the due dates expressed in the debt security (or, in the case of redemption, on or after the redemption date) and to institute a suit for the enforcement of that payment. (Section 507 of the indenture)

We are required to furnish to the trustee an annual statement as to compliance with all conditions and covenants under the indenture. (Section 1004 of the indenture) The indenture provides that the trustee may withhold notice to you of any default, except in respect of the payment of principal or interest on the debt securities, if it considers it in the interests of the holders of the debt securities to do so. (Section 602 of the indenture)

Satisfaction and Discharge

The indenture provides that when, among other things, all debt securities not previously delivered to the trustee for cancellation:

have become due and payable, or

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will become due and payable at their stated maturity within one year, or

are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in our name and at our expense,

and we deposit or cause to be deposited with the trustee, in trust, an amount of money or US government obligations, or a combination thereof (such amount to be certified in the case of US government obligations) sufficient to pay and discharge the entire indebtedness on the debt securities not previously delivered to the trustee for cancellation, for the principal, and premium, if any, and interest to the date of the deposit or to the stated maturity or redemption, as the case may be, then the indenture will cease to be of further effect, and we will be deemed to have satisfied and discharged the indenture. However, we will continue to be obligated to pay all other sums due under the indenture and to provide the officers certificates and opinions of counsel described in the indenture. (Section 401 of the indenture)

Defeasance and Covenant Defeasance

Unless we state otherwise in the applicable prospectus supplement, the indenture provides that we may discharge all of our obligations, other than as to transfers and exchanges, under the debt securities of any series at any time, and that we may also be released from our obligations described above under Negative Pledge and Limitation on Sale and Leaseback Transactions and certain aspects of our obligations described above under Consolidation, Merger and Sale of Assets and from certain other obligations, including obligations imposed by a supplemental indenture, if any, and elect not to comply with those sections and obligations without creating an event of default. Discharge under the first procedure is called defeasance and under the second procedure is called covenant defeasance.

Defeasance and covenant defeasance may be effected only if, among other things:

we irrevocably deposit with the trustee cash or United States government obligations or a combination thereof, as trust funds in an amount certified to be sufficient to pay on each date that they become due and payable, the principal of, premium, if any, and interest on all outstanding debt securities of that series;

we deliver to the trustee an opinion of counsel in the United States to the effect that:

the holders of debt securities of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of the defeasance or covenant defeasance; and

the defeasance or covenant defeasance will not otherwise alter those holders United States federal income tax treatment of principal and interest payments on the debt securities of such series;

in the case of defeasance, this opinion must be based on a ruling of the Internal Revenue Service or a change in United States federal income tax law occurring after the date of this prospectus, since that result would not occur under current tax law; and

we deliver to the trustee an opinion of counsel in Canada to the effect that:

the holders of the debt securities of such series will not recognize income, gain or loss for Canadian federal or provincial income or other tax purposes as a result of such defeasance or covenant defeasance; and

the defeasance or covenant defeasance will not otherwise alter those holders Canadian federal income tax treatment of principal and interest payments on the debt securities of such series;

in the case of defeasance, this opinion must be based on a ruling of the Canada Customs and Revenue Agency or a change in Canadian income tax law occurring after the date of this prospectus, since that result would not occur under current tax law; and

no event of default under the indenture has occurred and is continuing;

we are not an insolvent person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) on the date of such deposit or, in the case of defeasance, at any time during the period ended on the 91st day following such deposit;

we have delivered to the trustee an opinion of counsel to the effect that such deposit shall not cause the trustee or the trust so created to be subject to the US Investment Company Act of 1940, as amended; and

other conditions specified in the indenture, including the delivery of certain legal opinions and officers certificates, have been satisfied. (Article Twelve of the indenture)

Payment and Paying Agents

Unless we state otherwise in the applicable prospectus supplement, we will pay principal of, premium, if any, and interest on your debt securities at the office of the trustee for your debt securities in the City of New York or at the office of any paying agent that we may designate. We may at any time designate additional paying agents or rescind the designation of any paying agent. We must maintain a paying agent in each place of payment for the debt securities. (Sections 1001, 1002 of the indenture)

Unless we state otherwise in the applicable prospectus supplement, we will pay any interest on debt securities to the registered owner of the debt security at the close of business on the regular record date for the interest, except in the case of defaulted interest. (Section 307 of the indenture)

Any moneys deposited with the trustee or any paying agent, or then held by us in trust, for the payment of the principal of, premium, if any, and interest on any debt security that remain unclaimed for two years after the principal, premium or interest has become due and payable will, at our request, be repaid to us. After repayment to us, you are entitled to seek payment only from us as a general unsecured creditor. (Section 1003 of the indenture)

Enforceability of Judgments

Since a significant portion of our assets and certain of our subsidiaries, as well as the assets of a number of our directors and officers, are outside the United States, any judgment obtained in the United States against us, including judgments with respect to the payment of principal, premium, if any, or interest on the notes may not be collectible within the United States.

We have been advised by our Canadian counsel, Ogilvy Renault, a general partnership, that the laws of the Province of Québec permit a motion to be brought before a court of competent jurisdiction in the Province of Québec to recognize and enforce a judgment in personam of any federal or state court located in the Borough of Manhattan in the City of New York (the New York Court) that is not impeachable as void or voidable under the laws of the State of New York (the New York Laws) for a sum certain unless: (i) the New York Court rendering such judgment does not have jurisdiction over the judgment debtor (although submission by us in the indenture to the non-exclusive jurisdiction of the New York Court will be sufficient for that purpose); (ii) such judgment is not final and enforceable at the place it was rendered; (iii) such judgment was rendered in contravention of the fundamental principles of procedure; (iv) there were proceedings pending in the Province of Québec or judgment was rendered in the Province of Québec or in a third country meeting the necessary conditions for recognition in the Province of Québec between the same parties, based on the same facts and having the same objecnies of $25.3 million and $23.3 million, respectively, were included in other long-term assets in the condensed consolidated balance sheets. During the three months ended March 31, 2008, the Company invested a total of $2.0 million in a privately-held company.

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

Other Long-Term Assets

Details of the Company s other long-term assets are as follows (in millions):

	As of	
	March 31, 2008	December 31, 2007
Deferred tax assets	$ 57.4	$ 59.0
Long-term assets	39.6	38.2
Total	$ 97.0	$ 97.2

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Warranties

Changes in the Company s warranty reserve were as follows (in millions):

	Three Months Ended March 31,	
	2008	**2007**
Beginning balance	$ 37.5	$ 34.8
Provisions made during the period, net	14.2	11.7
Actual costs incurred during the period	(10.4)	(11.2)
Ending balance	$ 41.3	$ 35.3
Reported as:		
Short-term	$ 41.3	$ 35.3

Deferred Revenue

Details of the Company s deferred revenue are as follows (in millions):

	As of	
	March 31, 2008	**December 31, 2007**
Service	$ 403.8	$ 367.3
Product	162.1	146.0
Total	$ 565.9	$ 513.3
Reported as:		
Short-term	$ 475.9	$ 425.6
Long-term	90.0	87.7
Total	$ 565.9	$ 513.3

Restructuring and Acquisition Related Reserves

Restructuring

Restructuring charges were based on Juniper Networks restructuring plans that were committed to by management. Any changes in the estimates of executing the approved plans will be reflected in the Company s results of operations. In the first quarter of 2008 the Company paid $0.2 million for facility charges associated with its restructuring plans initiated in prior years. As of March 31, 2008 and December 31, 2007, the restructuring reserve of $0.4 million and $0.6 million, respectively, was related to future facility charges. Amounts related to the net facility charge are included in other accrued liabilities and will be paid over the remaining respective lease term through July 2008. The difference between the actual future rent payments and the net present value will be recorded as operating expenses when incurred. During the three months ended March 31, 2008 and 2007, the Company had no additional restructuring charges.

Acquisition Related Restructuring Reserves

Acquisition related reserves pertain to the restructuring reserves established in connection with the Company s past acquisitions. In conjunction with various acquisitions, the Company accrued for acquisition related restructuring charges primarily related to severance and facility charges.

The Company paid $0.3 million and $0.5 million, primarily for facility related charges for the three month periods ended March 31, 2008 and 2007, respectively. As of March 31, 2008, approximately $1.3 million remained unpaid, of which $0.4 million was recorded in other long-term liabilities in the condensed consolidated balance sheet. All remaining restructuring reserves were associated with future facility charges and will be paid over the remaining respective lease terms through March 2011. The difference between the actual future rent payments and the restructuring reserves will be recorded as operating expenses when incurred. During the three months ended March 31, 2008 and 2007, the Company had no acquisition related restructuring charges. As of December 31, 2007, approximately $1.6 million remained unpaid, of which $0.6 million was recorded in other long-term liabilities in the condensed consolidated balance sheet.

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Derivatives

Periodically, the Company uses derivatives to partially offset its market exposure to fluctuations in foreign currencies. The Company does not enter into derivatives for speculative or trading purposes. The Company uses foreign currency forward contracts to mitigate transaction gains and losses generated by certain foreign currency denominated monetary assets and liabilities. These derivatives are carried at fair value with changes recorded in other income (expense) in the same period as changes in the fair value from re-measurement of the underlying assets and liabilities. Cash flows from such hedges are classified as operating activities. These foreign exchange forward contracts have maturities between one and two months.

The Company also 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 the three months ended March 31, 2008 and 2007, in other income (expense) on its condensed consolidated statements of operations. Cash flows from such hedges are classified as operating activities.

Debt

Senior Convertible Notes

The carrying amounts and fair values of the Company s Zero Coupon Convertible Senior Notes (Senior Notes) were (in millions):

	As of	
	March 31, 2008	**December 31, 2007**
Carrying amount	$399.4	$ 399.5
Fair value	$503.1	$ 659.2

During the three months ended March 31, 2008, an immaterial amount of the Senior Notes was converted into common shares. There were no conversions of the Senior Notes into common shares in the three months ended March 31, 2007.

Distributor Financing Arrangement

The Company recognized the sales of accounts receivable to a financing provider according to FASB Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125*. The Company introduced its distributor financing program in 2006 to strengthen its channel business by promoting greater distributor volume and improved customer service. The program does not, and is not intended to, affect the timing of revenue recognition because the Company only recognizes revenue upon sell-through. Under the financing arrangements the proceeds from the financing provider are due to the Company 30 days from the sale of the receivable. The Company pays the financing provider a financing fee based on the spread over LIBOR or SIBOR. In these transactions with a major financing provider, the Company has surrendered control over the transferred assets. The accounts receivable have been isolated from the Company and put beyond the reach of creditors, even in the event of bankruptcy. The purchaser of the accounts receivable balances has the right to pledge or exchange the assets transferred. The Company does not maintain effective control over the transferred assets through obligations or rights to redeem, transfer or repurchase the receivables after they have been transferred.

Pursuant to the receivable financing arrangements for the sale of receivables, the Company sold net receivables of $58.8 million and $18.6 million during the three months ended March 31, 2008 and 2007, respectively. During the three months ended March 31, 2008 and 2007, the Company received cash proceeds, net of the financing fee, of $54.3 million and $17.5 million, respectively. The amounts owing by the financing provider recorded as accounts receivable on the Company s condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007 were $44.8 million and $40.4 million, respectively.

The Company has determined that the portion of the receivable financed that has not been recognized as revenue should be accounted for as a financing pursuant to FASB Emerging Issues Task Force Issue 88-18, *Sales of Future Revenues.* As of March 31, 2008 and December 31, 2007, the estimated amounts of cash received from the financing provider that has not been recognized as revenue from its distributors was $11.0 million and $10.0 million, respectively.

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Comprehensive Income

Comprehensive income consists of the following (in millions):

	Three Months Ended March 31,	
	2008	2007
Net income	$ 110.4	$ 66.6
Change in net unrealized gains and losses on investments, net of tax of nil	0.6	1.3
Change in foreign currency translation adjustment, net of tax of nil	2.5	1.0
Total comprehensive income	$ 113.5	$ 68.9

Accumulated Deficit

The following table summarizes the activity in the Company s accumulated deficit account (in millions):

	Three Months Ended March 31, 2008
Balance, December 31, 2007	$ (2,813.3)
Retirement of common stock (see Note 6)	(53.1)
Net income	110.4
Balance, March 31, 2008	$ (2,756.0)

Stock-Based Compensation Expense

Amortization of stock-based compensation was included in the following cost and expense categories (in millions):

	Three Months Ended March 31,	
	2008	2007
Cost of revenues Product	$ 0.8	$ 0.5
Cost of revenues Service	2.3	3.1
Research and development	10.2	11.0
Sales and marketing	6.7	7.6
General and administrative	2.7	3.7
Total	$ 22.7	$ 25.9

Other Charges, Net

Other charges recognized consisted of the following (in millions):

	Three Months Ended March 31,	
	2008	2007
Acquisition related charges	$	$ 0.3
Stock option investigation costs		4.7
Tax related charges		7.6

Total	$	$	12.6

In connection with a past acquisition, the Company recorded bonus obligation of $0.3 million for the three months ended March 31, 2007.

In the first quarter of 2007, the Company incurred $4.7 million in professional fees for the costs of external service providers used in the completion of its internal stock option investigation.

On March 12, 2007, the Company commenced a tender offer to amend certain options granted under the Juniper Networks, Inc. Amended & Restated 1996 Stock Plan and the Juniper Networks, Inc. 2000 Nonstatutory Stock Option Plan that had original exercise prices per share that were less than the fair market value per share of the common stock underlying the option on the option s grant date, as determined by the Company for financial accounting purposes. Under this tender offer, employees subject to taxation in the United States and Canada had the opportunity to increase their strike price on affected options to the appropriate fair market value per share on the date of grant so as to avoid unfavorable tax consequences under United States Internal Revenue Code Section 409A or

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applicable Canadian tax laws and regulations. In exchange for increasing the strike price of these options, the Company committed to make a cash payment to employees participating in the offer so as to make employees whole for the incremental strike price as compared to their original option exercise price. In connection with the offer, the Company amended options to purchase 4.3 million shares of the Company s common stock and committed to make aggregate cash payments of $7.6 million to offer participants. The Company accrued this aggregate cash payment liability in the three months ended March 31, 2007.

Interest and Other Income, Net

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

	Three Months Ended March 31,	
	2008	**2007**
Interest income and expense, net	$ 18.3	$ 32.9
Other income and expense, net	(0.7)	
Total interest and other income, net	$ 17.6	$ 32.9

Note 5. Net Income per Share

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

	Three Months Ended March 31,	
	2008	**2007**
Numerator:		
Net income	$ 110.4	$ 66.6
Denominator:		
Denominator for basic net income per share	523.7	569.4
Shares issuable upon conversion of the Senior Notes	19.8	19.9
Employee stock awards	16.9	15.6
Denominator for diluted net income per share	560.4	604.9
Net income per share:		
Basic	$ 0.21	$ 0.12
Diluted	$ 0.20	$ 0.11

Employee stock awards to purchase approximately 15.4 million and 51.0 million shares of the Company s common stock in the three months ended March 31, 2008 and 2007, respectively, were outstanding, but were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

Note 6. Stockholders Equity

Stock Repurchase Activities

During the three months ended March 31, 2008, the Company repurchased approximately 2.2 million shares of common stock via open market purchases at an average price of $24.61 per share as part of the Company s $2.0 billion stock repurchase program approved by its Board of Directors (the Board) in 2006 and 2007 (the 2006 Stock Repurchase Program). The total purchase price of $53.1 million for these shares was reflected as an increase to accumulated deficit. All common shares under this program have been retired. As of March 31, 2008, the Company

has repurchased approximately $1.7 billion of its common stock under this program with remaining authorized funds of $323.8 million. A total of 71.6 million common shares had been repurchased and retired since the inception of this program, at an average price of $23.41 per share.

In March 2008, the Board approved a new stock repurchase program (the 2008 Stock Repurchase Program) which enables the Company to purchase up to $1.0 billion of the company s common stock. This new program is in addition to the 2006 Stock Repurchase Program. There were no purchases under the 2008 Stock Repurchase Program in the three months ended March 31, 2008.

Share repurchases under the Company s stock repurchase programs will be subject to a review of the circumstances in place at the time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. These programs may be discontinued at any time.

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Stock Option Plans

Amended and Restated 1996 Stock Plan

The Company s Amended and Restated 1996 Stock Plan (the 1996 Plan) provided for the granting of incentive stock options to employees and non-statutory stock options to employees, directors and consultants. On November 3, 2005, the Board adopted an amendment to the 1996 Plan to add the ability to issue RSUs under the 1996 Plan. RSUs represent an obligation of the Company to issue unrestricted shares of common stock to the grantee only when and to the extent that the vesting criteria of the award are satisfied. In the case of RSUs, vesting criteria can be based on time or other conditions specified by the Board or an authorized committee of the Board. However, until vesting occurs, the grantee is not entitled to any stockholder rights with respect to the unvested shares. The Company had authorized 164,623,039 shares of common stock for issuance under the 1996 Plan. Effective May 18, 2006, additional equity awards under the 1996 Plan have been discontinued and new equity awards are being granted under the 2006 Equity Incentive Plan (the 2006 Plan). Remaining authorized shares under the 1996 Plan that were not subject to outstanding awards as of May 18, 2006 were canceled on May 18, 2006. The 1996 Plan will remain in effect as to outstanding equity awards granted under the plan prior to May 18, 2006.

Under the 1996 Plan, incentive stock options were not permitted to be granted at an exercise price less than the fair market value per share of the common stock on the date of grant. The Company has not granted incentive stock options since June 1999. Non-statutory stock options were permitted to be granted at an exercise price determined by the Board or a committee authorized by the Board. Vesting and exercise provisions were permitted to be determined by the Board or a committee authorized by the Board. Options granted under the 1996 Plan generally become exercisable over a four-year period beginning on the date of grant and have a maximum term of ten years.

2000 Nonstatutory Stock Option Plan

In July 2000, the Board adopted the Juniper Networks 2000 Nonstatutory Stock Option Plan (the 2000 Plan). The 2000 Plan provided for the granting of non-statutory stock options to employees, directors and consultants. Non-statutory stock options were permitted to be granted under the terms of the plan at an exercise price determined by the Board or a committee authorized by the Board. Vesting and exercise provisions were permitted to be determined under the terms of the plan by the Board or an authorized committee of the Board. Options granted under the 2000 Plan generally become exercisable over a four-year period beginning on the date of grant and have a maximum term of ten years. The Company had authorized 90,901,437 shares of common stock for issuance under the 2000 Plan. Effective May 18, 2006, additional equity awards under the 2000 Plan have been discontinued and new equity awards are being granted under the 2006 Plan. Remaining authorized shares under the 2000 Plan that were not subject to outstanding awards as of May 18, 2006 were canceled on May 18, 2006. The 2000 Plan will remain in effect as to outstanding equity awards granted under the plan prior to May 18, 2006.

2006 Equity Incentive Plan

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

The maximum aggregate number of shares authorized under the 2006 Plan is 64,500,000 shares of common stock, plus the addition of any shares subject to outstanding options under the 1996 Plan and 2000 Plan that subsequently expired unexercised after May 18, 2006 up to a maximum of 75,000,000 additional shares of the common stock. To the extent a 2006 Plan award is settled in cash rather than stock, such cash payment shall not reduce the number of shares available for issuance under the 2006 Plan. Performance shares, restricted stock or RSUs with a per share or unit purchase price lower than 100% of market price of the Company s common stock on the day of the grant are counted against the plan share reserve as two and one-tenth shares for every one share subject to the award. In the case of a restricted stock or performance share award, the entire number of shares subject to such award would be counted against the plan share reserve at the time of grant. Such shares could be subject to vesting provisions based on time or other conditions specified by the Board or an authorized committee of the Board. The Company would have the right to repurchase unvested shares subject to a restricted stock or performance share award if the grantee s service to the

Company terminated prior to full vesting of the award. Until repurchased, such unvested shares would be considered outstanding for dividend, voting and other purposes.

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Incentive and nonstatutory stock options may be granted at an exercise price of not less than the fair market value of the Company s common stock on the date such option is granted. The exercise price of an incentive stock option granted to a 10% or greater stockholder may not be less than 110% of the fair market value of the common stock on the grant date. Vesting and exercise provisions are determined by the Board, or an authorized committee of the Board. Stock options granted under the 2006 Plan generally vest and become exercisable over a four year period. Restricted stock, performance shares, RSUs or deferred stock units that vest solely based on continuing employment or provision of services will vest in full no earlier than the three-year anniversary of the grant date. In the event vesting is based on factors other than continued future provision of services, such awards will vest in full no earlier than the one-year anniversary of the grant date. Options granted under the 2006 Plan have a maximum term of seven years from the grant date, while incentive stock options granted to a 10% or greater stockholder have a maximum term of five years from the grant date.

The 2006 Plan provides each non-employee director an automatic grant of an option to purchase 50,000 shares of common stock upon the date on which such individual first becomes a director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy (the First Option). In addition, at each of the Company s annual stockholder meetings (i) each non-employee director who was a non-employee director on the date of the prior year s annual stockholder meeting shall be automatically granted an option to purchase 20,000 shares of common stock, and (ii) each non-employee director who was not a non-employee director on the date of the prior year s annual stockholder meeting shall receive an option to purchase a pro-rata portion of the 20,000 shares of the common stock determined by the time elapsed since the individual s First Option grant (the Annual Option). The First Option vests monthly over approximately three years from the grant date subject to the non-employee director s continuous service on the Board. The Annual Option shall vest monthly over approximately one year from the grant date subject to the non-employee director s continuous service on the Board. Under the 2006 Plan, options granted to non-employee directors have a maximum term of seven years.

Plans Assumed Upon Acquisition

In connection with past acquisitions, the Company assumed options and restricted stock under the stock plans of the acquired companies. The Company exchanged those options and restricted stock for Juniper Networks options and restricted stock and, in the case of the options, authorized the appropriate number of shares of common stock for issuance pursuant to those options. As of March 31, 2008, there were approximately 3.5 million common shares subject to outstanding awards under plans assumed through past acquisitions. There was no restricted stock subject to repurchase as of March 31, 2008 and December 31, 2007. There were no restricted stock repurchases during the three months ended March 31, 2008 and 2007.

Equity Award Activities

In the first quarter of 2008, the Company granted RSUs covering 0.8 million shares of common stock to its employees under the 2006 Plan. In the first quarter of 2008, the Company also granted performance share awards to eligible executives covering up to 0.6 million shares of common stock that vest in March 2011 provided certain annual performance targets and other vesting criteria are met. RSUs generally vest over a period of three or four years from the date of grant. Until vested, RSUs and performance share awards do not have the voting rights of common stock and the shares underlying the awards are not considered issued and outstanding. No restricted stock was issued in the same period of 2008. The Company expenses the cost of the RSUs, which is determined to be the fair market value of the shares of the Company s common stock at the date of grant, ratably over the period during which the restrictions lapse. In addition to RSUs and performance share awards, the Company also granted employee stock options covering 6.4 million shares of common stock under the 2006 Plan in the first quarter of 2008. The Company estimated the stock compensation expense for its performance share awards as of March 31, 2008 based on the vesting criteria and recorded an immaterial amount in operating expense for the first quarter of 2008. The Company also recorded an immaterial amount in operating expense for its performance share awards for the three months ended March 31, 2007 based on the vesting criteria as of March 31, 2007.

Net income for the three months ended March 31, 2008 included pre-tax stock-based compensation expense of $22.7 million related to employee stock options, RSUs, performance share awards and employee stock purchases under the Company s Employee Stock

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Purchase Plan reflecting the fair value recognition provisions under SFAS 123R. Net income for the three months ended March 31, 2007 included pre-tax stock-based compensation expense of $25.9 million related to employee stock options, RSUs and performance share awards reflecting the fair value recognition provisions under SFAS 123R.
A summary of the Company s equity award activity and related information for the three months ended March 31, 2008 is set forth in the following table:

		Outstanding Options(4)			
	Shares Available For Grant(1) (In thousands)	Number of Shares (In thousands)	Weighted-Average Exercise Price (In dollars)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Balance at January 1, 2008	46,022	66,928	$ 20.36		
RSUs and performance share awards granted (2)	(2,887)				
Options granted	(6,363)	6,363	25.30		
RSUs canceled (2)	741				
Options canceled (3)	917	(923)	19.51		
Options exercised		(1,618)	14.57		
Options expired (3)	160	(169)	26.05		
Balance at March 31, 2008 (4)	38,590	70,581	$ 20.94	5.3	$ 401,484

(1) Shares available for grant under the 1996 Plan, the 2000 Plan and the 2006 Plan, as applicable.

(2) RSUs and performance share awards with a per share or unit purchase price lower than 100% of the fair market value of the Company s common stock on the day of the grant under the 2006 Plan

are counted against shares authorized under the plan as two and one-tenth shares of common stock for each share subject to such award. The Company granted RSUs and performance share awards covering 1.4 million shares of common stock in the three months ended March 31, 2008.

(3) Canceled or expired options under the 1996 Plan and the 2000 Plan and the stock plans of the acquired companies are no longer available for future grant under such plans, except for shares subject to outstanding options under the 1996 Plan and the 2000 Plan that subsequently expired unexercised after May 18, 2006, up to a maximum of 75,000,000 additional shares of

common stock, become available for grant under the 2006 Plan.

(4) Outstanding options exercisable for 70.6 million shares of common stock do not include RSUs and performance share awards outstanding as of March 31, 2008. See details under *Restricted Stock Units and Performance Share Awards Activities* below.

A summary of the Company s vested or expected-to-vest options and exercisable options as of March 31, 2008 is set forth in the following table:

	Number of Shares (In thousands)	Weighted-Average Exercise Price (In dollars)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Vested or expected-to-vest options	64,181	$ 20.82	5.3	$ 375,061
Exercisable options	46,269	20.08	4.9	310,173

As of March 31, 2008, options covering approximately 46 million shares of common stock were exercisable at a weighted average exercise price of $20.08 per share. As of December 31, 2007, options covering approximately 45 million shares of common stock were exercisable at a weighted average exercise price of $20.01 per share. Aggregate intrinsic value represents the difference between the Company s closing stock price on the last trading day of the fiscal period, which was $25.00 as of March 31, 2008, and the exercise price multiplied by the number of related options. The pre-tax intrinsic value of options exercised, representing the difference between the fair market value of the Company s common stock on the date of the exercise and the exercise price of each option, was $20.5 million for the three months ended March 31, 2008.

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Total fair value of options vested for the three months ended March 31, 2008 was $23.1 million. As of March 31, 2008, approximately $204.0 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of approximately 3.0 years. Approximately $55.0 million of the total unrecognized compensation cost is estimated to be forfeited prior to the vesting of such awards.

Restricted Stock Units and Performance Share Awards Activities

The following schedule summarizes information about the Company s RSUs and performance share awards for the three months ended March 31, 2008:

	Outstanding RSUs and Performance Share Awards			
	Number of Shares (In thousands)	Weighted-Average Purchase Price (In dollars)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Balance at January 1, 2008	6,284	$		
RSUs and performance share awards granted	1,375			
RSUs and performance share awards vested	(1,308)			
RSUs and performance share awards canceled	(388)			
Balance at March 31, 2008	5,963	$	1.9	$ 149,067

The weighted-average grant date fair value of RSUs granted during the three months ended March 31, 2008 was $25.24 per share. The weighted average grant date fair value of performance share awards granted during the three months ended March 31, 2008 was $25.16 per share. As of March 31, 2008, approximately $123.1 million of total unrecognized compensation cost related to RSUs and performance share awards was expected to be recognized over a weighted-average period of approximately 2.7 years. Approximately $37.7 million of the total unrecognized compensation cost was estimated to be forfeited prior to the vesting of such awards.

The following schedule summarizes information about the Company s RSUs and performance share awards as of March 31, 2008:

	Number of Shares (In thousands)	Weighted-Average Exercise Price (In dollars)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Shares subject to outstanding RSUs and performance share awards	5,963	$	1.9	$ 149,067
Vested and expected-to-vest RSUs and performance share awards	4,196		1.9	104,905

During the three months ended March 31, 2008 and 2007, approximately 1.3 million and nil RSUs became vested and exercisable, respectively.

Employee Stock Purchase Plan

In April 1999, the Board of Directors approved the adoption of Juniper Networks 1999 Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan permits eligible employees to acquire shares of the Company s common stock through periodic payroll deductions of up to 10% of base compensation. Each employee may purchase no more than 6,000 shares in any twelve-month period, and in no event may an employee purchase more than $25,000 worth of stock, determined at the fair market value of the shares at the time such option is granted, in one calendar year. The Purchase Plan is implemented in a series of offering periods, each six months in duration, or a shorter period as determined by the Board. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company s common stock on the first or last trading day of the applicable offering period. Employees purchased approximately 0.7 million shares of common stock through the Purchase Plan at an average price of $23.08 in the three months ended March 31, 2008. There were no employee purchases under the Purchase Plan due to the suspension of the Purchase Plan from August 2006 through March 2007. Compensation expense of $3.5 million and nil was recorded in operating expenses for the three months ended March 31, 2008 and 2007, respectively, in connection with the Purchase Plan. As of March 31, 2008, approximately 7.9 million shares had been issued since inception and the 13.1 million shares remained available for future issuance under the Purchase Plan.

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Common Stock Reserved for Future Issuance

As of March 31, 2008, the Company had reserved an aggregate of approximately 148.9 million shares of common stock for future issuance under all its equity incentive plans, the Purchase Plan and upon conversion of the Senior Notes.

Valuation of Stock-Based Compensation

SFAS 123R requires the use of a valuation technique, such as an option-pricing model, to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes-Merton option-pricing model, which incorporates various assumptions including volatility, expected life, and risk-free interest rates. The expected volatility is based on the implied volatility of market traded options on the Company s common stock, adjusted for other relevant factors including historical volatility of the Company s common stock over the most recent period commensurate with the estimated expected life of the Company s stock options. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that had not been exercised at the time.

Since 2006, the Company has granted stock option awards that have a contractual life of seven years from the date of grant. Prior to 2006, stock option awards generally had a ten year contractual life from the date of grant.

In 2007, the government of India implemented a new fringe benefit tax that applies to equity awards granted to India taxpayers. This fringe benefit tax is payable by the issuer of the equity awards, however, the law allows an issuer to recover from individual award holders the fringe benefit taxes the issuer paid on their applicable equity awards. Beginning in January 2008, the Company amended its equity award agreements for future grants made to its employees in India to provide for the Company to be reimbursed for fringe benefit taxes paid in relation to applicable equity awards. The Company has elected to use a Black-Scholes-Merton option-pricing model that incorporates a Monte Carlo simulation to calculate the fair value of stock-based awards issued under the amended equity award agreements. The assumptions used in this valuation are included below.

The assumptions used and the resulting estimates of fair value or weighted-average fair value per share of awards granted and employee stock purchases under the Purchase Plan during those periods were:

	Three Months Ended March 31,	
	2008	**2007**
Employee Stock Options:		
Volatility factor	46% - 48%	38% - 40%
Risk-free interest rate	1.9% - 4.4%	4.5% - 4.8%
Expected life (years)	3.6 5.7	3.7
Dividend yield		
Fair value per share	$ 9.1-$10.9	$ 6.4-$7.2
Employee Stock Purchase Plan:		
Volatility factor	48%	
Risk-free interest rate	2.2%	
Expected life (years)	0.5	
Dividend yield		
Weighted-average fair value per share	$ 7.8	$

Note 7. Segments

The Company s chief operating decision maker (CODM) allocates resources and assesses performance based on financial information by the Company s business groups. Beginning in the first quarter of 2008, the Company realigned its organizational structure to include its Service business as a component of the related Infrastructure or SLT business groups. Accordingly, the previously reported Service segment has been combined into the Company s two reportable segments as follows: Infrastructure and SLT. The Infrastructure segment includes products from the E-, M-, MX-, and T-series router product families, EX-series switch products, as well as the circuit-to-packet products. The SLT segment consists primarily of Firewall virtual private network (Firewall) systems and appliances, secure

sockets layer virtual private network (SSL) appliances, intrusion detection and prevention appliances (IDP), the J-series router product family and wide area network (WAN) optimization platforms.

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The primary financial measure used by the CODM in assessing performance of the segments is segment operating income, which includes certain cost of revenues, research and development expenses, sales and marketing expenses, and general and administrative expenses. In the three months ended March 31, 2008, the CODM did not allocate certain miscellaneous expenses to its segments even though such expenses were included in the Company s management operating income.

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

Further changes to this organizational structure may result in changes to the segments disclosed. The Company has restated the previously reported segment revenues and segment operating results to reflect the changes in its segments.

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

	Three Months Ended March 31,	
	2008 (2)	**2007 (1)**
Net revenues:		
Infrastructure:		
Product	$ 528.6	$ 385.2
Service	93.2	75.5
Total Infrastructure revenues	621.8	460.7
Service Layer Technologies:		
Product	145.6	124.5
Service	55.5	41.7
Total Service Layer Technologies revenues	201.1	166.2
Total net revenues	822.9	626.9
Operating income:		
Infrastructure	191.5	125.9
Service Layer Technologies	6.2	(2.8)
Total segment operating income	197.7	123.1
Other corporate (3)	(4.7)	
Total management operating income	193.0	123.1
Amortization of purchased intangible assets	(26.5)	(24.1)
Stock-based compensation and related payroll tax expense	(23.8)	(25.9)
Other charges, net		(12.6)
Total operating income	142.7	60.5
Interest and other income, net	17.6	32.9

Income before income taxes	$ 160.3	$ 93.4

(1) Prior period amounts have been reclassified to reflect the 2008 segment structure, which now includes service revenue and operating results in the Infrastructure and SLT segments.

(2) Subsequent to its earnings release call on April 24, 2008, the Company adjusted its previously reported segment profitability for the three months ended March 31, 2008 which resulted in a $3.0 million increase in the SLT operating income and a corresponding decrease in the Infrastructure operating income.

(3) Other corporate expense represents miscellaneous expenses that have not been allocated to segment operating

results.

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Depreciation expense allocated to the Infrastructure segment and the SLT segment was $20.2 million and $8.7 million, respectively, in the three months ended March 31, 2008, and $15.6 million and $6.6 million, respectively, in the three months ended March 31, 2007.

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

	Three Months Ended March 31,	
	2008	2007
Americas:		
United States	$ 388.1	$ 279.5
Other	29.9	15.9
Total Americas	418.0	295.4
Europe, Middle East and Africa	240.1	209.4
Asia Pacific	164.8	122.1
Total	$ 822.9	$ 626.9

No single customer accounted for 10.0% or more of the Company s net revenues for the three months ended March 31, 2008. Siemens and Verizon individually accounted for 11.6% and 16.2% of the Company s net revenues for the three months ended March 31, 2007, respectively. The revenue attributed to each significant customer was derived from the sale of products and services in both segments.

The Company tracks assets by physical location. The majority of the Company s assets, including property and equipment, were attributable to its U.S. operations as of March 31, 2008 and December 31, 2007. Although management reviews asset information on a corporate level and allocates depreciation expense by segment, the CODM does not review asset information on a segment basis.

Note 8. Income Taxes

The Company recorded tax provisions of $49.9 million and $26.8 million for the three months ended March 31, 2008 and 2007, or effective tax rates of 31% and 29%, respectively. The effective tax rate for the three months ended March 31, 2008 differs from the federal statutory rate of 35% and the rate for the same period in 2007 primarily due to earnings in foreign jurisdictions which are subject to lower rates and a reduced benefit from tax credits due to the expiration of the federal R&D credit law at December 31, 2007. The Company s income taxes payable for federal and state purposes were reduced by the tax benefit from employee stock option transactions. This benefit totaled $4.5 million for the three months ended March 31, 2008 and was reflected as an increase to additional paid-in capital.

The Company is currently under examination by the Internal Revenue Service (IRS) for the 2004 tax year and by the German tax authorities for the 2005 tax year. Additionally, the Company has not reached final resolution with the IRS on an adjustment it proposed for the 1999 and 2000 tax years. The Company was not under examination by any other major jurisdictions in which the Company files its income tax returns as of March 31, 2008.

The gross unrecognized tax benefits increased by approximately $3.9 million for the three months ended March 31, 2008, of which $3.4 million, if recognized, would affect the effective tax rate. Interest and penalties accrued for the same period were immaterial.

Note 9. Commitments and Contingencies

Commitments

The following table summarizes the Company s principal contractual obligations as of March 31, 2008 (in millions):

	Total	2008	2009	2010	2011	2012	Thereafter	Other
Operating leases	$ 235.6	$ 52.8	$ 44.8	$ 40.9	$ 36.1	$ 30.1	$ 30.9	$
	(2.9)	(1.5)	(0.8)	(0.6)				

Sublease rental income								
Senior Notes	399.4	399.4						
Purchase commitments	139.5	139.5						
Tax liabilities	63.7							63.7
Other contractual obligations	48.2	25.7	19.0	3.5				
Total	$ 883.5	$ 615.9	$ 63.0	$ 43.8	$ 36.1	$ 30.1	$ 30.9	$ 63.7

Operating Leases

Juniper Networks leases its facilities under operating leases that expire at various times, the longest of which expires in 2017. Future minimum payments under the non-cancelable operating leases, net of committed sublease income, totaled $232.7 million as of March 31, 2008. Rent expense for the three months ended March 31, 2008 and 2007 was $14.2 million and $10.7 million, respectively.

Senior Notes

As of March 31, 2008, the Company s Zero Coupon Convertible Senior Notes (Senior Notes) had a carrying value of $399.4 million. The Senior Notes are due on June 15, 2008.

Purchase Commitments

In order to reduce manufacturing lead times and ensure adequate component supply, contract manufacturers utilized by the Company place non-cancelable, non-returnable (NCNR) orders for components based on the Company s build forecasts. As of March 31, 2008, there were NCNR component orders placed by the contract manufacturers with a value of $139.5 million. The contract manufacturers use the components to build products based on the Company s forecasts and on purchase orders the Company has received from customers. Generally, the Company does not own the components and title to the products transfers from the contract manufacturers to the Company and immediately to the Company s customers upon delivery at a designated shipment location. If the components go unused or the products go unsold for specified periods of time, the Company may incur carrying charges or obsolete materials charges for components that the contract manufacturers purchased to build products to meet the Company s forecast or customer orders. As of March 31, 2008, the Company had accrued $24.1 million based on its estimate of such charges.

Tax Liabilities

As of March 31, 2008, the company had $63.7 million included in long-term liabilities in the condensed consolidated balance sheet for unrecognized tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

Other Contractual Obligations

As of March 31, 2008, other contractual obligations consisted primarily of an indemnity-related escrow amount of $2.3 million and bonus accrual of $0.7 million in connection with past acquisitions, a software subscription requiring payments of $5.0 million in January 2009, and a joint development agreement requiring quarterly payments of $3.5 million through January 2010. Additionally, in the first quarter of 2008, the Company entered into an $11.1 million consulting project for its customer relationship management (CRM) and enterprise resource planning (ERP) systems requiring payments of $5.0 million in the second quarter of 2008. As of March 31, 2008, $8.8 million remained unpaid under this consulting agreement.

Guarantees

The Company enters into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that the Company s products infringe the intellectual property rights of a third party. Other guarantees or indemnification arrangements include guarantees of product and service performance and standby letters of credits for certain lease facilities. The Company has not recorded a liability related to these guarantee and indemnification provisions and these guarantees and indemnification arrangements have not had any significant impact on the Company s financial position, results of operations, or cash flows.

Legal Proceedings

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

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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 the Company and certain of its current and former officers and directors. The lawsuits allege that the Company s officers and directors either participated in illegal back-dating of stock option grants or allowed it to happen. 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. Lead plaintiffs filed a consolidated complaint on April 11, 2007. The consolidated complaint asserts 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, and insider selling and misappropriation of information. The consolidated complaint also demands an accounting and rescission of allegedly improper stock option grants. The Company formed a Special Litigation Committee, consisting of directors Michael Rose and Michael Lawrie, to determine whether it is in the best interest of Juniper Networks and its shareholders to pursue any of the claims asserted in the derivative litigation. The Special Litigation Committee is authorized to pursue, settle, or release such claims.

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 the Company and certain of its 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. An amended consolidated complaint was filed on April 9, 2007. The amended consolidated complaint alleges that certain of the Company s 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 duties, abuse of control, gross mismanagement, waste of corporate assets, insider selling and misappropriation of information, and violations of California securities laws. Plaintiffs also demand an accounting and rescission of allegedly improper stock options grants, and a constructive trust of proceeds derived from allegedly illicit stock options. The Company formed a Special Litigation Committee, consisting of directors Michael Rose and Michael Lawrie, to determine whether it is in the best interest of Juniper Networks and its shareholders to pursue any of the claims asserted in the derivative litigation. The Special Litigation Committee is authorized to pursue, settle, or release such claims.

Federal Securities Class Action

On July 14, 2006 and August 29, 2006, two purported class actions were filed in the Northern District of California against the Company and certain of the Company s current and former officers and directors. On November 20, 2006, the Court consolidated the two actions as *In re Juniper Networks, Inc. Securities Litigation,* No. C06-04327-JW, and appointed the New York City Pension Funds as lead plaintiffs. The lead plaintiffs filed a Consolidated Class Action Complaint on January 12, 2007, and filed an Amended Consolidated Class Action Complaint on April 9, 2007. The Amended Consolidated Complaint alleges that the defendants violated federal securities laws by manipulating stock option grant dates to coincide with low stock prices and issuing false and misleading statements including, among others, incorrect financial statements due to the improper accounting of stock option grants. The Amended Consolidated Complaint asserts claims for violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 on behalf of all persons who purchased or otherwise acquired Juniper Networks publicly traded securities from July 12, 2001 through and including August 10, 2006. On June 7, 2007, the defendants filed a motion to dismiss certain of the claims, and a hearing was held on September 10, 2007. On March 31, 2008 the Court issued an order granting in part and denying in part the defendants motion to dismiss. The order dismissed with prejudice plaintiffs section 10(b) claim to the extent it was based on challenged statements made before July 14, 2001. The order also dismissed, with leave to amend plaintiffs section 10(b) claim against Pradeep Sindhu. The order upheld all of plaintiffs remaining claims. The order gave plaintiffs until May 1, 2008 to file an amended complaint. Plaintiffs chose not to amend their complaint. Defendants deadline for responding to the operative complaint is June 16, 2008.

Calamore Proxy Statement Action

On March 28, 2007 an action titled *Jeanne M. Calamore v. Juniper Networks, Inc., et al.,* No. C-07-1772-JW, was filed by Jeanne M. Calamore in the Northern District of California against the Company and certain of the Company s current and former officers and directors. The complaint alleges that the proxy statement for the Company s 2006 Annual Meeting of Stockholders contained various false and misleading statements in that it failed to disclose stock option backdating information. As a result, plaintiff seeks preliminary and permanent injunctive relief with respect to the Company s 2006 Equity Incentive Plan, including seeking to invalidate the plan and all equity awards granted and grantable thereunder. On May 21, 2007, the Company filed a motion to dismiss and plaintiff filed a

motion for preliminary injunction. On July 19, 2007, the Court issued an order denying plaintiff s motion for a preliminary injunction and dismissing the complaint in its entirety with leave to amend. Plaintiff filed an amended complaint on August 27, 2007, and the defendants filed a motion to dismiss on October 9, 2007. Plaintiff filed her opposition on December 21, 2007 and defendants filed their reply on January 25, 2008. A hearing was held on February 11, 2008. The Court has not yet issued a ruling.

IPO Allocation Case

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

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

In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the court for approval. On August 31, 2005, the court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceedings. Because class certification was a condition of the settlement, it was unlikely that the settlement would receive final Court approval. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon a stipulation among the parties to the settlement. Plaintiffs have filed amended master allegations and amended complaints and moved for class certification in the six focus cases, which the defendants in those cases have opposed. On March 26, 2008, the Court denied the defendants motion to dismiss the amended complaints in the six test cases.

16(b) Demand

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

IRS Notices of Proposed Adjustments

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

In 2007, the IRS opened an examination of the Company s U.S. federal income tax and employment tax returns for the 2004 fiscal year. Subsequently, the IRS extended their examination of the Company s employment tax returns to include fiscal years 2005 and 2006. The Company has not yet received any NOPAs related to these audits.

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Note 10. Related Party Transactions

The Company reimburses its CEO, Mr. Scott Kriens, for ordinary operating costs relating to his use of a personal aircraft for business purposes up to a maximum amount per year. The Company incurred an immaterial amount and $0.1 million in related expenses in the three months ended March 31, 2008 and 2007, respectively.

Note 11. Subsequent Event

Stock Repurchases

Subsequent to March 31, 2008 through the filing of this report, the Company repurchased 0.6 million shares of its common stock, for $15.8 million at an average purchase price of $27.96 per share, under its 2008 Stock Repurchase Program. As of the report filing date, the Company s 2008 Stock Repurchase Program had remaining authorized funds of $984.2 million. Purchases under the Company s stock repurchase programs are subject to a review of the circumstances in place at the time and will be made from time to time as permitted by securities laws and other legal requirements.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q (Report), including the Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and the future results of the Company that are based on current expectations, estimates, forecasts, and projections about the industry in which the Company operates and the beliefs and assumptions of the management of the Company. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates, variations 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 II and elsewhere, and in other reports the Company files with the Securities and Exchange Commission (SEC), specifically the most recent Annual Report on Form 10-K. The Company undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion is based upon our unaudited Condensed Consolidated Financial Statements included elsewhere in this report, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingencies. 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

Executive Overview

To aid readers of our financial statements in understanding our operating results, we have provided below an executive overview of the significant events that affected the most recent quarter and a discussion of the nature of our operating expenses.

	Total	**Segments**	
(In millions, except per share amounts and percentages)	**Consolidated**	**Infrastructure**	**SLT**
Net revenues	$ 822.9	$621.8	$201.1
Year-over-year net revenues increase	31%	35%	21%
Segment operating income	$ 197.7	$191.5	$ 6.2
Year-over-year segment operating income increase	61%	52%	321%
Operating income	$ 142.7		
Year-over-year operating income increase	136%		
Net income	$ 110.4		
Year-over-year net income increase	66%		
Net income per share:			
Basic	$ 0.21		
Diluted	$ 0.20		

Net revenues: Net revenues were $822.9 million for the three months ended March 31, 2008, an increase of 31% from the same period in 2007. We experienced growth in both Infrastructure and Service Layer Technologies (SLT) revenues, which represented 75.6% and 24.4% of net revenues, respectively. Our Infrastructure revenues increased 35% and SLT revenues increased 21%, in each case compared to the same period in 2007. Our increases in Infrastructure revenues were attributable to the growing acceptance of our router products and services, including our T-, MX- and M-series product families, in the

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service provider and content provider markets. We also experienced growth in our SLT products and services, including firewall virtual private network (Firewall) product families, in the enterprise and service provider markets.

Operating Margin: Operating income increased $82.2 million, or 136% to $142.7 million in the three months ended March 31, 2008 compared to the same period in 2007. Operating margin percentage was 17.3% for the three months ended March 31, 2008 as compared to 9.6% from the same period in 2007. This change was, in large part, due to the mix of products sold, particularly the T- and M-series products, and the decrease in operating expenses as a percentage of net revenues in the first quarter of 2008 compared to the same period in the prior year.

Net Income and Net Income Per Share: Net income was $110.4 million, or $0.20 per share on a diluted basis in the three months ended March 31, 2008 compared to $66.6 million, or $0.11 per share on a diluted basis from the same period in 2007. The increase was primarily due to the revenue growth and an increase in operating margin.

Other Financial Highlights: Deferred product revenue increased $16.1 million in the three months ended March 31, 2008 primarily due to the deferral of an ongoing edge router build out for one of our service provider customers. Our deferred service revenue increased $36.5 million in the three months ended March 31, 2008 primarily due to the renewal of annual maintenance arrangements. During the three months ended March 31, 2008, we generated $321.3 million in cash from our operations and investing activities, partially offset by cash used in financing activities due to the repurchase of $53.1 million of our common stock.

Significant Events

Business and Market Environment

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

In the first quarter of 2008, we continued to deliver innovative, high-performance network infrastructure solutions. For the service provider market, we announced an advanced mobile IP/MPLS solution portfolio with the new BX 7000 multi-access gateway router for the cell site, M-series circuit emulation physical interface cards for the aggregation site and a suite of software features designed to simplify deployment, provisioning and management of mobile backhaul networks. We also introduced the JCS 1200, a high-performance control plane scaling platform. For the enterprise market we introduced the EX-series, a family of Ethernet switches that leverage the operational simplicity and carrier-class reliability of our JUNOS software. We also announced the integration of services, including Firewall and chassis clustering into JUNOS software for implementation on the J-series services router and the Security Threat Response Manager (STRM), a platform capable of providing businesses with a centralized scalable and effective way to log and manage a rapidly evolving threat landscape.

Changes to Segments

Beginning in the first quarter 2008, we realigned our reporting structure which resulted in two segments: Infrastructure and Service Layer Technologies (SLT). The previously reported Service segment has been combined into the following two segments.

Infrastructure: Our Infrastructure segment includes products and services related to the E-, M-, MX- and T-series router product families, EX-series switching products, as well as the circuit-to-packet products.

SLT: Our SLT segment consists primarily of products and services related to our Firewall systems and appliances, secure sockets layer virtual private network (SSL) appliances, intrusion detection and prevention appliances (IDP), the J-series router product family and wide area network (WAN) optimization platforms.

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For the first quarter of 2008, our Infrastructure and SLT segments represented 75.6% and 24.4% of net revenues, respectively. From a geographic perspective, the Americas region represented 50.8% of the total revenues, Europe, Middle East and Africa (EMEA) contributed 29.2% and the remaining 20.0% was generated in the Asia Pacific (APAC) region.

Stock Repurchase Activity

During the three months ended March 31, 2008, we repurchased approximately 2.2 million shares of common stock via open market purchases at an average price of $24.61 per share as part of our $2.0 billion stock repurchase program approved in 2006 and 2007 (the 2006 Stock Repurchase Program). The total purchase price of $53.1 million for these shares was reflected as an increase to accumulated deficit. As of the filing of this report, we have repurchased and retired approximately 71.6 million common shares under the 2006 Stock Repurchase Program at an average price of $23.41 per share and the program had remaining authorized funds of $323.8 million.

In March 2008, our Board of Directors approved a new stock repurchase program (the 2008 Stock Repurchase Program) which enables us to purchase up to $1.0 billion of our common stock. This new program is in addition to the 2006 Stock Repurchase Program. There were no repurchases during the three months ended March 31, 2008 under this program. Subsequent to March 31, 2008 through the filing of this report, we have repurchased and retired approximately 0.6 million common shares under the 2008 Stock Repurchase Program at an average price of $27.96 per share and the program had remaining authorized funds of $984.2 million as of the report filing date.

Share repurchases under our stock repurchase programs will be subject to a review of the circumstances in place at the time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. These programs may be discontinued at any time.

Backlog

Our sales are made primarily pursuant to 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 we believe industry practice would allow 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 and do not believe our backlog information is necessarily indicative of future revenue.

Manufacturing

Most of our manufacturing, repair and supply chain operations are outsourced to independent contract manufacturers. Accordingly, most of our costs of revenues consist 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. Key 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. 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.

Until 2006, our products were produced by our contract manufacturers primarily in the United States and Canada. In recent years, an increasing amount of our product has been manufactured in Asia, and we anticipate that a larger percentage of our products will be produced outside the United States and Canada in the future. Our contracts generally provide for passage of title and risk of loss at the designated point of shipment to the customer. The manufacturing of products in Asia for shipment to customers in EMEA and the Americas resulted in additional shipment logistics, freight and timing issues for us and those customers. In an ongoing effort to balance our and the customers needs, we have made changes on occasion to the payment of freight and the point of shipment with respect to products shipped from Asia. These changes impact shipping costs and the timing of revenue recognition of the affected shipments.

We have employees in our manufacturing and operations organization who manage relationships with our contract manufacturers, manage our supply chain, and monitor product testing and quality.

Nature of Expenses

Employee related costs have historically been the primary driver of our operating expenses and we expect this trend to continue. These costs include items such as wages, commissions, bonuses, vacation, benefits, stock-based compensation, and travel. We increased our headcount to 6,111 employees as of March 31, 2008 from 5,099 employees as of March 31, 2007 primarily due to increases in research and development, sales and customer service activities.

Stock-based compensation and related payroll tax expense was $23.8 million and $25.9 million in the three months ended March 31, 2008 and 2007, respectively. As of March 31, 2008, approximately $204 million of total unrecognized stock-based compensation cost related to stock options was expected to be recognized over a weighted-average period of approximately 3.0 years. Approximately $55.0 million of the total unrecognized compensation cost is estimated to be forfeited prior to the vesting of such awards. In addition, approximately $123.1 million of total unrecognized stock-based compensation cost related to RSUs and performance share awards was expected to be recognized over a weighted-average period of approximately 2.7 years. Approximately $37.7 million of such total unrecognized compensation cost was estimated to be forfeited prior to the vesting of such awards.

Facility and information technology departmental costs are allocated to other departments based on usage or headcount. Facility and information technology related cost increased by $20.1 million in the three months ended March 31, 2008 compared to the same period in 2007 due to an increase in headcount and the continued build-out of our domestic and international development and test centers and applications to support our internal operations. Facility and information technology related headcount was 234 as of March 31, 2008, compared to 200 as of March 31, 2007. We expect to further invest in our company-wide information technology infrastructure as we implement our operational excellence initiatives.

Although our revenue transactions are primarily denominated in U.S. dollars, operating expenses are denominated in U.S. dollars as well as other foreign currencies including the British Pound, the Euro, Indian Rupee, and Japanese Yen. Changes in related currency exchange rates may affect our operating results. Periodically, we used foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. 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 condensed consolidated statements of operations line item to which the hedged transaction relates. Any ineffectiveness of the hedging instruments is reported in other income (expense) on our condensed consolidated statements of operations. The increase in operating expenses including research and development, sales and marketing, and general and administrative expenses, due to foreign currency fluctuation, was approximately 3% in the first quarter of 2008 compared with the same period in 2007.

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, liabilities and equity at the date of the financial statements and the reported amounts of net revenues, costs 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. Our actual results 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 operating results will be affected.

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

Revenue Recognition;

Contract Manufacturer Liabilities;

Warranty Reserve;

Goodwill and Purchased Intangible Assets;

Stock-Based Compensation;

Income Taxes; and

Loss Contingencies.

Fair Value Accounting

In February 2007, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 expands the use of fair value accounting to eligible financial assets and liabilities. SFAS 159 is effective beginning on January 1, 2008. We evaluated our existing financial instruments and elected not to adopt the fair value option on our financial instruments. As a result, SFAS 159 did not have any impact on our financial condition or results of operations as of and for the three months ended March 31, 2008. However, because the SFAS 159 election is based on an instrument-by-instrument election at the time we first recognize an eligible item or enter into an eligible firm commitment, we may decide to exercise the option on new items when business reasons support doing so in the future which may have a significant impact on our operating results.

Management believes that there have been no significant changes during the three months ended March 31, 2008 to the items that we disclosed as our critical accounting policies and estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007.

Recent Accounting Pronouncements

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

Results of Operations

Net Revenues

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

	Three Months Ended March 31,			
	2008	**2007**	**$ Change**	**% Change**
Net revenues:				
Product	$ 674.2	$ 509.8	$ 164.4	32%
Percentage of net revenues	*81.9%*	*81.3%*		
Service	148.7	117.1	31.6	27%
Percentage of net revenues	*18.1%*	*18.7%*		
Total net revenues	$ 822.9	$ 626.9	$ 196.0	31%

Our total net revenues increase was driven by both higher product and service revenue. Our net revenues increased $196.0 million or 31% to $822.9 million in the three months ended March 31, 2008 compared to the same period in 2007 primarily as a result of increased activity in both Infrastructure and SLT product and service sales to both the service provider and enterprise markets. In particular we had success in selling our Infrastructure products to service providers who are adopting next generation networking (NGN) IP networks, which are designed for higher capacity and efficiency to help reduce total operating costs and to be able to offer multiple services over a single network. In addition, we had a number of new product releases and expanded into emerging markets in prior years that contributed to the increase for the three months ended March 31, 2008.

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

	Three Months Ended March 31,			
	2008	**2007**	**$ Change**	**% Change**
Net Segment revenues:				
Infrastructure product revenue	$ 528.6	$ 385.2	$ 143.4	37%
Percentage of net revenues	*64.3%*	*61.5%*		
Infrastructure service revenue	93.2	75.5	17.7	23%
Percentage of net revenues	*11.3%*	*12.0%*		
Total Infrastructure segment revenues (1)	$ 621.8	$ 460.7	$ 161.1	35%
Percentage of net revenues	*75.6%*	*73.5%*		
SLT product revenue	145.6	124.5	21.1	17%
Percentage of net revenues	*17.7%*	*19.9%*		
SLT service revenue	55.5	41.7	13.8	33%
Percentage of net revenues	*6.7%*	*6.6%*		
Total SLT segment revenues (1)	$ 201.1	$ 166.2	$ 34.9	21%
Percentage of net revenues	*24.4%*	*26.5%*		
Total net revenues	$ 822.9	$ 626.9	$ 196.0	31%

(1) Prior period information has been revised for comparative purposes.

Infrastructure Segment Revenues

Product

Infrastructure product revenue accounted for 64.3% of total net revenues and increased $143.4 million, or 37%, to $528.6 million in first three months of 2008, compared to the same period in 2007. The increase was primarily attributable to revenue growth from our T-, MX-, and M-series product families and to a lesser extent our E320 product driven by our service provider customers continued build out of networks as their bandwidth requirement increased. Other E-series product revenue decreased in the first quarter of 2008 as a result of revenue deferrals in the quarter compared to revenue recognized in first quarter of 2007 for prior year shipments. From a geographical perspective, we experienced strength in the Americas and APAC regions and to a lesser extent in EMEA.

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

	Three Months Ended March 31,			
	2008	**2007**	**Unit Change**	**% Change**
Infrastructure chassis revenue units	3,005	2,487	518	21%
Infrastructure ports shipped	78,649	41,607	37,042	89%

Chassis revenue units increased by 21% in the first quarter of 2008 compared to the same period a year ago primarily due to the increase in revenue from our T-, MX-, and M-series products. Port shipment units increased significantly compared to a year ago driven primarily by the increase in the overall number of chassis revenue units during the first quarter of 2008.

Service

Infrastructure service revenue accounted for 11.3% of total net revenues and increased $17.7 million, or 23%, to $93.2 million in the first three months of 2008, compared to the same period in 2007. The increase was primarily due to an increase in our installed base of equipment being serviced. A majority of our service revenue is earned from customers that purchase our products and enter into service contracts for support service. We also experienced increased professional service revenue due to consulting projects.

SLT Segment Revenues

Product

SLT product revenue accounted for 17.7% of total net revenues and increased $21.1 million, or 17%, to $145.6 million in the first three months of 2008, compared to the same period in 2007. We experienced increases in revenues from Firewall products, which include branch Firewall products as well as high-end Firewall products, and to a lesser extent, increases in revenue from WAN optimization, SSL and J-series products in the first quarter of 2008 compared to the same period a year ago. The integrated systems introduced prior to 2007, such as the ISG and SSG firewall products, gained further traction in the market place with revenue in the quarter from these product lines growing in the quarter compared to same period in 2007. Further, we benefited from our cross-selling efforts to service providers. We experienced revenue increases in the EMEA, APAC and Americas regions.

In January 2008, we announced a plan to phase out our DX product line. These products will be supported until 2013. We do not expect this plan to have a material impact on our condensed consolidated results of operations, cash flows, and financial condition.

The following table shows SLT revenue units recognized:

	Three Months Ended March 31,			
	2008	**2007**	**Unit Change**	**% Change**
Service Layer Technologies revenue units	59,280	56,260	3,020	5%

SLT revenue units increased by 5% in the first quarter of 2008 compared to a growth of 17% in SLT product revenue which was primarily due to the product mix that favored higher priced products in the 2008 period as compared to a year ago.

Service

SLT service revenue accounted for 6.7% of total net revenues and increased $13.8 million, or 33%, to $55.5 million in the first three months of 2008, compared to the same period in 2007. The increase was primarily due to an increase in our installed base of equipment being serviced. A majority of our service revenue is earned from customers that purchase our products and enter into service contracts for support service.

Net Revenues by Geographic Region

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

	Three Months Ended March 31,			
	2008	**2007**	**$ Change**	**% Change**
Americas:				
United States	$ 388.1	$ 279.5	$ 108.6	39%
Other	29.9	15.9	14.0	88%
Total Americas	418.0	295.4	122.6	42%
Percentage of net revenues	*50.8%*	*47.1%*		
Europe, Middle East, and Africa	240.1	209.4	30.7	15%
Percentage of net revenues	*29.2%*	*33.4%*		
Asia Pacific	164.8	122.1	42.7	35%
Percentage of net revenues	*20.0%*	*19.5%*		
Total	$ 822.9	$ 626.9	$ 196.0	31%

Net revenues in the Americas region increased in absolute dollars and as a percentage of total net revenues in the first three months of 2008 compared to the same period in 2007 primarily due to increased sales of our core routers to the service provider market in the United States as our customers continued to focus on increasing network performance,

reliability and scale, slightly offset by some softness in sales to federal government customers. Net revenues in EMEA increased in the first three months of 2008 compared to the same period in 2007 primarily due to revenue growth in multiple countries driven by service provider network build-outs as a result of bandwidth demand. Net revenue in EMEA as a percentage of total net revenue decreased in the 2008 period compared to the 2007 period due to relative strength of the Americas and APAC regions. Net revenues in APAC increased, in absolute dollars and as a percentage of net revenues, in the first three months of 2008 compared to the same period in 2007 primarily due to strength in

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China, Japan and Malaysia driven by bandwidth demand as well as driven by our customers deployment of routing platforms for their next-generation network.

No single customer accounted for greater than 10% of our net revenues during the three months ended March 31, 2008. Siemens and Verizon each accounted for greater than 10% of our net revenues during the same period in 2007.

Cost of Revenues

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

	Three Months Ended March 31,			
	2008	**2007**	**$ Change**	**% Change**
Cost of revenues:				
Product	$ 191.8	$ 154.9	$ 36.9	24%
Gross margin as a percentage of product revenues	*71.6%*	*69.6%*		
Service	73.0	57.2	15.8	28%
Gross margin as a percentage of service revenues	*50.9%*	*51.2%*		
Total cost of revenues	$ 264.8	$ 212.1	$ 52.7	25%
Gross margin as a percentage of net revenues	*67.8%*	*66.2%*		

Cost of product revenues increased $36.9 million in the three months ended March 31, 2008 compared to the same period in 2007, while product gross margin increased by two percentage points in the 2008 period compared to the first quarter of 2007. The increase in absolute dollars was primarily due to higher product costs corresponding to our increases in product revenues.

The increase in product gross margin and product gross margin percentage in the three months ended March 31, 2008 compared to the year ago period primarily due to improved margin from Infrastructure products as a result of favorable product mix driven by revenue from higher margin chassis and port units. We experienced a favorable product mix and derived a larger portion of revenues from richly configured T- and M-series router products as well as revenues from high-margin port shipments, which are add-on components to the chassis routers. The increases in chassis units and port shipments were driven by bandwidth demand as customers are seeking to expand capabilities in their networks and to offer differentiating feature-rich multi-play services that allow them to generate new revenue sources.

The gross margin improvement attributable to these Infrastructure products was partially offset by a slight decrease in our SLT product gross margin in the first quarter of 2008, compared to the same 2007 period. The decrease in SLT product gross margin was primarily due to product mix, particularly from an increase in the mix of lower margin branch Firewall and J-series products in the 2008 period. In addition, higher manufacturing costs associated with newer and more complex products also impacted SLT gross margins. The higher manufacturing costs were partially offset as we realized the benefit of our cost-reduction efforts of moving more manufacturing to lower cost regions.

As of March 31, 2008 and 2007, we employed 198 and 161 people, respectively, in our manufacturing and operations organization that primarily manage relationships with our contract manufacturers, manage our supply chain, and monitor and manage product testing and quality.

Cost of service revenues increased $15.8 million in the three months ended March 31, 2008 from the comparable period in 2007 while service gross margin slightly decreased in the 2008 period. The increase in cost of service revenues and the slight decrease in service gross margin were commensurate with the growth in revenue and our continuing effort to create a world-class customer service operation and the timing of our spares components purchases. Personnel related charges, consisting of salaries, bonus, fringe benefits expenses and stock-based compensation, increased $5.8 million due to an increase in headcount, from 642 to 766 people, in the customer service organization to support growth in service revenues. Additionally, facilities and information technology expenses related to cost of service revenues increased in connection with the growth of service business as a portion of our

overall operations.

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Operating Expenses

The following table shows operating expenses (in millions, except percentages):

	Three Months Ended March 31,			
	2008	2007	$ Change	% Change
Research and development	$ 170.7	$ 141.1	$ 29.6	21%
Sales and marketing	186.0	150.6	35.4	23%
General and administrative	33.6	27.3	6.3	23%
Amortization of purchased intangible assets	25.1	22.7	2.4	11%
Other charges, net		12.6	(12.6)	(100%)
Total operating expenses	$ 415.4	$ 354.3	$ 61.1	17%
Operating income	$ 142.7	$ 60.5	$ 82.2	136%

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

	Three Months Ended March 31,	
	2008	2007
Research and development	20.7%	22.5%
Sales and marketing	22.6%	24.0%
General and administrative	4.1%	4.4%
Amortization of purchased intangible assets	3.1%	3.6%
Other charges, net		2.0%
Total operating expenses	50.5%	56.5%
Operating income	17.3%	9.6%

Research and development expenses increased $29.6 million, or 21%, in the three months ended March 31, 2008 compared to the same period in 2007. The increase was primarily due to strategic initiatives to expand our product portfolio and maintain our technological advantage over competitors. Research and development expenses primarily consist of personnel related expenses and new product testing costs. Personnel related charges, consisting of salaries, bonus, fringe benefits expenses and stock-based compensation, increased $16.0 million due to an increase in headcount, from 2,210 to 2,692 people in the engineering organization to support product innovation intended to capture anticipated future network infrastructure growth and opportunities. Additionally, facilities and information technology expenses related to research and development expenses increased to support these engineering efforts.
Sales and marketing expenses increased $35.4 million, or 23%, in the three months ended March 31, 2008 compared to the same period in 2007. The increase was primarily due to increases in personnel related expenses and marketing expenses. Personnel related charges, consisting of salaries, commissions, bonus, fringe benefits and stock-based compensation expenses increased $14.8 million due to an increase in headcount from 1,633 to 1,919 people in our worldwide sales and marketing organizations. Included in the personnel charges was an increase in commission expense of $3.2 million for the three months ended March 31, 2008 compared to the same period in 2007 due to our higher net revenues. We also increased our investment in corporate and channel marketing efforts from the prior year. As our sales force grew, we also increased facilities and information technology expense related to the sales and marketing organizations in the three months ended March 31, 2008 compared to the same 2007 period.

General and administrative expenses increased $6.3 million, or 23%, in the three months ended March 31, 2008 compared to the same period in 2007. The increase was primarily due to an increase in personnel related expenses and outside professional services. Personnel related charges, consisting of salaries, bonus, fringe benefits and stock-based compensation expenses increased $1.5 million in the three months ended March 31, 2008 compared to same 2007 period due to an increase in headcount in our worldwide general and administrative functions from 253 to 302 people to support the overall growth of the business. Outside professional service fees increased $2.2 million in the 2008 period compared to the same 2007 period as a result of increased legal fees and increased accounting and tax fees. Additionally, facilities and information technology related to general and administrative expenses increased to support our growing business.

Research and development, sales and marketing and general and administrative expenses each decreased as a percentage of net revenues primarily due to our focused execution and cost control initiatives.

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Amortization of purchased intangible assets increased $2.4 million due to the inclusion of an impairment charge of $5.0 million as a result of the phase out of our DX products partially offset by a decrease in amortization expense as certain purchased intangible assets reached the end of the amortization period throughout 2007.
Other charges, net, decreased $12.6 million primarily due to the absence of charges in the three months ended March 31, 2008 that were incurred in the same period a year ago. See Note 4 Other Financial Information under Other Charges, Net in Notes to Condensed Consolidated Financial Statement in Item I of this Form 10-Q, which is incorporated herein by reference.

Interest and Other Income, Net, and Income Tax Provision

The following table shows net interest and other income and income tax provision (in millions, except percentages):

	Three Months Ended March 31,			
	2008	2007	$ Change	% Change
Interest and other income, net	$17.6	$32.9	$(15.3)	(47%)
Percentage of net revenues	2.1%	5.2%		
Income tax provision	49.9	26.8	23.1	86%
Percentage of net revenues	6.1%	4.3%		

Interest and other income, net decreased by $15.3 million in the three months ended March 31, 2008 compared to the same period in 2007 as a result of lower interest rates in the 2008 period as compared to a year ago.
We recorded tax provisions of $49.9 million and $26.8 million for the three months ended March 31, 2008 and 2007, or effective tax rates of 31% and 29%, respectively. The effective tax rate for the three months ended March 31, 2008 differs from the federal statutory rate of 35% and the rate for the same period in 2007 primarily due to earnings in foreign jurisdictions which are subject to lower rates and a reduced benefit from tax credits due to the expiration of the federal R&D credit law at December 31, 2007. Our income taxes payable for federal and state purposes was reduced by the tax benefit from employee stock option transactions. This benefit totaled $4.5 million for the three months ended March 31, 2008 and was reflected as an increase to additional paid-in capital.
Our future effective tax rates could be subject to volatility or adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments related to certain acquisitions including the license of acquired intangibles under our intercompany R&D cost sharing arrangement; by tax effects of stock-based compensation; by costs related to intercompany restructurings; or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service 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.

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Segment Information

A description of the products and services for each segment can be found in Note 7 to the accompanying unaudited Condensed Consolidated Financial Statements, which is incorporated herein by reference.

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

	Three Months Ended March 31,			
	2008 (2)	**2007 (1)**	**$ Change**	**% Change**
Net Revenues:				
Infrastructure:				
Product	$ 528.6	$ 385.2	$ 143.4	37%
Service	93.2	75.5	17.7	23%
Total Infrastructure revenues	621.8	460.7	161.1	35%
Service Layer Technologies:				
Product	145.6	124.5	21.1	17%
Service	55.5	41.7	13.8	33%
Total Service Layer Technologies revenues	201.1	166.2	34.9	21%
Total net revenues	822.9	626.9	196.0	31%
Operating income:				
Infrastructure	191.5	125.9	65.6	52%
Service Layer Technologies	6.2	(2.8)	9.0	321%
Total segment operating income	197.7	123.1	74.6	61%
Other corporate (3)	(4.7)		(4.7)	N/M (4)
Total management operating income	193.0	123.1	69.9	57%
Amortization of purchased intangible assets	(26.5)	(24.1)	(2.4)	(10%)
Stock-based compensation and related payroll tax expense	(23.8)	(25.9)	2.1	8%
Other charges, net		(12.6)	12.6	100%
Total operating income	142.7	60.5	82.2	136%
Interest and other income, net	17.6	32.9	(15.3)	(47%)
Income before income taxes	$ 160.3	$ 93.4	$ 66.9	72%

(1) Prior period amounts have been reclassified to reflect the 2008 segment structure, which

now includes service revenue and operating results in the Infrastructure and SLT segments.

(2) Subsequent to our earnings release call on April 24, 2008, we adjusted our previously reported segment profitability for the three months ended March 31, 2008 which resulted in a $3.0 million increase in the SLT operating income and a corresponding decrease in the Infrastructure operating income.

(3) Other corporate expense represents miscellaneous expenses that have not been allocated to segment operating results.

(4) Not Meaningful.

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

	Three Months Ended March 31,	
	2008 (2)	**2007 (1)**
Net Revenues:		
Infrastructure:		
Product	64.3%	61.5%
Service	11.3%	12.0%
Total Infrastructure revenues	75.6%	73.5%
Service Layer Technologies:		
Product	17.7%	19.9%
Service	6.7%	6.6%
Total Service Layer Technologies revenues	24.4%	26.5%
Total net revenues	100%	100.0%
Operating income:		
Infrastructure	23.3%	20.0%
Service Layer Technologies	0.8%	(0.4%)
Total segment operating income	24.1%	19.6%
Other corporate (3)	(0.6%)	
Total management operating income	23.5%	19.6%
Amortization of purchased intangible assets	(3.2%)	(3.9%)
Stock-based compensation and related payroll tax expense	(3.0%)	(4.1%)
Other charges, net		(2.0%)
Total operating income	17.3%	9.6%
Interest and other income, net	2.1%	5.2%
Income before income taxes	19.4%	14.8%

(1) Prior period amounts have been reclassified to reflect the 2008 segment structure, which now includes service revenue and operating results in the Infrastructure and SLT segments.

(2) Subsequent to our earnings release call on April 24, 2008, we adjusted our previously reported segment profitability for the three months ended March 31, 2008 which resulted in a $3.0 million increase in the SLT operating income and a corresponding decrease in the Infrastructure operating income.

(3) Other corporate expense represents miscellaneous expenses that have not been allocated to segment operating results.

Infrastructure Segment

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

Infrastructure management operating income increased $65.6 million, or 52%, in the three months ended March 31, 2008 to $191.5 million compared to the same period in 2007 due to revenue growth outpacing expense growth. Infrastructure product gross margin percentages improved in the three months ended March 31, 2008 as compared to the same period in 2007. We experienced a favorable product mix and derived a larger portion of revenues from richly configured high-end T-series and M-series router products as well as high-margin port shipments, which are add-on components to the chassis routers. The increases in chassis units and port shipments were driven by bandwidth demand as customers sought to expand capabilities in their networks and to offer differentiating feature-rich multi-play services that allow them to generate new revenue sources.

Our increase in Infrastructure segment gross margin in the three months ended March 31, 2008 compared to a year ago was partially offset by our continued investments in research and development efforts as we sought to continue our innovation of products and expand our Infrastructure product portfolio. We allocate sales and marketing, general and administrative, as well as facility and information technology expenses to the Infrastructure segment generally based upon usage, headcount and revenue. Our sales and

marketing expenses decreased slightly as a percentage of Infrastructure revenues but increased in absolute dollars as we increased our efforts to reach enterprise and service provider customers. We will continue to make investments to expand our product features and functionality based upon the trends in the market place.

SLT Segment

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

SLT management operating income increased by $9.0 million, or 321%, in the three months ended March 31, 2008 to $6.2 million compared to the same period in 2007 primarily due to revenue growth outpacing increases in SLT expenses. SLT product gross margin percentage decreased slightly in the three months ended March 31, 2008 compared to prior year period, primarily due to product mix, particularly from an increase in the mix of lower margin branch Firewall and J-series products in 2008, however gross margin increased in absolute dollars compared to the prior year period. Research and development related costs increased in absolute dollars but decreased as a percentage of SLT revenues in the first quarter of 2008 compared to the same 2007 period primarily due to cost control initiatives that resulted in revenue growing faster than research and development expenses. Additionally, sales and marketing as well as general and administrative expenses as a percentage of SLT revenues decreased primarily attributable to our focused execution. We allocate sales and marketing, general and administrative, as well as facility and information technology expenses to the SLT segment generally based on usage, headcount and revenue. We generally experienced seasonality and fluctuations in the demand for our SLT products, which may result in greater variations in our quarterly revenue.

Amortization of Purchased Intangible Assets, Stock-Based Compensation and Related Payroll Tax Expense, Other Charges, Net, and Interest and Other Income, Net.

See Nature of Expenses and Operating Expenses for further discussion.

Key Performance Measures

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

	Three Months Ended March 31,	
	2008	**2007**
Days sales outstanding (DSO)(a)	40	37
Book-to-bill ratio(b)	>1	>1

(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.

(b) Book-to-bill ratio represents the ratio of

product
bookings
divided by
product
revenues during
the respective
period.

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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, except percentages):

	March 31, 2008	December 31, 2007	$ Change	% Change
Working capital	$ 1,365.0	$ 1,175.3	$ 189.7	16%
Cash and cash equivalents	$ 2,037.4	$ 1,716.1	$ 321.3	19%
Short-term investments	146.8	240.4	(93.6)	(39%)
Long-term investments	42.9	59.3	(16.4)	(28%)
Total cash, cash equivalents and available-for-sale investments	$ 2,227.1	$ 2,015.8	$ 211.3	10%

The significant components of our working capital are cash and cash equivalents, short-term investments and accounts receivable, reduced by accounts payable, income tax payable, accrued liabilities and short-term deferred revenue. Working capital increased primarily due to an increase in cash and cash equivalents balance due to cash generated from operations and the maturity or sale of our available-for-sale investments.

During the three months ended March 31, 2008, we repurchased approximately 2.2 million shares of common stock via open market purchases at an average price of $24.61 per share as part of our $2.0 billion stock repurchase program approved in 2006 and 2007 (the 2006 Stock Repurchase Program). The total purchase price of $53.1 million for these shares was reflected as an increase to accumulated deficit. All common shares repurchased under this program have been retired. As of the filing of this report, we have repurchased and retired approximately 71.6 million common shares under the 2006 Stock Repurchase Program at an average price of $23.41 per share and the program had remaining authorized funds of $323.8 million.

In March 2008, our Board of Directors approved a new stock repurchase program (the 2008 Stock Repurchase Program) which enables us to purchase up to $1.0 billion of our common stock. This new program is in addition to the 2006 Stock Repurchase Program. There were no purchases during the three months ended March 31, 2008 under this program. Subsequent to March 31, 2008 through the filing of this report, we have repurchased and retired approximately 0.6 million common shares under the 2008 Stock Repurchase Program at an average price of $27.96 per share and the program had remaining authorized funds of $984.2 million as of the report filing date.

Share repurchases under our stock repurchase programs will be subject to a review of the circumstances in existence at the time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. These programs may be discontinued at any time.

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 as well as cash generated from the exercise of employee stock options and purchase under our employee stock purchase plan will be sufficient to fund our operations, repayment of outstanding debt, and growth for at least the next 12 months. We believe our working capital is sufficient to meet our liquidity requirements for capital expenditures, commitments and other liquidity requirements associated with our existing operations during the same period.

However, our future 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;

repurchases 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;

possible future investments in raw material and finished goods inventories;

expenses related to our future restructuring plans, if any;

tax expense associated with stock-based awards;

issuance of stock-based awards and the related payment in cash for withholding taxes in the current year and possibly during future years;

the level of exercises of stock options and stock purchases under our equity incentive plans; and

general economic conditions and specific conditions in our industry and markets, including the effects of international conflicts and related uncertainties.

Cash Requirements and Contractual Obligations

Our principal commitments primarily consist of obligations outstanding under the Zero Coupon Convertible Senior Notes due June 15, 2008 (Senior Notes), operating leases, purchase commitments, tax liabilities and other contractual obligations.

Our principal commitment as of March 31, 2008 was our outstanding Senior Notes due June 15, 2008. 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. This is equivalent to a conversion price of approximately $20.14 per share. As of March 31, 2008, the carrying value of the Senior Notes was $399.4 million, which was included in current liabilities as the debt is due in less than one year. In the event the Senior Notes are not converted prior to maturity and we are required to repay the debt, we intend to use our cash balances to fund such repayment.

Our contractual obligations under operating leases primarily relate to our leased facilities under our non-cancelable operating leases. Rent payments are allocated to costs and operating expenses in our condensed consolidated statements of operations. We occupy approximately 1.8 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 January 2017. As of March 31, 2008, future minimum payments under our non-cancelable operating leases, net of committed sublease income, were $232.7 million, of which $51.3 million will be paid over the

remaining nine months of 2008.

In order to reduce manufacturing lead times and ensure adequate component supply, the contract manufacturers place non-cancelable, non-returnable (NCNR) orders for components based on our build forecast. As of March 31, 2008, there were NCNR component orders placed by our contract manufacturers with a value of $139.5 million. We increased our NCNR component orders by $36.7

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million in the first quarter of 2008 to reduce our production lead time. The contract manufacturers use the components to build products based on our forecasts and on purchase orders we have received from our customers. Generally, we do not take ownership of the components and title to the products transfers from contract manufacturers to us and immediately to our customers upon delivery at a designated shipment location. If the components go unused or the products go unsold for specified periods of time, we may incur carrying charges or obsolete materials charges for components that our contract manufacturers purchased to build products to meet the Company s forecast or customer orders. As of March 31, 2008, we had accrued $24.1 million based on our estimate of such charges.

As of March 31, 2008, we had $63.7 million of long-term liabilities in our condensed consolidated balance sheet for unrecognized tax positions. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond the next 12 months due to uncertainties in the timing of tax audit outcomes.

As of March 31, 2008, other contractual obligations consisted primarily of an indemnity-related escrow amount of $2.3 million and bonus accrual of $0.7 million in connection with past acquisitions, a software subscription requiring payment of $5.0 million in January 2009 and a joint development agreement requiring quarterly payments of $3.5 million through January 2010. Additionally, in the first quarter of 2008, we entered into an $11.1 million consulting project for our customer relationship management (CRM) and enterprise resource planning (ERP) systems requiring payments of $5.0 million in the second quarter of 2008. As of March 31, 2008, $8.8 million of this consulting agreement remained unpaid. We also estimated an additional spending of approximately $50.0 million through 2009 for the implementation of our CRM and ERP systems.

We generated cash and cash equivalents of $321.3 million in the three months ended March 31, 2008, of which $254.9 million was generated from our operating activities and $76.0 million was generated from investing activities. The increase was partially offset by a $9.6 million net cash used in financing activities.

Operating Activities

We generated cash from operating activities of $254.9 million in the three months ended March 31, 2008 compared to $151.5 million in the same period of 2007. The increase of $103.4 million in the 2008 period compared to a year ago is chiefly due to the following activities within the quarter:

Net income of $110.4 million in the three months ended March 31, 2008 compared to $66.6 million in the same 2007 period due to revenue growth and decreases in expenses as a percentage of net revenues.

Cash inflow of $10.7 million due to a decrease in net accounts receivable in the first quarter of 2008 as a result of improved collection efforts. In the first quarter of 2007, we had a cash outflow of $7.6 million due to an increase in net accounts receivable as a result of revenue deferral according to our revenue recognition policy.

Cash inflow of $52.7 million due to an increase in deferred revenue. Our deferred revenue balances increased by $52.7 million in the three months ended March 31, 2008 as compared to an increase of $24.6 million for the three months ended March 31, 2007. This increase in cash inflow is due to the growing installed base and customer payments in advance of product acceptance.

Cash inflow of $32.2 million primarily due to increases in other payables and liabilities. In particular, our income taxes payable and long-term tax reserve liabilities increased by $37.2 million in the three months ended March 31, 2008, compared to the same 2007 period, due to the timing of payments and settlement of audits for federal, state and foreign income taxes.

Investing Activities

Net cash provided by investing activities was $76.0 million and $303.0 million for the three months ended March 31, 2008 and 2007, respectively. The decrease of $227.0 million in the first quarter of 2008 compared to the prior year period was primarily due to the movement of cash from short and long-term investments to cash and cash equivalents during the first quarter of 2007 in anticipation of stock repurchases under the 2006 Stock Repurchase Program. In the first quarter of 2008, we moved cash from our available-for-sale investments based upon our investment strategy.

Financing Activities

Net cash used in financing activities was $9.6 million and $13.0 million for the three months ended March 31, 2008 and 2007, respectively. In the first quarter of 2008, we used $53.1 million to repurchase our common stock, compared to the $29.1 million repurchases in the same 2007 period, partially offset by cash proceeds of $41.2 million from common stock issued to employees. In the first quarter of 2007, we generated less cash from issuance of common stock to employees as a result of the restrictions on employee option exercises through March 9, 2007.

Factors That May Affect Future Results

A description of the risk factors associated with our business is included under Risk Factors in Item 1A of Part II of this report.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

We maintain an investment portfolio of various holdings, types and maturities. The values of our investments are subject to market price volatility. In addition, a portion of our cash and marketable securities are held in non-U.S. domiciled countries. These securities are generally classified as available-for-sale and, consequently, are recorded on our condensed 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. We recognized immaterial net gains or losses during the first three months of 2008 and 2007 related to the sales of our investments.

Foreign Currency Risk and Foreign Exchange Forward Contracts

Periodically we 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.

Our sales and costs of revenues are primarily denominated in U.S. dollars. Our operating expenses are denominated in U.S. dollars as well as other foreign currencies including the British Pound, the Euro, Indian Rupee and Japanese Yen. Periodically, we use foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to 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 three months ended March 31, 2008 and 2007, in other income (expense) on our condensed consolidated statements of operations. Research and development, sales and marketing, as well as general and administrative expenses slightly increased in the three months ended March 31, 2008, compared with the same periods in 2007, due to the effect of foreign currency fluctuations.

Equity Price Risk

Our portfolio of publicly-traded equity securities is inherently exposed to equity price risk as the stock market fluctuates. We monitor our equity investments for impairment on a periodic basis. In the event that the carrying value of the equity investment exceeds its fair value, and we determine the decline in the value to be other than temporary, we reduce the carrying value to its current fair value. We do not purchase our equity securities with the intent to use them for trading or speculative purposes. The aggregate fair value of our marketable equity securities was $6.9 million and $8.6 million as of March 31, 2008 and December 31, 2007, respectively. A

hypothetical 30% adverse change in the stock prices of our portfolio of publicly- traded equity securities would result in an immaterial loss.

In addition to publicly-traded securities, we have also invested in privately-held companies. These investments are carried at cost. The aggregate cost of our investments in privately-held companies was $25.3 million and $23.3 million as of March 31, 2008 and December 31, 2007, respectively.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the CEO and CFO concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that material information relating to our consolidated operations is made known to our management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

Changes in Internal Controls

In 2007, we initiated a multi-year implementation to upgrade certain key internal systems and processes, including our company-wide human resources management system, CRM system and our ERP system. This project is the result of our normal business process to evaluate and upgrade or replace our systems software and related business processes to support our evolving operational needs. There were no changes in our internal control over financial reporting that occurred during the first quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Our controls and procedures are designed to provide reasonable assurance that our control system s objective will be met and our CEO and CFO have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

The information set forth under Legal Proceedings section in Note 9 Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Item 1 Part I of this Quarterly Report on Form 10-Q, is incorporated herein by reference.

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, and have triggered significant fluctuations in the market price of our common stock. Investors in our securities should carefully consider all of the relevant factors, including, but not limited to, the following factors, that could affect our stock price.

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

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

The factors that may affect the unpredictability of our quarterly results include, but are not limited to, limited visibility into customer spending plans, changes in the mix of products sold, 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.

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.

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

Telecommunications service provider companies and other large companies, because of their size, generally have 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. Consolidation among such large customers can further increase their buying power and ability to require onerous terms.

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

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 increase costs or could delay or interrupt manufacturing of our products and result in delays in shipments and deferral or loss of revenues.

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

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, from time to time, including the first quarter of 2008, we have experienced component shortages that resulted in delays of product shipments. We currently purchase numerous key components, including ASICs, from single or limited sources. The development of alternate sources for those components is time consuming, difficult and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. In the event of a component shortage or supply interruption from these suppliers, we may not be able to develop alternate or second sources in a timely manner. If, as a result, we are unable to buy these components in quantities sufficient to meet our requirements on a timely basis, we will not be able to deliver product to our customers, which would seriously 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 on independent contract manufacturers (each of which is a third party manufacturer for numerous companies) to manufacture our products. Although we have contracts with our contract manufacturers, those contracts do not require them to

manufacture our products on a long-term basis in any specific quantity or at any specific price. In addition, it is time consuming and costly to qualify and implement additional contract manufacturer relationships. Therefore, if we should fail to effectively manage our contract manufacturer relationships or if one or more of them should experience delays, disruptions or quality control problems in our manufacturing operations, or if we had to change or add additional contract manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed. Also, the addition of manufacturing locations or contract manufacturers would increase the complexity of our supply chain management. Moreover, an increasing portion of our manufacturing is performed in China and other countries and is therefore subject to risks associated with doing business in other countries. Each of these factors could adversely affect our business and financial results.

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

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

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

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

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

If we do not successfully anticipate market needs and 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 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. For example, in the first quarter of 2008, we announced new products designed to address the Ethernet switching market, a market in which we have not had a historical presence. If these new products do not gain market acceptance at a sufficient rate of growth, or at all, our ability to meet future financial targets may be adversely affected. Any failure of our products to achieve market acceptance could adversely affect our business and financial results.

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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, in April 2007 our largest customer, Siemens, transferred 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.

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, Extreme Networks, Foundry Networks, 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 and markets 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 and markets that our products address.

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 combined with Lucent in 2006 and Ericsson acquired Redback in 2007. 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.

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. While no single customer accounted for greater than 10% of our net revenues during the three months ended March 31, 2008, Siemens and Verizon each accounted for greater than 10% of our net revenues during the three months ended March 31, 2007. 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, in recent years there has been consolidation in the telecommunications industry (for example, the

acquisitions of AT&T Inc., MCI, Inc. and BellSouth Corporation) and consolidation among the large vendors of telecommunications equipment and services (for example, the combination of Alcatel and Lucent, the joint venture of Nokia-Siemens Networks 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 are a party to lawsuits, which are costly to investigate and defend and, if determined adversely to us, could require us to pay damages or prevent us from taking certain actions, any or all of which could harm our business 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, 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 above in Note 9 Commitments and Contingencies in Notes to Condensed Consolidated Financial Statements under the heading Legal Proceedings. There can be no assurance that these or any actions that have been or may be brought against us will be resolved in our favor. 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, settle and/or resolve. Such costs of investigation and defense, as well as any losses resulting from these claims or settlement of these claims, could significantly increase our expenses and adversely affect our profitability and cash flow.

In addition, we are party to a lawsuit which seeks to enjoin us from granting equity awards under our 2006 Equity Incentive Plan (the 2006 Plan), as well as to invalidate all awards granted under such plan to date. The 2006 Plan is the only active plan under which we currently grant stock options and restricted stock units to our employees. If this lawsuit is not resolved in our favor, we may be prevented from using the 2006 Plan to provide these equity awards to recruit new employees or to compensate existing employees, which would put us at a significant disadvantage to other companies that compete for workers in high technology industries such as ours. Accordingly, our ability to hire, retain and motivate current and prospective employees would be harmed, the result of which could negatively impact our business operations.

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

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

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

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

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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 U.S. 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 U.S. Dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in U.S. 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. However, no amount of hedging can be effective against all circumstances, including long-term declines in the value of the U.S. Dollar. If our attempts to hedge against these risks are not successful or if long-term declines in the value of the U.S. Dollar persist, our net income could be adversely impacted.

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

Our future effective tax rates could be subject to volatility or adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments related to certain acquisitions including the license of acquired intangibles under our intercompany R&D cost sharing arrangement; by tax effects of stock-based compensation; by costs related to intercompany restructurings; or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service 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.

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 and other equity awards 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, and will significantly harm our operating results in future periods. This 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.

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

Our historical stock option granting practices and the restatement of our 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 Note 9 Commitments and Contingencies in Notes to Condensed Consolidated Financial Statements under the heading Legal Proceedings as well as the other risk factors related to litigation set forth in this section. We have provided the results of our internal review and independent investigation to the Securities and Exchange

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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. In August 2007, we announced that we entered into a settlement agreement with the SEC in connection with our historical stock option granting practices in which we consented to a permanent injunction against any future violations of the antifraud, reporting, books-and-records and internal control provisions of the federal securities laws. This settlement concluded the SEC s formal investigation of the Company with respect to this matter. In addition, while we believe that we have made appropriate judgments in determining the correct measurement dates for our stock option grants, the SEC may disagree with the manner in which we accounted for and reported, or did not report, the corresponding financial impact. We are also subject to civil litigation related to the stock option matters. No assurance can be given regarding the outcomes from litigation or other possible government actions. The resolution of these matters will be time consuming, expensive, and may distract management from the conduct of our business. Furthermore, if we are subject to adverse findings in litigation or if we enter into any settlements related thereto, 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.

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 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, cannot 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.

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

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

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.

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.

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 five private companies. Acquisitions involve numerous risks, including problems combining the purchased operations, technologies or products, unanticipated costs, diversion of management s attention from our core businesses, adverse effects on existing business relationships with suppliers and customers, risks associated with entering markets in which we have no or limited prior experience and potential loss of key employees. There can be no assurance that we will be able to 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. 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.

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, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business and results of operations. Also, in the event an error, defect or vulnerability is attributable to a component supplied by a third-party vendor, we may not be able to recover from the vendor all of the costs of remediation that we may incur. In addition, we could face claims for product liability, tort or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management s attention. In addition, if our business liability insurance coverage is inadequate or future coverage is unavailable on acceptable terms or at all, our financial condition 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.

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

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

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.

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. In addition, our research and development and our general and administrative operations are conducted in the United States as well as other countries. 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.

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.

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.

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

The telecommunications industry is highly regulated and our business and financial condition could be adversely affected by changes in the regulations relating to the telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or commerce on IP networks. We could be adversely affected by regulation of IP networks and commerce in any country where we operate. Such regulations could address matters such as voice over the Internet or using 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.

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 test annually, and review on an interim basis, our goodwill and intangible assets with indefinite lives, including the goodwill associated with past acquisitions and any future acquisitions, to determine if impairment has occurred. If such assets are deemed impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized. This would result in incremental expenses for that quarter which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred. For example, such impairment could occur if the market value of our common stock falls below certain levels for a sustained period or if the portions of our business related to companies we have acquired fail to grow at expected rates or decline. In the second quarter of 2006, 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 our market capitalization that occurred over a period of approximately nine months prior to the impairment review and, to a lesser extent, a decrease in the forecasted future cash flows used in the income approach. 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.

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

At March 31, 2008, we had $2,037.4 million in cash and cash equivalents and $189.7 million in short- and long-term investments. We have invested these amounts primarily in U.S. government securities, corporate notes and bonds, commercial paper, and money market funds meeting certain criteria. Certain of these investments are subject to general credit, liquidity, market and interest rate

risks, which may be exacerbated by U.S. sub-prime mortgage defaults that have affected various sectors of the financial markets and caused credit and liquidity issues. These market risks associated with our investment portfolio may have a negative adverse effect on our results of operations, liquidity and financial condition.

Uninsured losses could harm our operating results.

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

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

There were no unregistered sales of equity securities during the period covered by this report.

(c) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid per Share	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
January 1 January 31, 2008		$		$	$ 376,810,876
February 1 February 29, 2008	2,156,158	24.61	2,156,158	24.61	323,754,214
March 1 March 31, 2008					1,323,754,214
Total	2,156,158	$24.61	2,156,158	$24.61	$1,323,754,214

(1) In July 2006 and February 2007, the Company s Board of Directors (the Board) approved a stock repurchase program (the 2006 Stock Repurchase Program). This program authorizes the Company to

purchase up to a total of $2.0 billion of the Company s common stock. In addition, during March 2008, the Board approved a new stock repurchase program (the 2008 Stock Repurchase Program) which enables the Company to purchase up to $1.0 billion of the Company s common stock. This new program is in addition to the 2006 Stock Repurchase Program. During the three months ended March 31, 2008, the Company repurchased and retired 2,156,158 shares of common stock at an average price of $24.61 per share under the 2006 Stock Repurchase Program. There were no purchases during the three months ended March 31, 2008 under the 2008 Stock Repurchase Program. Purchases under

these programs will be subject to a review of the circumstances in place at the time. Acquisitions under this stock repurchase program will be made from time to time as permitted by securities laws and other legal requirements. These programs may be discontinued at any time.

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Item 6. ***Exhibits***

Exhibit Number	Description of Document
3.1	Juniper Networks, Inc. Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 27, 2001)
3.2	Amended and Restated Bylaws of Juniper Networks, Inc. (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 19, 2007)
10.1	Summary of Compensatory Plans and Arrangements adopted on February 26, 2008 (incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2008)
10.2	Form of India Stock Option Agreement under the Juniper Networks, Inc. 2006 Equity Incentive Plan
10.3	Form of India Restricted Stock Unit Agreement under the Juniper Networks, Inc. 2006 Equity Incentive Plan
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Juniper Networks, Inc.

May 9, 2008

By: /s/ Robyn M. Denholm
Robyn M. Denholm
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)

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