

JUNIPER NETWORKS INC

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 03/29/00 for the Period Ending 12/31/99

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Sector	Technology
Fiscal Year	12/31

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Telephone	650-526-8000
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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____ .

COMMISSION FILE NUMBER 0-26339

JUNIPER NETWORKS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

77-0422528
(I.R.S. EMPLOYER IDENTIFICATION NO.)

385 RAVENDALE DRIVE MOUNTAIN VIEW, CA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

94043
(ZIP CODE)

(650) 526-8000

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
NONE	NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, \$.00001 PAR VALUE
(TITLE OF CLASS)

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

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

As of March 7, 2000, there were 156,504,433 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant (based on the closing price for the Common Stock on the Nasdaq National Market on March 7, 2000) was approximately \$29,023,901,284.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to specified portions of the Registrant's definitive Proxy Statement to be issued in conjunction with the Registrant's 2000 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended December 31, 1999.

JUNIPER NETWORKS, INC.
ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1 BUSINESS

OVERVIEW

We are a leading provider of Internet infrastructure solutions that enable Internet service providers and other telecommunications service providers, to meet the demands resulting from the rapid growth of the Internet. We deliver next generation Internet backbone routers that are specifically designed, or purpose-built, for service provider networks and offer our customers increased reliability, performance, scalability, interoperability and flexibility, and reduced complexity and cost compared to current alternatives. Our flagship product is the M40 Internet backbone router, and we recently introduced the M20, an Internet backbone router purpose-built for emerging service providers. Our Internet backbone routers combine the features of our JUNOS Internet Software, high performance ASIC-based packet forwarding technology and Internet-optimized architecture into a purpose-built solution for service providers. Unlike conventional routers, which were originally developed for enterprise applications and are increasingly inadequate for service provider use in public networks, our Internet backbone routers are specifically designed to accommodate the size and scope of the Internet.

INDUSTRY BACKGROUND

The Internet has evolved from an academic research project into a network of hundreds of separately administered, public and private networks interconnected using Internet Protocol (IP). IP traffic is growing exponentially, driven by increasing numbers of new users, connected devices and Internet transactions. The result of the widespread use of IP is a ubiquitous network that today carries a large and growing amount of data traffic enabling millions of users to share information and conduct electronic commerce. Industry research firms, forecast continued dramatic growth worldwide in the Internet and Internet traffic. The importance of IP continues to increase as the number of users, connected devices and transactions over the Internet grows. This growth highlights the potential for the Internet to replace the traditional telephone network and the pervasive public network.

The rapid adoption of the Internet and the tremendous growth of IP traffic have prompted service providers to construct large scale data networks. These networks are being optimized to transport data traffic as compared to traditional telephone networks, which were optimized to transport voice traffic. The architecture of these next generation networks is being driven by two key technologies: packet/cell switching and optical networking.

Advantages of Packet/Cell Switching. Packet/cell switching technology, which divides data traffic into distinct units called packets or cells and routes each packet or cell independently, provides superior use of available network capacity compared to traditional circuit switching technology. In a circuit switched network, each data stream, such as a voice telephone call between two points, is provided with a dedicated channel, or circuit, for the duration of the telephone call. This approach leads to inefficient use of network resources because a channel is fully dedicated to each transaction, whether or not data is actually flowing at any given moment. As a result, a circuit switched architecture is highly inefficient for Internet applications which tend to create large bursts of data traffic followed by long periods of silence. Packet/cell switching architectures enable greater utilization out of a fixed capacity circuit by combining traffic that has different capacity demands of the circuit at different times. Packet/cell switches more efficiently fill the available network bandwidth with packets of data from many users, thereby reducing the wasted bandwidth due to silence from any one particular user. The use of packet/cell switching is driving the architecture of the Internet to be fundamentally different from traditional circuit switched voice based networks. In packet/cell switched networks, IP has emerged as the de facto standard for providing services to end users. Primary packet/cell switching products include frame relay switches, ATM switches and routers.

Rapid Advances in Optical Networking. Optical networking technology uses pulses of light, rather than pulses of electricity, to transmit data in a network, and uses fiber optic connections instead of wires. Optical networking can be used to transmit much more information over a given connection than electrical signals can

convey. Optical networking advances, such as dense wavelength division multiplexing, or DWDM, which allows transmission of several frequencies of light over one strand of optical fiber, have enabled still higher data transmission rates and improved efficiency of bandwidth utilization. Currently available DWDM technology enables the transmission of up to 128 frequencies which allows a service provider to multiply the transmission capacity of a fiber optic network by a factor of up to 128.

Packet/Cell Technologies Have Not Kept Up With Optical Technologies. Many service providers are installing DWDM equipment and are increasingly focusing on combining IP and optical networking technologies. However, traditional packet switching equipment is not capable of forwarding packets at rates sufficient to keep pace with optical transmission speeds. As affordable fiber optic transmission capacity becomes widely available, the performance and complexity of current packet/cell switching architectures is increasingly constraining the growth of the Internet.

THE NEW REQUIREMENTS OF THE INTERNET

The reliability and performance of current Internet infrastructure equipment have become critical issues for service providers as they continue to support dramatic growth in IP traffic and increasingly seek to offer new revenue generating, mission-critical services, such as Virtual Private Networks, or (VPNs), and voice-over IP. New requirements for next generation networks are driving a set of new requirements for Internet infrastructure equipment, including:

- high reliability;
- high performance;
- high performance under stressful conditions;
- scalability;
- interoperability;
- reduced complexity; and
- cost effectiveness.

High Reliability. As businesses and consumers increasingly rely on the Internet for mission-critical applications, high network reliability becomes essential. Service providers are increasingly expected to provide a similar degree of reliability on the Internet that users have become accustomed to on the traditional telephone network. The "five nines" (99.999%) reliability standard of the traditional telephone network is becoming the target to which suppliers of next-generation Internet platforms are being compared. As service providers begin to bundle voice and data on their networks, this high degree of reliability is becoming even more critical.

High Performance. To handle the rapid growth in IP traffic, today's networks increasingly require routers that can operate at interface speeds as high as 2.5 billion bits of information per second (Gbps), and in the near future, 10 Gbps. The processing of data packets at these high speeds requires sophisticated forwarding technology to inspect each packet and assign it to a destination based on priority, data type and other considerations. Since a large number of IP packets, many of which perform critical administrative functions, are small in size, high performance Internet routers need to achieve their specified transmission speeds even for small packet sizes. Since smaller packets increase packet processing demands, routing large numbers of smaller packets tends to be more resource intensive than routing of larger packets. Routers based on general-purpose microprocessors traditionally are unable to forward small packets at maximum rates, and, as a consequence, fail to operate at wire speed, which results in data loss, packet retransmission and network instability. A wire speed router, which achieves its specified transmission rate for any type of traffic passing through it, can accomplish this task. Unlike the enterprise environment, where network capacity is relatively inexpensive and service quality requirements are not as demanding, the additional capacity and related costs of network bandwidth and low service levels resulting from retransmission of dropped packets are increasingly

unacceptable to service providers. Thus, provisioning of mission-critical services increasingly requires the high performance enabled by wire speed processing.

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

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

Interoperability. Service providers do not have the time or inclination to change their existing networks to favor introduction of new products; rather, new products must be compatible with the existing environment. Given the open and inter-connected nature of the Internet, the complexity of running an Internet backbone network requires a service provider to control and police relations with other service providers. For example, service providers must carefully control what traffic is accepted under what conditions from other providers. Major service providers connect their respective networks via peering arrangements, in which service providers agree to exchange traffic with one another. These arrangements are prone to abuse, such as the illicit use by one service provider of another service provider's backbone to carry excess traffic. Service provider relationships are controlled by a set of rules called policies, implemented through a data protocol called Border Gateway Protocol 4, or BGP4. The software in each router must offer 100% compatibility with all aspects of BGP4, as well as 100% compatibility with the interior protocols and standards used within each service provider's backbone network. The compatibility level must be maintained despite changes to software equipment configuration and network architecture and upgrades to the various protocol standards. Thus, routing software must be flexible and quickly upgradeable to support any necessary revisions. This level of compatibility, in turn, cannot impact the performance, scalability or reliability of the equipment. Attaining this sophisticated level of interoperability is highly challenging and requires significant testing to ensure compatibility.

Reduced Complexity. Today's Internet architectures are highly complex. Since traditional routers have not fully met service providers' needs, many service providers have tried to improve Internet backbone performance by adding additional network devices such as ATM switches in the core of the network. As a result, service providers have built networks with ATM switches surrounded by an overlay network of lower capacity routers. These different layers of equipment lead to higher capital costs and the need to manage distinct network elements. ATM switches are also poorly suited to carrying IP traffic, which results in inefficient use of network bandwidth. Moreover, this network design can cause unpredictable router behavior during periods of stress because the routers are not aware of the ATM backbone infrastructure and thus cannot quickly converge if there is a partial network outage.

Cost Effectiveness. Exponential growth in IP traffic and intense price competition in the telecommunications market is increasingly requiring service providers to seek solutions that significantly reduce the capital expenditures required to build and operate their networks. In addition to the basic cost of equipment such as routers, service providers incur substantial ancillary costs in terms of space required to deploy the equipment, power consumption and on-going operations and maintenance. Service providers therefore want to deploy dense and varied equipment configurations in limited amounts of rack and floor space. Currently, service providers are moving from OC-3 (155 million bits per second, or Mbps) and OC-12 (622 Mbps) speed

networks at the core to higher capacity OC-12 and OC-48 (2.5 gigabits per second, or Gbps) speed networks. In turn, the connections from each PoP to the core are evolving from 100 Mbps and OC-3 speeds to gigabit and OC-12 transmission rates. Therefore, in order to continue to scale their networks toward higher data speeds in a cost effective manner, service providers need the ability to mix and match easily many different speed connections at appropriate densities, without significantly increasing the consumption of space or power.

There is a clear need for next generation routers that can support high speeds and offer new IP-based services. Network operators are eagerly seeking new solutions that increase the level of scalability and reliability within their networks and reduce the cost and complexity of their architectures.

THE JUNIPER NETWORKS SOLUTION

We develop, market and sell what we believe is the first commercially available purpose-built Internet backbone router optimized for the specific high performance needs of service providers. Our flagship product, the M40 Internet backbone router, combines the features of our JUNOS Internet Software, high-performance ASIC-based packet forwarding technology and Internet-optimized architecture. As the need for core bandwidth has continued to increase, it created the need for service rich platforms at the edge of the network. In December 1999 we introduced the M20 backbone router, purpose-built to alleviate capacity demand on access points in the PoP. The M40 router operates at the Internet's core while the M20 router extends purpose-built performance capability to service provider entry points. The M20 router is also a cost-efficient solution for new and emerging IP carriers (smaller service providers) capable of enabling a high-bandwidth core and high-speed services for the service provider edge in one device.

The M40 and M20 platforms share common software and services, and common ASIC technology for full compatibility and scalability. Critical service provider applications including high-speed access, peering, and hosting are served by both platforms. Physical interfaces are interchangeable between platforms, increasing user flexibility and allowing common sparing.

JUNOS Internet Software. Our Internet software, called JUNOS, is one of our key competitive differentiators. JUNOS is designed to meet the IP network routing, operations and control requirements of the world's largest service providers and is an integral component of our product family system architecture. The ability of JUNOS to manage the complex network sharing relationships among service providers allows our products to be placed at critical points in the core of a service provider's network. The JUNOS Internet Software allows our products to have widespread network placement due to its interoperability with Cisco's Internetwork Operating System, or IOS, currently the most broadly deployed routing operating system. The ability to coexist has enabled the M40 to achieve successful deployment where other products in the past have failed.

Unconstrained by legacy routing software, we developed JUNOS using a modular design, in which distinct functions are implemented as separate modules with well defined interfaces and interactions, simplifying troubleshooting and maintenance. JUNOS operates in protected memory mode. These features keep functionality distinct, and minimize the impact of any failure that may occur to the specific software application in which the failure occurs. Also, we believe JUNOS' software modularity will enable the continuous upgrade of new enhanced capabilities, while protecting reliability and compatibility with existing networks. The design and development of the JUNOS Internet Software has been possible due to the significant Internet engineering expertise of our development team. Our expert engineers have authored or co-authored 22 Requests for Comments, which are documents by industry experts that define major standards for Internet protocols.

High Performance ASIC-based Packet Forwarding Technology. The M40 Internet backbone router contains five major application specific integrated circuits that we designed and built using the most advanced ASIC technology. These ASICs contain over five million gates in total, with three of the designs each having a larger number of transistors than the Intel Pentium II microprocessor. The result is a system that is substantially faster than today's general purpose microprocessor based routers in its ability to process and forward IP packets, allowing our products to deliver high performance at wire speed. The ability to enhance and implement large scale ASICs will be a long-term differentiator for us, particularly as the sophistication

required to forward traffic across higher speed networks increases. As with the introduction of the M20, we expect to continue to leverage our existing ASIC technology in future products and continue to capitalize on our advanced ASIC design capabilities.

Internet Optimized Architecture. As purpose-built Internet backbone routers, our products employ an architecture designed exclusively for the Internet. The system architecture provides a clean separation between the routing and packet-forwarding functions. Separating these two functions enables us to develop independently a full-featured routing protocol and traffic engineering functionality through our JUNOS Internet Software and wire speed packet forwarding performance through high performance ASICs. Furthermore, with the routing and forwarding functions segregated, the products do not sacrifice performance, even when there is a failure in the network. When a failure occurs, JUNOS detects the failure and is able to quickly converge to the new state of the network while the ASICs continue to forward packets at wire speed until they receive updated routes from JUNOS.

The key benefits of our solution are:

- carrier class reliability;
- wire speed performance;
- scalability;
- interoperability;
- flexibility;
- reduced complexity; and
- cost effectiveness.

Carrier Class Reliability. Our products' system architecture provides reliable operation for service providers in large complex networks even under abnormal conditions. This architecture, combined with JUNOS' modular software design, limits the impact of a failure to the specific software application. In addition, the hardware used in our products has been designed with a very high level of integration to maximize the mean time between failure. Moreover, data and instructions have appropriate error correction and parity checks in memory to guarantee their integrity.

Wire Speed Performance. We believe the M40 is the first Internet backbone router that can forward minimum-sized IP packets over OC-48 links at wire speed. This maximizes network stability and the capacity utilization of expensive wide area circuits. In contrast to available solutions, the M40 is able to maintain packet forwarding rates and to avoid dropping significant numbers of packets when active routes are lost or when large numbers of routes change.

Scalability. Our JUNOS Internet Software is designed to accommodate service providers' scale requirements. In addition, the ASIC interface links have been oversized, enabling the M40 to easily scale with growing levels of data traffic. We believe our software and ASIC designs represent a competitive advantage, because it is very difficult for existing vendors to graft these capabilities to their prior generation designs.

Interoperability. The M40 has demonstrated consistent interoperability with existing network infrastructures. Our internal test environments confirm interoperability with Cisco routers, a variety of leading ATM and Gigabit Ethernet switches and SONET add drop multiplexers. Deployment of the M40 at several major carriers has demonstrated that JUNOS is interoperable with installed Cisco routers for both routing and administration. In addition, JUNOS enables service providers to manage their complex peering relationships with other service providers despite frequent software, equipment configuration and network architecture changes.

Flexibility. Our ASICs are programmable and provide the flexibility to add support for new protocols or changes in existing protocols. Since JUNOS is modular in architecture and already supports existing and emerging protocols, it is also a platform for efficiently introducing new interfaces and new services in the network.

Reduced Complexity. Our products are purpose-built for service providers and allow a simple and more structured approach to building Internet backbones compared to the complex topologies in place today. With the M40 and the M20, service providers can build more efficient networks with less dependence on devices like ATM switches, which reduce the operational burdens of running multiple distinct network layers.

Additionally, our products offer a thorough implementation of traffic engineering based on MPLS, including the ability to dynamically adapt traffic flows according to rules adopted by the network operator. Traffic engineering refers to a set of capabilities for understanding underlying traffic trends in the network and maximizing the utilization of the network on multiple dimensions.

Cost Effectiveness. We have integrated these customer benefits into a system that provides critical routing and forwarding functions at lower overall cost. Our products' wire speed performance allows service providers to reduce network operating cost by making more efficient use of their networks. In addition, we designed the M40 to support a broad variety and density of interfaces in a unit that occupies half a typical telecommunications rack. As a result, service providers can cost effectively deploy the M40, which can be easily upgraded, to connect to a variety of speed and circuit types at the network core.

THE JUNIPER NETWORKS STRATEGY

Our objective is to become the primary supplier of high performance Internet backbone infrastructure. The key elements of our strategy include:

- leverage early lead as supplier of purpose-built Internet infrastructure;
- work very closely with key customers;
- increase penetration at major service providers;
- leverage early success to penetrate new customers rapidly;
- expand sales and distribution network;
- maintain and extend technology leadership; and
- enable new IP-based services.

Leverage Early Lead as Supplier of Purpose-Built Internet Infrastructure. From inception we have focused solely on designing and building Internet infrastructure for service providers. We have integrated purpose-built software and hardware into an Internet optimized architecture that specifically meets service providers' needs and have seen significantly positive initial responses from our existing and potential customers. We believe that many of these customers will deploy Internet backbone infrastructure equipment from only a few vendors. The purpose-built advantages of our products provide us with a time-to-market lead, which is a critical advantage in gaining rapid penetration as one of these selected vendors. Once our products are widely deployed in a service provider's network as the primary or even secondary Internet backbone infrastructure equipment, we believe we create a significant barrier to entry to potential competitors who do not currently offer commercially-viable next generation routing solutions.

Work Very Closely with Key Customers. In developing our products, including our JUNOS Internet Software, we worked very closely with customers to design and build a product specifically to meet their complex needs. Since JUNOS has been available and used by our customers for over a year, we understand clearly the challenges facing these carriers, enabling us to subsequently design additional features and capabilities into both our software and hardware. We believe our close relationships with, and constant feedback from, our customers have been key elements in our design wins and rapid deployment to date. We plan to continue to work very closely with our key customers to implement enhancements to current products as well as to design future products that specifically meet their evolving needs. We are also actively involved with these customers in developing key standards, such as MPLS, and are an active participant in standards organizations such as the Internet Engineering Task Force and the Optical Internetworking Forum.

Increase Penetration at Major Service Providers. Our initial focus has been to penetrate several of the largest service providers, where operators have the technical sophistication, resources and desire to test and evaluate our solution against potential alternatives. While we have received initial orders from major service providers, such as UUNet (MCI Worldcom), Cable & Wireless, AT&T/IBM Global Services, Frontier GlobalCenter and Verio, we believe that there is a significant opportunity to further penetrate these large and complex networks given the advantages of our products. As the growth of the Internet requires these service providers to continue to build their networks and replace outdated equipment, we will pursue further opportunities to capture greater market share within these large accounts.

Leverage Early Successes to Penetrate New Customers Rapidly. We believe that the Internet infrastructure equipment buying patterns of the medium and smaller-sized service providers typically lag behind those of the larger service providers. Since the network challenges that the large service providers face today are likely to be the problems encountered by smaller service providers in the near future, we believe smaller service providers are likely to deploy equipment similar to larger service providers. Furthermore, smaller service providers often lack the technical resources to thoroughly test different vendors' products. Therefore, they typically piggyback on larger service providers' evaluation efforts by purchasing the same platforms deployed by the larger service providers. Since we have begun to sell to several of the largest service providers, we intend to leverage this success by allocating our marketing efforts towards a greater number of medium and smaller-sized service providers.

Expand Sales and Distribution Network. In order to pursue the large number of potential customers for our Internet infrastructure solutions, we plan to continue to aggressively add to our sales and distribution capabilities. We are adding to our direct sales and support capabilities for our major customers in North America and adding value-added resellers to sell to and support our other domestic and international customers. In the quarter ended December 31, 1999, we added 12 people to the sales organization for a total of 72 people.

Maintain and Extend Technology Leadership. Our Internet software, ASIC technology and Internet-optimized architecture have been key elements to establishing our technology leadership. We believe that these elements are highly leverageable into future products we are currently developing. We intend to maintain and extend our technological leadership in the Internet infrastructure market through continued significant investment in JUNOS Internet Software and ASIC designs to enhance the feature richness of our products and to develop future differentiated offerings for service providers.

Enable New IP-based Services. Our platform enables service providers to build networks cost effectively and to offer new differentiated services for their customers more efficiently than conventional products. While we believe that current service providers are likely to be the largest and most successful IP network operators in the near term, many new service providers are likely to emerge oriented around the delivery of IP-based services. These services, which include web hosting, outsourced Internet and intranet services, VPNs, outsourced enterprise applications and voice-over IP, are cost-effectively enabled by our Internet infrastructure platform. Although the market for our products today is driven primarily by the need for traditional Internet network capacity, as other IP-based services and applications continue to grow in importance, the total potential market for our products will continue to grow commensurately.

TECHNOLOGY

Our core technology consists of our Internet backbone router architecture, JUNOS Internet Software and ASIC hardware expertise. Our general-purpose architecture is initially embodied in the M40, but also is designed to serve as the platform for future generations of products, such as the M20.

M40 Architecture

The architecture of our products is exemplified by the M40. The M40 architecture delivers the forwarding rates and network control necessary to scale Internet backbones rapidly and reliably. The M40 system includes a Routing Engine, or RE, and a Packet Forwarding Engine, or PFE. The clean separation of the routing and forwarding functions ensures that the two functions do not compete for the same resources.

The Routing Engine. The RE consists of the JUNOS Internet Software operating on an Intel-based platform. The JUNOS Internet Software features Internet-scale protocol support, with flexible policy software that enables maximum control over the acceptance, modification and advertisement of route prefixes. In addition, the JUNOS Internet Software offers a range of configuration management tools that simplify the configuration process and help protect against operator error. The RE conducts the processing intensive activity of maintaining the routing table, from which the forwarding table residing in the PFE is derived. The RE is connected to the PFE through a dedicated 100 Mbps link. After constructing or updating the forwarding table, the RE downloads a copy of the table to the PFE. Updates to the forwarding table are done atomically in small incremental steps so that packet forwarding is not interrupted by routing changes.

The Packet Forwarding Engine. The M40 delivers wire speed packet forwarding using our ASIC designs. All links between ASICs are oversized, dedicated channels, and the PFE architecture is free from the bottlenecks faced by traditional crossbar switches, which use intelligent agent software to perform both routing and forwarding functions over multiple connections to either parts of the network. Bottlenecks can occur in a crossbar switch because the routing and forwarding functions are not separated. The heart of the PFE is the Internet Processor ASIC. With over one million gates and a lookup rate of over 40 million packets per second, or Mpps, the Internet Processor represents the largest and fastest route lookup ASIC currently available, capable of processing data at throughput rates in excess of 40 Gbps.

All lookup rates reflect longest-match route table lookups for all packets and all lookups are performed in hardware. There is no caching mechanism, which is a mechanism by which critical information, such as destinations for traffic, is stored in rapidly accessible memory to make the process of looking up traffic destinations faster. In addition there is no risk of cache misses in the system which can result in slower storage access and thus considerably slower traffic delivery. In addition, the forwarding table can be updated without affecting forwarding rates. The Internet Processor is programmable to support up to four different forwarding tables (layer 2 and/or layer 3) simultaneously. Supported forwarding protocols currently include unicast and multicast IPv4 and MPLS. Finally, the Internet Processor maintains its performance regardless of length of lookups or table size.

The PFE also features a shared memory system with single-stage buffering, so packets are written to and read from memory only once. Single-stage buffering greatly reduces the complexities and throughput delays associated with multistage buffering systems. The pooled memory is distributed across the Flexible PIC Concentrator, or FPC, cards, allowing memory to scale as interfaces are added. The Internet Processor also features prefix accounting mechanisms that operate at rates in excess of 20 Mpps.

JUNOS Internet Software: Traffic Engineering and Control

JUNOS Internet Software offers a full suite of Internet-scale, Internet-tested routing protocols. Protocols and software tools, which are used to control and direct network traffic, are critical to an Internet backbone routing solution. Software control is made more important by the fact that the size and complexity of backbone networks are increasing at a time when service providers are looking to differentiate themselves through value-added service offerings.

JUNOS Internet Software features implementations of all major Internet protocols, including BGP4, DVMRP, PIM, IS-IS, Open Shortest Path First. IS-IS and Open Shortest Path First are algorithms broadly used in enterprise networks and by service providers to determine and update the running state of the network and available destinations in the network. These implementations were developed in-house by our design team which has extensive experience in addressing the scaling issues of rapidly growing service providers.

JUNOS Internet Software also provides a new level of traffic engineering capabilities with its implementation of MPLS. Developed in conjunction with the Internet Engineering Task Force, our MPLS capability offers enhanced visibility into traffic patterns and the ability to control the path traffic takes through the network. Path selection enables service providers to engineer traffic for efficient use of network capacity and avoidance of congestion. We expect MPLS and its traffic engineering capabilities to become a crucial tool for service providers as they scale their networks.

JUNOS Internet Software features a modular design, with separate programs running in protected memory space in conjunction with an independent operating system. Unlike monolithic, unprotected operating system designs, which are prone to system wide failure, the protected, modular approach improves reliability by ensuring that modifications made to one module have no unwanted side-effects on other sections of the software. In addition, having clean software interfaces between modules facilitates software development and maintenance, enabling faster response to customer needs and delivery of new features.

JUNOS Internet Software has been extensively tested in multiple service provider networks to ensure compatibility with Cisco's IOS. Since each major service provider's network is different, this extensive testing is necessary to ensure seamless introduction into existing service provider environments.

PRODUCTS

M40 Internet Backbone Router

The M40 Internet backbone router is specifically designed for the specialized needs of service providers. The M40 features leading-edge packet-forwarding performance, very high port density and flexibility, and purpose-built Internet software. The M40 delivers higher speed performance for service providers than current alternatives. The M40 helps solve the critical problem of managing backbone networks by ensuring greater control over traffic and better use of network capacity and by providing service providers with the necessary traffic engineering tools, such as MPLS.

Features of the M40 Internet Backbone Router

Port Density Per Rack-Inch. Our M40 Internet backbone router offers very high port density per rack-inch, ensuring optimal use of valuable and scarce PoP rack space. Because the forwarding engine is oversized, all interfaces perform at wire speed for all packet sizes.

The M40 router features a highly flexible combination of backbone interface speeds on the market today. In a 35-inch chassis, the M40 router provides 8 OC-48/STM-16, 32 OC-12/STM-4, 128 OC-3/STM-1 or 128 DS3 interfaces. M40 interfaces are located on Physical Interface Cards, or PICs, which plug into FPC boards. There are eight FPC slots on the M40 and each FPC slot supports up to four PICs and an aggregate throughput rate of more than 2.5 Gbps. In addition to supporting wire speed OC-48 interfaces, each FPC supports various combinations of interfaces, permitting the mixing of interface types and speeds on a single FPC. Supported PIC interfaces include:

- 1-port OC-48/STM-16 SONET/SDH;
- 1-port OC-12/STM-4 SONET/SDH;
- 1-port OC-12/STM-4 ATM;
- 4-port OC-3/STM-1 SONET/SDH;
- 2-port OC-3/STM-1 ATM;
- 4-port DS3; and
- 1-port Gigabit Ethernet.

The PIC interface cards are sold both as part of the initial product configuration and also, subsequently, as add-on items. Interfaces are typically added as the customer's network expands or the capacity of individual links is upgraded.

Class-of-Service Flexibility. The M40 router is designed for a variety of class-of-service applications. The M40's queuing mechanism is based on a weighted round-robin selection among multiple queues on outgoing interfaces. Queues can be configured with drop profiles to control the rate of packet drops based on utilization of buffer capacity.

Low Power Consumption. As provider PoPs have grown and become more fully populated with systems, power consumption has become a significant concern. Access to sufficient power can be a constraint on the ability of a facility to support a larger network. Because of its low part count and efficient design, our M40 Internet backbone router draws less than 1700 watts of power (35A at 48V) in a fully loaded configuration, enabling it to offer very high performance and port density per watt.

Engineered for Stressful Conditions. The M40 architecture is designed to reliably handle stressful network conditions. For example, the route lookup capacity of our Internet Processor has been oversized with respect to interface speeds. In addition, the separation of routing and processing enables the M40 to converge quickly while maintaining wire speed.

Built for Reliability. In addition to preserving network reliability, the M40 router is designed to ensure system reliability. The M40's cooling system is fully redundant to protect against individual fan failure. Similarly, the M40's dual power supplies are fully redundant, each capable of supporting the full power load of the system. The M40 can boot off of any one of multiple redundant storage media, ensuring that the system remains operational in the event of a disk failure. For software reliability, JUNOS Internet Software features a protected, modular design with separate processes running in protected memory space on top of an independent operating system. A modular design protects against system wide failures, ensuring that modifications made to one module have no unwanted side-effects on other portions of the code base. Finally, a low component count and an efficient design combine to give the M40 system superior reliability.

M20 Internet Backbone Router

The M20 is purpose-built for new emerging carriers and smaller service providers. It can serve a variety of high speed uses, starting at the core. As new carriers build out the core, they determine that there is a need for high speed connectivity to end customers, other carriers and hosting environments. The M20, with its services and configuration flexibility can provide the solution in one chassis, which is both cost and space effective.

The M20's small size, high performance and high port density make it an optimum platform for high-speed access applications. Its Gigabit Ethernet port density and 802.1q VLAN support makes it attractive for hosting applications. The M20 also provides forwarding performance and the rich BGP4 and policy implementations (with JUNOS Internet Software) needed for peering applications.

Although the M20 measures only 14 inches (35.56 cm) in height, it brings new levels of port density and performance to provider edge applications, supporting nearly 200 DS-3s in a single chassis and 1000 DS-3s in a standard seven-foot (2.13 m) rack. The M20 supports a wide range of interfaces including:

- 1-port OC-48/STM-16 SONET/SDH;
- 1-port OC-12/STM-4 SONET/SDH;
- 1-port OC-12/STM-4 ATM;
- 4-port OC-3/STM-1 SONET/SDH;
- 2-port OC-3/STM-1 ATM;
- 4-port DS3;
- 1-port Gigabit Ethernet; and
- Channelized OC-12/STM-4 to DS-3.

CUSTOMERS

The following is a representative list of our customers as of December 31, 1999:

END USERS: -----	DISTRIBUTORS: -----
AboveNet Communications	Alcatel
AT&T	Ericsson
AT&T/IBM Global Services	3Com
Broadband Office	K-Net Ltd.
Cable & Wireless	Nissho Electronics
Frontier GlobalCenter	NTT PC Communications
Globix	OKI Electronics
GST Network Funding	Samsung America
Level 3 Communications	Softway
MCI WorldCom-vBNS	Solunet
MIBH	
PSINet	
Qwest Communications International	
TCG CERFnet	
University of Washington	
UUNet	
Verio	

We recognize revenue from the shipment of products at the time of shipment unless we have future obligations for network interoperability or if we have to obtain customer acceptance. In those cases, we defer recognition of the revenue until we have met our obligations.

Two customers, UUNet and Cable & Wireless, comprised approximately 58% of our recognized revenues for the year ended December 31, 1999.

SALES AND MARKETING

We sell and market our products primarily through our direct sales organization, value-added resellers and an original equipment manufacturer.

Direct Sales. Our North American direct sales organization is divided into Western and Eastern regional operations. Our direct sales efforts are focused on the largest service providers. The direct sales account managers cover the market on an assigned account basis and work as a team with account oriented systems engineers. They are directed by a regional operations manager who reports to the North American Director of Sales. We also have technical engineers that consult with and provide our customers with guidance and assistance on the evolution of their networks as it relates to the deployment of our products. These consulting engineers also help in defining the features that are required for our products to be successful in specific applications. A key feature of our sales effort is the relationship we establish at various levels in our customers' organization. Our sales team maintains contact with key individuals who have service planning and infrastructure buildout responsibility.

Value Added Resellers. We have complemented our direct sales effort in the United States through the addition of several highly focused value added resellers. Our arrangements with value added resellers typically have been non-exclusive and provide the value added reseller with discounts based upon the volume of their orders.

Original Equipment Manufacturer Partner. We have established a strategic distribution relationship with Ericsson. We believe that Ericsson has significant customer relationships in place and offers products which complement ours. Ericsson will provide the first level of support to its customers. Our agreement with Ericsson allows it to distribute our products on a worldwide, non-exclusive basis with discounts based upon the volume of orders it receives.

International Resellers. In order to further our international sales objectives, we have established a number of country specific value added resellers such as Alcatel. These resellers have expertise in deploying complex Internet infrastructure equipment in their respective markets and provide the first level of support required by our international customers.

As of December 31, 1999, we employed 72 people in our sales support and marketing organizations.

CUSTOMER SERVICE AND SUPPORT

We believe that a broad range of support services is essential to the successful installation and ongoing support of our products. We have hired support engineers with proven Internet experience. We offer the following services: 24 hours a day, seven days a week technical assistance (on-line, telephone and on-site), professional services, educational services, logistics services and web-based information.

We offer a variety of flexible and comprehensive support programs, including basic hardware and software warranty services, next day onsite parts and labor, 24 hours a day, seven days a week same day parts and labor and on-site resident engineers. We deliver these services directly to major end users and also utilize a two-tiered support model, leveraging the capabilities of our partners and third party organizations. We also train our partners in the delivery of education and support services.

Customer service and support provide front line product support and is the problem resolution interface to our partners and direct end users. If customer service and support are unable to resolve an issue themselves, they duplicate the problem scenario and provide the failure information, such as logs, dumps, traces and system configuration to appropriate subject matter experts in our engineering department.

Based on the severity of the problem and the impact to our customers' network, there are strict escalation guidelines to ensure that the appropriate technical resource and management attention is brought to bear on the problem in a timeframe commensurate with problem priority. The overall goal is to fix the problem, at the appropriate level, in the right timeframe in order to ensure our customers' satisfaction.

As of December 31, 1999, we employed 31 people in our customer service and support organization, with the majority located in our Mountain View, California corporate headquarters.

RESEARCH AND DEVELOPMENT

We have assembled a team of skilled engineers with extensive experience in the fields of high end computing, network system design, Internet routing protocols and embedded software. These individuals have been drawn from leading computer data networking and telecommunications companies. In addition to building complex hardware and software systems, the engineering team has experience in delivering very large, highly integrated ASICs and extremely scalable Internet software.

Our research and development department is organized into teams that work in parallel on several projects in a way similar to the development of successive generations of complex microprocessors. As a result, we will seek to offer our customers next generation products as they are needed.

We believe that strong product development capabilities are essential to our strategy of enhancing our core technology, developing additional applications, incorporating that technology and maintaining the competitiveness of our product and service offerings. We are leveraging our first generation ASICs, developing additional network interfaces targeted to our customer applications and continuing to develop next generation technology to support the anticipated growth in network bandwidth requirements. We continue to expand the functionality of our JUNOS Internet Software to improve performance and scalability, and to provide an enhanced user interface.

Our research and development process is driven by the availability of new technology, market demand and customer feedback. We have invested significant time and resources in creating a structured process for undertaking all product development projects. This process involves all functional groups and all levels within our company. Following an assessment of market demand, our research and development team develops a full set of comprehensive functional product specifications based on inputs from the product management and

sales organizations. This process is designed to provide a framework for defining and addressing the steps, tasks and activities required to bring product concepts and development projects to market.

As of December 31, 1999, we employed 170 people in our research and development organization.

Our research and development expenses totaled \$41.5 million for the year ended December 31, 1999, \$24.0 million for the year ended December 31, 1998, \$9.4 million for the year ended December 31, 1997 and \$1.9 million for the period from February 2, 1996, the date of our inception, to December 31, 1996.

MANUFACTURING

Our manufacturing operation is entirely outsourced. We have developed a strategic relationship with Solectron, under which we have subcontracted our manufacturing activity. This subcontracting activity extends from prototypes to full production and includes activities such as material procurement, final assembly, test, control and shipment to our customers. We design, specify and monitor all of the tests that are required to meet internal and external quality standards. We have recently established a relationship with an additional third party to manufacture certain of our products. These arrangements provide us with the following benefits:

- we operate without dedicating any space to manufacturing operations;
- we conserve the working capital that would be required for funding inventory;
- we can adjust manufacturing volumes quickly to meet changes in demand; and
- we can quickly deliver products to customers through Solectron's turnkey manufacturing and drop shipment capabilities.

Our ASICs are manufactured by IBM using its 0.25 micron process. IBM is responsible for all aspects of the production of the ASICs using our proprietary designs.

COMPETITION

Competition in the Internet infrastructure market is intense. The market historically has been dominated by Cisco Systems, Inc., with other companies such as Nortel Networks and Lucent Technologies Inc. providing products to a smaller segment of the market. In addition, a number of private companies have announced plans for new products to address the same problems which our products address.

Cisco traditionally has been the dominant supplier of solutions to this market. We believe this is the result of its early leadership position in the enterprise router market. As the Internet has grown rapidly, Cisco has leveraged this position and has developed a broad product line of routers which support all major local area and wide area interfaces. We believe that our ability to compete with Cisco depends upon our ability to demonstrate that our products are superior in meeting the needs of service providers and are extremely compatible with Cisco's current and future products. Although we believe that we are currently among the top providers of Internet infrastructure solutions worldwide, we cannot assure you that we will be able to compete successfully with Cisco, currently the leading provider in this market.

We expect that, over time, large companies with significant resources, technical expertise, market experience, customer relationships and broad product lines, such as Lucent and Nortel, will introduce new products which are designed to compete more effectively in this market. As a result, we expect to face increased competition in the future from larger companies with significantly more resources than we have. Although we believe that our technology and the purpose-built features of our products make them unique and will enable us to compete effectively with these companies, we cannot assure you that we will be successful.

Many of our current and potential competitors, such as Cisco, Lucent and Nortel, have significantly broader product lines than we do and may bundle their products with other networking products in a manner that may discourage customers from purchasing our products. Also, many of our current and potential competitors have greater name recognition and more extensive customer bases that could be leveraged.

Increased competition could result in price reduction, fewer customer orders, reduced gross margins and loss of market share, any of which could seriously harm our operating results.

There are also many small private companies which claim to have products with greater capabilities than our products. Consolidation in this industry has begun, with one or more of these smaller private companies being acquired by large, established suppliers of Internet infrastructure products, and we believe it is likely to continue. As a result, we expect to face increased competition in the future from larger companies with significantly more resources than we have.

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

INTELLECTUAL PROPERTY

Our success and ability to compete are substantially dependent upon our internally developed technology and know how. We have two patents issued relating to high speed switching devices. These patents will expire in 2017 and 2016, respectively. In addition we have seven patent applications pending in the United States relating to the design of our products. Our engineering teams have significant expertise in ASIC design and we own all rights to the design of the ASICs which form the core of the M40. Our JUNOS Internet Software was developed internally and is protected by United States and other copyright laws.

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

Our success will depend upon our ability to obtain necessary intellectual property rights and protect our intellectual property rights. We cannot be certain that we will be able to obtain the necessary intellectual property rights or that other parties will not contest our intellectual property rights.

EMPLOYEES

As of December 31, 1999, we had 335 full-time employees, 170 of whom were engaged in research and development, 72 in sales and marketing, 31 in customer support and 62 in finance, administration and operations. None of our employees are represented by a labor union. We have not experienced any work stoppages and we consider our relations with our employees to be good.

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

RISK FACTORS

OUR FAILURE TO INCREASE OUR REVENUES WOULD PREVENT US FROM MAINTAINING PROFITABILITY.

We have incurred significant losses since inception. As of December 31, 1999, we had an accumulated deficit of \$52.2 million. Although our net revenues have grown from zero in the quarter ended September 30, 1998 to \$45.4 million in the quarter ended December 31, 1999, we cannot be certain that our revenues will continue to grow. We have large fixed expenses and we expect to continue to incur significant and increasing sales and marketing, product development and administrative expenses. As a result, we will need to generate significantly higher revenues to maintain profitability.

OUR LIMITED OPERATING HISTORY MAKES FORECASTING DIFFICULT.

As a result of our limited operating history, it is difficult to forecast accurately our revenues, and we have limited meaningful historical financial data upon which to base planned operating expenses. Specifically, we began operations in February 1996, introduced our M40 Internet backbone router product in September 1998, began shipping the M40 in volume in October 1998 and introduced the M20 in December 1999. 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. The revenue and income potential of our products and business are unproven and the market that we are addressing is rapidly evolving. If we do not achieve our expected revenues, our operating results will be below our expectations and the expectations of investors and market analysts, which could cause the price of our convertible notes and common stock to decline.

OUR SUCCESS DEPENDS ON OUR ABILITY TO DEVELOP PRODUCTS AND PRODUCT ENHANCEMENTS THAT WILL ACHIEVE MARKET ACCEPTANCE.

We cannot assure you that we will be able to develop new products or product enhancements in a timely manner, or at all. Any failure to develop new products or product enhancements will substantially decrease market acceptance and sales of our present and future products which will significantly harm our business and financial results. Even if we are able to develop and commercially introduce new products and enhancements, we cannot assure you that the new products or enhancements will achieve widespread market acceptance. Any failure of our future products to achieve market acceptance could harm our business and financial results.

THE LONG SALES AND IMPLEMENTATION CYCLES FOR OUR PRODUCTS, AS WELL AS OUR EXPECTATION THAT CUSTOMERS WILL SPORADICALLY PLACE LARGE ORDERS WITH SHORT LEAD TIMES MAY CAUSE REVENUES AND OPERATING RESULTS TO VARY SIGNIFICANTLY FROM QUARTER TO QUARTER.

A customer's decision to purchase our products involves a significant commitment of its resources and a lengthy evaluation and product qualification process. As a result, our sales cycle may be lengthy. Throughout the sales cycle, we often spend considerable time educating and providing information to prospective customers regarding the use and benefits of the products. Even after making the decision to purchase, our customers tend to deploy the products slowly and deliberately. Timing of deployment can vary widely and depends on the skill set of the customer, the size of the network deployment, the complexity of the customer's network environment and the degree of hardware and software configuration necessary to deploy the products. Customers with large networks usually expand their networks in large increments on a periodic basis. Accordingly, we expect to receive purchase orders for significant dollar amounts on an irregular basis. Because of our limited operating history, we cannot predict these sales and development cycles. These long cycles, as well as our expectation that customers will tend to sporadically place large orders with short lead times, may cause our revenues and operating results to vary significantly and unexpectedly from quarter to quarter.

WE HAVE A LIMITED NUMBER OF CUSTOMERS UPON WHOM WE RELY, AND ANY DECREASE IN REVENUE FROM THESE CUSTOMERS COULD HAVE AN ADVERSE EFFECT ON US.

We began recognizing revenues from sales of the M40 in the quarter ended December 31, 1998. A significant portion of our revenues to date have been recognized from a limited number of customers, with two

customers, UUNet and Cable & Wireless, representing 58% of our revenues for the year ended December 31, 1999. We expect that the majority of our revenues will continue to depend on sales of our products to a small number of customers. Any downturn in the business of these customers or potential new customers could significantly decrease the sales of our products to these customers which could seriously harm our revenues and results of operations.

IF THE INTERNET DOES NOT CONTINUE TO EXPAND AS A WIDESPREAD COMMUNICATIONS MEDIUM, DEMAND FOR OUR PRODUCTS MAY DECLINE SIGNIFICANTLY.

Our future success depends on the continued growth of the Internet as a widely used medium for commerce and communication. If the Internet does not continue to expand as a widespread communications medium and commercial marketplace, the growth of the market for Internet infrastructure equipment may not continue and the demand for our products could decline significantly.

WE FACE INTENSE COMPETITION THAT COULD REDUCE OUR MARKET SHARE.

Competition in the Internet infrastructure market is intense. This market has historically been dominated by Cisco Systems with other companies such as Nortel Networks and Lucent Technologies providing products to a smaller segment of the market. In addition, a number of private companies have announced plans for new products to address the same problems which our products address.

In order to compete effectively in the Internet router market we must deliver products which:

- provide extremely high network reliability;
- provide high performance interfaces and packet processing capabilities;
- scale easily and efficiently with minimum disruption to the network;
- interoperate with existing network designs and equipment vendors;
- reduce the complexity of the network by decreasing the need for overlapping equipment; and
- provide a cost-effective solution for service providers.

If we are unable to compete successfully against our current and future competitors, we could experience price reductions, reduced gross margins and loss of market share, any one of which could materially and adversely affect our business, operating results and financial condition.

WE MUST EXPAND SUBSTANTIALLY OUR DIRECT AND INDIRECT SALES OPERATIONS IN ORDER TO INCREASE MARKET AWARENESS AND SALES OF OUR PRODUCTS.

Our products and services require a sophisticated sales effort targeted at several key people within each of our prospective customers' organizations. This sales effort requires the efforts of select personnel as well as specialized system and consulting engineers. We have recently expanded our direct sales force and plan to hire additional qualified sales personnel and system and consulting engineers. Competition for these individuals is intense, and we might not be able to hire the kind and number of sales personnel and system and consulting engineers we need. In addition, we believe that our future success is dependent upon establishing successful relationships with a variety of distribution partners. We have entered into agreements with several value added resellers, some of whom also sell products that compete with our products. We cannot be certain that we will be able to reach agreement with additional resellers on a timely basis or at all, or that they will devote adequate resources to selling our products.

If we are unable to expand our direct and indirect sales operations, we may not be able to increase market awareness or sales of our products, which may prevent us from maintaining profitability.

IF WE DO NOT EXPAND OUR CUSTOMER SERVICE AND SUPPORT ORGANIZATION SUBSTANTIALLY, SALES OF OUR PRODUCTS MAY BE SIGNIFICANTLY REDUCED.

The complexity of our products and the difficulty of installing them require highly trained customer service and support personnel. We currently have a small customer service and support organization and will need to increase our staff to support new customers and the expanding needs of existing customers. Hiring customer service and support personnel is very competitive in our industry due to the limited number of people available with the necessary technical skills and understanding of the Internet. If we are unable to expand our customer service and support organization, we may not be able to increase sales of our products, which would seriously harm our business.

WE ARE DEPENDENT ON SOLE SOURCE AND LIMITED SOURCE SUPPLIERS FOR SEVERAL KEY COMPONENTS, AND IF WE ARE UNABLE TO BUY THESE COMPONENTS ON A TIMELY BASIS, WE WILL NOT BE ABLE TO DELIVER OUR PRODUCTS TO OUR CUSTOMERS.

We currently purchase several key components, including ASICs and power supplies, from single or limited sources. We worked with IBM for over three years to develop several of our key proprietary application specific integrated circuits, or ASICs, which are custom designed integrated circuits built to perform a specific function more rapidly than a general purpose microprocessor. IBM is currently our sole source supplier of these ASICs. These ASICs are very complex, and we may not be able to develop an alternate source to IBM in a timely manner, which could hurt our ability to deliver our products to our customers. We also purchase power supplies from a single source and purchase other custom components from other sole or limited sources. If we are unable to buy these components on a timely basis, we will not be able to deliver the products to our customers, which would negatively impact present and future sales and revenue which would, in turn, seriously harm our business.

WE CURRENTLY DEPEND PRIMARILY ON ONE CONTRACT MANUFACTURER, AND IF WE HAVE TO QUALIFY A NEW CONTRACT MANUFACTURER WE MAY LOSE REVENUE AND DAMAGE OUR CUSTOMER RELATIONSHIPS.

Solectron, a third party manufacturer for numerous companies, manufactures the M40 and M20 at its Milpitas, California facility on a purchase order basis and is our primary manufacturer. We currently do not have a long-term supply contract with Solectron. If we should fail to effectively manage our relationship with Solectron, or if Solectron experiences delays, disruptions or quality control problems in its manufacturing operations, our ability to ship products to our customers could be delayed. We have begun the process to qualify a new third party contract manufacturer. Qualifying a new contract manufacturer and commencing volume production is expensive and time consuming. If we are required or choose to change contract manufacturers, we may lose revenue and damage our customer relationships.

IF WE FAIL TO ACCURATELY PREDICT OUR MANUFACTURING REQUIREMENTS, WE COULD INCUR ADDITIONAL COSTS OR EXPERIENCE MANUFACTURING DELAYS.

Because we currently do not have a long-term supply contract with Solectron, it is not obligated to supply products to us for any specific period, in any specific quantity or at any certain price, except as may be provided in a particular purchase order. We provide forecasts of our demand to Solectron up to six months prior to scheduled delivery of products to our customers. If we overestimate our requirements, Solectron may have excess inventory, which would increase our costs. If we underestimate our requirements, Solectron may have an inadequate inventory, which could interrupt manufacturing of our products and result in delays in shipments and revenues. In addition, lead times for materials and components we order vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time. We also may experience shortages of certain components from time to time, which also could delay the manufacturing of our products.

THE UNPREDICTABILITY AND SEASONALITY OF OUR QUARTERLY RESULTS MAY ADVERSELY AFFECT THE TRADING PRICE OF OUR COMMON STOCK.

Our revenues and operating results will 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 primary factors that may affect us include the following:

- demand for our products;
- the timing of sales of our products;
- the timing of recognizing revenue and deferred revenue;
- new product introductions by our competitors;
- changes in our pricing policies or the pricing policies of our competitors;
- our ability to develop, introduce and ship new products and product enhancements that meet customer requirements in a timely manner;
- our ability to obtain sufficient supplies of the sole or limited source components, including ASICs and power supplies for our products;
- increases in the prices of the components we purchase;
- our ability to attain and maintain production volumes and quality levels for our products;
- Internet growth and demand for Internet infrastructure;
- prototype expenses;
- costs related to acquisitions of technology or businesses; and
- general economic conditions as well as those specific to the Internet and related industries.

In addition, we are dependent on decisions by customers to build their Internet infrastructure, which decisions are in turn dependent upon the success and expected demand for the services offered by those customers. Furthermore, the long sales and implementation cycles for our products, as well as the degree to which customers will sporadically place large orders with short lead times, may cause revenues and operating results to vary significantly from quarter to quarter.

We plan to increase significantly our operating expenses to fund greater levels of research and development, expand our sales and marketing operations, broaden our customer support capabilities and develop new distribution channels. We also plan to expand our general and administrative functions to address the increased reporting and other administrative demands, that have resulted from being a publicly traded company and the increasing size of our business. 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. As a result, a delay in generating or recognizing revenue for the reasons set forth above, or for any other reason, could cause significant variations in our operating results from quarter to quarter and could result in substantial operating losses.

Due to the foregoing factors, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. It is likely that in some future quarters, our operating results may be below the expectations of public market analysts and investors. In this event, the price of our common stock and the convertible notes may fall.

IF OUR PRODUCTS DO NOT INTEROPERATE WITH OUR CUSTOMERS' NETWORKS, INSTALLATIONS WILL BE DELAYED OR CANCELLED AND COULD RESULT IN SUBSTANTIAL PRODUCT RETURNS WHICH COULD HARM OUR BUSINESS.

Our products are designed to interface with our customers' existing networks, each of which has different specifications and utilizes multiple protocol standards. 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 must interoperate with 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 used in our customers' networks, we must modify our JUNOS Internet Software to fix or overcome these errors so that our products will interoperate and scale with the existing software and hardware. If our products do not interoperate with those of our customers' networks, installations could be delayed, orders for our products could be cancelled or our products could be returned. This would also seriously harm our reputation, which could seriously harm our business and prospects.

BECAUSE OUR PRODUCTS ARE COMPLEX AND ARE DEPLOYED IN COMPLEX ENVIRONMENTS, THEY MAY HAVE ERRORS OR DEFECTS THAT WE FIND ONLY AFTER FULL DEPLOYMENT, WHICH COULD SERIOUSLY HARM OUR BUSINESS.

Our products are highly complex and designed to be deployed in very large and complex networks. Although we have thoroughly tested our products, because of the nature of the product, it can only be fully tested when deployed in very large networks with high amounts of traffic. To date, our products have been deployed only on a limited basis. Consequently, our customers may discover errors or defects in the hardware or the software after it has been fully deployed. If we are unable to fix errors or other problems that may be identified in full deployment, we could experience:

- loss of or delay in revenues and loss of market share;
- loss of customers;
- failure to achieve market acceptance;
- diversion of development resources;
- increased service and warranty costs;
- legal actions by our customers; and
- increased insurance costs.

CUSTOMER PRODUCT LIABILITY CLAIMS BASED ON ERRORS IN OUR SOFTWARE OR MISTAKES IN PERFORMING OUR SERVICES COULD RESULT IN COSTLY LITIGATION AGAINST US.

We may be subject to claims based on errors in our software or mistakes in performing our services, including claims relating to damages to our customers' internal systems. Our contracts with our customers generally contain provisions designed to limit our exposure to potential product liability claims, such as disclaimers of warranties and limitations on liability for special, consequential and incidental damages. We believe our product liability insurance is adequate to cover potential product liability claims. However, a product liability claim, whether successful or not, could seriously impact our capital reserves, harm our reputation, and direct the attention of key personnel away from our business, any of which could harm our business.

PROBLEMS ARISING FROM USE OF OUR PRODUCTS IN CONJUNCTION WITH OTHER VENDORS' PRODUCTS COULD DISRUPT OUR BUSINESS AND HARM OUR FINANCIAL CONDITION.

Service providers typically use our products in conjunction with products from other vendors. As a result, when problems occur, it may be difficult to identify the source of the problem. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems.

OUR PRODUCTS ARE NEW AND FACE RAPID TECHNOLOGICAL CHANGES AND EVOLVING STANDARDS AND IF WE DO NOT RESPOND IN A TIMELY MANNER, OUR BUSINESS COULD BE HARMED.

The Internet infrastructure market is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. In developing our products, we have made, and will continue to make, assumptions with respect to which standards will be adopted by our

customers and competitors. If the standards adopted are different from those which we have chosen to support, market acceptance of our products may be significantly reduced or delayed and our business will be seriously harmed. In addition, the introduction of products embodying new technologies and the emergence of new industry standards could render our existing products obsolete.

In addition, in order to introduce products embodying new technologies and new industry standards, we must be able to gain access to the latest technologies of our suppliers such as IBM. Any failure to gain access to the latest technologies could harm our business and operating results.

OUR FAILURE TO ESTABLISH AND MAINTAIN KEY CUSTOMER RELATIONSHIPS MAY RESULT IN DELAYS IN INTRODUCING NEW PRODUCTS OR CAUSE CUSTOMERS TO FOREGO PURCHASING OUR PRODUCTS.

Our future success will also depend upon our ability to develop and manage key customer relationships in order to introduce a variety of new products and product enhancements that address the increasingly sophisticated needs of our customers. Our failure to establish and maintain these customer relationships may adversely affect our ability to develop new products and product enhancements. In addition, we may experience delays in releasing new products and product enhancements in the future. Material delays in introducing new products and enhancements or our inability to introduce competitive new products may cause customers to forego purchases of our products and purchase those of our competitors, which could seriously harm our business.

IF WE FAIL TO MANAGE EXPANSION EFFECTIVELY, OUR BUSINESS, FINANCIAL CONDITION AND PROSPECTS COULD BE SERIOUSLY HARMED.

Our ability to successfully offer our products and implement our business plan in a rapidly evolving market requires an effective planning and management process. We continue to increase the scope of our operations domestically and internationally and have grown our headcount substantially. At December 31, 1998, we had a total of 156 employees and at December 31, 1999, we had a total of 335 employees. In addition, we plan to continue to hire a significant number of employees this year. This growth has placed, and our anticipated growth in future operations will continue to place, a significant strain on our management systems and resources. We expect that we will need to continue to improve our financial and managerial controls, reporting systems and procedures, and will need to continue to expand, train and manage our work force worldwide. Furthermore, we expect that we will be required to manage multiple relationships with various customers and other third parties.

WE DEPEND ON OUR KEY PERSONNEL TO MANAGE OUR BUSINESS EFFECTIVELY IN A RAPIDLY CHANGING MARKET AND IF WE ARE UNABLE TO HIRE ADDITIONAL PERSONNEL, OUR ABILITY TO SELL OUR PRODUCTS COULD BE HARMED.

Our future success depends upon the continued services of our executive officers and other key engineering, sales, marketing and support personnel. None of our officers or key employees is bound by an employment agreement for any specific term and we do not have "key person" life insurance policies covering any of our employees.

We also intend to hire a significant number of engineering, sales, marketing and support personnel in the future, and we believe our success depends, in large part, upon our ability to attract and retain these key employees. Competition for this personnel is intense, especially in the San Francisco Bay area. In particular, we have experienced difficulty in hiring qualified ASIC, software, system and test and customer support engineers and there can be no assurance that we will be successful in attracting and retaining these individuals. The loss of the services of any of our key employees, the inability to attract or retain qualified personnel in the future, or delays in hiring required personnel, particularly engineers and sales personnel, could delay the development and introduction of and negatively impact our ability to sell our products.

IF WE BECOME SUBJECT TO UNFAIR HIRING CLAIMS WE COULD INCUR SUBSTANTIAL COSTS IN DEFENDING OURSELVES.

Companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We have received claims of this kind in the past and we

cannot assure you that we will not receive claims of this kind in the future as we seek to hire qualified personnel or that those claims will not result in material litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits.

OUR BUSINESS WILL BE ADVERSELY AFFECTED IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS FROM THIRD-PARTY CHALLENGES.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

NECESSARY LICENSES OF THIRD-PARTY TECHNOLOGY MAY NOT BE AVAILABLE TO US OR MAY BE VERY EXPENSIVE.

From time to time we may be required to license technology from third parties to develop new products or product enhancements. We cannot assure you that third party licenses will be available to us on commercially reasonable terms, if at all. The inability to obtain any third-party license required to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost either of which could seriously harm our business, financial condition and results of operations.

WE COULD BECOME SUBJECT TO LITIGATION REGARDING INTELLECTUAL PROPERTY RIGHTS WHICH COULD SERIOUSLY HARM OUR BUSINESS.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. Although we have never been involved in any intellectual property litigation, we may be a party to litigation in the future to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. Claims for alleged infringement and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation could also force us to do one or more of the following:

- stop selling, incorporating or using our products that use the challenged intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- redesign those products that use such technology.

If we are forced to take any of the foregoing actions, our business may be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. For more information concerning our intellectual property rights, see "Business -- Intellectual Property."

WE FACE RISKS ASSOCIATED WITH OUR INTERNATIONAL OPERATIONS THAT COULD HARM OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We market, sell and service our products in the United States and internationally. We have established offices in England, The Netherlands, France and Germany to market, sell and service our products in Europe and in Japan, Hong Kong and Australia to market, sell and service our products in the Asia Pacific region.

We intend to expand substantially our international operations and enter new international markets. This expansion will require significant management attention and financial resources to develop successfully direct and indirect international sales and support channels. We may not be able to maintain or increase international market demand for our products.

We currently have limited experience in marketing and distributing our products internationally and in developing versions of our products that comply with local standards. In addition, international operations are subject to other inherent risks, including:

- greater difficulty in accounts receivable collection and longer collection periods;
- difficulties and costs of staffing and managing foreign operations;
- the impact of recessions in economies outside the United States;
- unexpected changes in regulatory requirements;
- certification requirements;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences; and
- political and economic instability.

Our export revenues were \$22,500,000 for the year ended December 31, 1999 and are generally denominated in U.S. dollars. Consequently, we do not currently engage in currency hedging activities. However, a portion of our international revenues may be denominated in foreign currencies in the future.

ANY ACQUISITIONS WE MAKE COULD DISRUPT OUR BUSINESS AND HARM OUR FINANCIAL CONDITION.

We intend to make investments in complementary companies, products or technologies. In the event of any such investments or acquisitions, we could:

- issue stock that would dilute our current stockholders' percentage ownership;
- incur debt;
- assume liabilities;
- incur amortization expenses related to goodwill and other intangible assets; or
- incur large and immediate write-offs.

These acquisitions also involve numerous risks, including:

- problems combining the purchased operations, technologies or products;
- unanticipated costs;
- diversion of management's attention from our core business;
- 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, particularly those of the acquired organizations.

We cannot assure you that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future.

RISKS RELATED TO THE 4.75% SUBORDINATED CONVERTIBLE NOTES DUE MARCH 15, 2007

The Company recently completed an offering (the "Debt Offering") of 4.75% Subordinated Convertible Notes Due March 15, 2007 (the "Convertible Notes"). As a result of the Debt Offering we have substantial

amounts of outstanding indebtedness, primarily the Convertible Notes. As a result of this indebtedness, our principal and interest payment obligations will increase substantially. There is the possibility that we may be unable to generate cash sufficient to pay the principal of, interest on and other amounts due in respect of our indebtedness when due. We may also add additional equipment loans and lease lines to finance capital expenditures and may obtain additional long-term debt, working capital lines of credit and lease lines.

Our substantial leverage could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of our expected cash flow available for other purposes, including capital expenditures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- placing us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have better access to capital resources.

ITEM 2 PROPERTIES

We sublease approximately 60,000 square feet in two buildings located in Mountain View, California. Approximately 33,000 square feet are subleased pursuant to a sublease that expires December 31, 2001, and approximately 27,000 square feet are subleased pursuant to a lease that expires June 30, 2000.

We have entered into leases for approximately 25,000, 144,000 and 122,000 square feet of office space in Sunnyvale, California. The lease on the office space for 25,000 square feet commenced on October 1, 1999, and it will expire two months after the later of May 1, 2000 or the completion of the improvements on the 144,000 square foot facility. The lease on the office space for 144,000 square feet will commence on July 1, 2000 and it will expire on the later of June 30, 2012, with certain options for extension and expansion. In addition, we have exercised our option to lease an approximately 122,000 square feet facility adjacent to the 144,000 square foot facility in Sunnyvale. That lease commences on August 1, 2001.

The commercial real estate market in the San Francisco Bay area is volatile and unpredictable in terms of available space, rental fees, occupancy rates and preferred locations. We cannot be certain that additional space will be available when we require it, or that it will be affordable or in a preferred location. See Note 7 of the Notes to the Consolidated Financial Statements in Exhibit 13.1 hereto.

ITEM 3 LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers and their ages, as of December 31, 1999, are as follows:

NAME ----	AGE ---	POSITION -----
Scott Kriens.....	42	President, Chief Executive Officer and Chairman of the Board
Pradeep Sindhu.....	47	Chief Technical Officer and Vice Chairman of the Board
Marcel Gani.....	47	Chief Financial Officer
Steven Haley.....	45	Vice President of Worldwide Sales and Service
Gary Heidenreich.....	51	Vice President of Operations
Peter L. Wexler.....	44	Vice President of Engineering

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

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

Marcel Gani joined Juniper Networks as Chief Financial Officer in February 1997. From January 1996 to January 1997, Mr. Gani served as Vice President and Chief Financial Officer of NVIDIA Corporation, a 3D graphic processor company. Mr. Gani also held the positions of Vice President and Chief Financial Officer at Grand Junction Networks, a data networking company acquired by Cisco Systems, Inc., from March 1995 to January 1996, and at Primary Access Corporation, a data networking company acquired by 3Com Corporation, from March 1993 to March 1995. Mr. Gani holds an M.B.A. from the University of Michigan.

Steven Haley joined Juniper Networks as Vice President of Worldwide Sales and Service in August 1997. Prior to joining Juniper Networks, Mr. Haley served as Vice President of Sales at Cisco Systems, Inc., a data networking company, from July 1996 to August 1997. From February 1990 to July 1996, he worked for StrataCom, Inc., serving in a variety of management roles from Managing Director, Europe to Vice President of Sales, Americas. He holds a B.S. in Marketing from the University of Massachusetts, Amherst.

Gary Heidenreich joined Juniper Networks in July 1997 as Vice President of Operations. From August 1993 to July 1997, Mr. Heidenreich served as Vice President of Systems Manufacturing at 3Com Corporation. Mr. Heidenreich holds a B.S.I.E. from New Mexico State University and an M.B.A. from the University of Dallas.

Peter L. Wexler joined Juniper Networks as Vice President of Engineering in January 1997. From April 1995 to January 1997, Mr. Wexler served as Vice President of Engineering at Bay Networks, a data networking company. From April 1993 to April 1995, Mr. Wexler served as Director of High-End Platform Development at Wellfleet Communications, a predecessor to Bay Networks and a manufacturer of high-performance routers. He holds a B.S.E. from State University of New York at Stony Brook, an M.S.E. from the University of Illinois and an M.B.A. from Boston University.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDERS MATTERS

Our common stock has been quoted on the Nasdaq National Market under the symbol "JNPR" since June 25, 1999. Prior to that time, there was no public market for the common stock. The following table sets forth, for the periods indicated, the high and low closing prices per share of the common stock as reported on the Nasdaq National Market. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends. At March 7, 2000, there were approximately 488 stockholders of record and the price per share of our common stock was \$278.69.

	HIGH	LOW
	-----	-----
1998		
Second Quarter (since June 25, 1999).....	\$ 49.66	\$32.96
Third Quarter.....	\$ 75.67	\$41.67
Fourth Quarter.....	\$118.17	\$60.71

All stock information has been adjusted to reflect the three-for-one split, effected in the form of a stock dividend to each stockholder of record as of December 31, 1999.

On June 24, 1999, Juniper Networks commenced its initial public offering (the "IPO") pursuant to a Registration Statement on Form S-1 (File No. 333-76681). In the IPO, Juniper Networks sold an aggregate of 16,560,000 shares of common stock (including an over-allotment option of 2,160,000 shares) at \$11.33 per share, of which approximately 10,266,000 shares were sold by selling stockholders. The IPO generated aggregate gross proceeds of approximately \$71,300,000 for the Company and approximately \$116,400,000 for the selling stockholders. The aggregate net proceeds to the Company were approximately \$65,200,000, after deducting underwriting discounts and commissions of approximately \$5,000,000 and expenses of the offering of approximately \$1,100,000. Of the net proceeds, the Company used approximately \$53,500,000 for general corporate purposes, including working capital and capital expenditures. Additionally, \$3,700,000 of the proceeds were used to repay capital lease obligations and \$8,000,000 of the proceeds were used to finance two equity investments.

On October 5, 1999, the Company completed a secondary public offering in which it sold 17,250,000 shares of common stock (including an over-allotment option of 2,250,000 shares which was completed on October 12, 1999) at \$63.33 per share, of which approximately 11,931,000 shares were sold by selling stockholders. Proceeds to the Company from this offering, net of issuance costs, were approximately \$324,200,000.

On November 18, 1999, the Company issued an aggregate of 44,336 unregistered shares of common stock to the shareholders of Layer 5 in connection with the merger of Layer 5 with a wholly-owned subsidiary of the Company. The issuance was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

ITEM 6 SELECTED FINANCIAL DATA

For the information required by this Item, see "Selected Financial Data" in the 1999 Annual Report to Stockholders in Exhibit 13.1 hereto.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS

For the information required by this Item, see "Management's Discussions and Analysis of Financial Condition and Results of Operations" in the 1999 Annual Report to Stockholders in Exhibit 13.1 hereto.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For the information required by this Item, see "Management's Discussions and Analysis of Financial Condition and Results of Operations" in the 1999 Annual Report to Stockholders, in Exhibit 13.1 hereto.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For the information required by this Item, see the Consolidated Financial Statements and Notes thereto in the 1999 Annual Report to Stockholders in Exhibit 13.1 hereto.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10 DIRECTORS AND OFFICERS OF THE REGISTRANT

The information required by this Item 10 is incorporated by reference to our Definitive Proxy Statement with respect to our 2000 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

ITEM 11 EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated by reference to our Definitive Proxy Statement with respect to our 2000 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is incorporated by reference to our Definitive Proxy Statement with respect to our 2000 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is incorporated by reference to our Definitive Proxy Statement with respect to our 2000 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

PART IV

ITEM 14 EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

a) Financial Statements and Financial Statement Schedules

1. FINANCIAL STATEMENTS

Consolidated Balance Sheets -- As of December 31, 1999 and 1998

Consolidated Statements of Operations -- For the Three Years Ended December 31, 1999

Consolidated Statement of Stockholders' Equity -- For the Three Years Ended

December 31, 1999

Consolidated Statements of Cash Flows -- For the Three Years Ended December 31, 1999

Notes to Consolidated Financial Statements

Report of Independent Auditors

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

The following financial statement schedule of Juniper Networks is filed as part of this Report and should be read in conjunction with the Financial Statements of Juniper Networks.

Schedule II -- Valuation and Qualifying Accounts and Reserves

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

b) Exhibits

EXHIBIT NUMBER -----	DESCRIPTION OF DOCUMENT -----
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
3.2	Amended and Restated Bylaws of the Registrant (incorporated herein by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-1 No. 333-96171)
4.1	Third Amended and Restated Registration Rights Agreement dated March 9, 1999 (incorporated herein by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.1	Form of Indemnification Agreement entered into by the Registrant with each of its directors, officers and certain employees (incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.2	Amended and Restated 1996 Stock Plan (incorporated herein by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.3	1999 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.4	Sublease between Trident Microsystems, Inc. and the Registrant dated July 1, 1998 (incorporated herein by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.5	Sublease between At Home Corporation and the Registrant dated June 4, 1998 (incorporated herein by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.6	Change of Control Agreement between Scott Kriens and the

10.7 Registrant dated October 1, 1996 (incorporated herein by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
Change of Control Agreement between Marcel Gani and the Registrant dated February 18, 1997 (incorporated herein by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1 No. 333-76681)

EXHIBIT NUMBER -----	DESCRIPTION OF DOCUMENT -----
10.8*	Agreement for ASIC Design and Purchase of Products between IBM Microelectronics and the Registrant dated August 26, 1997 and Amendments One and Two to the agreement dated January 5, 1998 and March 2, 1998, respectively (incorporated herein by reference to Exhibit 10.8, 10.8.1 and 10.8.2, respectively, to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.9*	Standard Manufacturing Agreement between Solectron California Corporation, Fine Pitch Technology Inc. and the Registrant dated June 10, 1998 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.10	Lease between Mathilda Associates LLC and the Registrant dated June 18, 1999 (incorporated herein by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 No. 333-76681)
10.11	Lease between Mathilda Associates LLC and the Registrant dated February 28, 2000.
13.1	1999 Annual Report to Stockholders (deemed to be filed to the extent that information is specifically incorporated by reference)
21.1	Subsidiaries of Registrant
23.1	Consent of Ernst & Young LLP, Independent Auditors
24.1	Power of Attorney (see page 31)
27.1	Financial Data Schedule

* Confidential treatment requested and received as to certain portions.

c) Reports on Form 8-K

We filed a Current Report on Form 8-K dated November 15, 1999 to report under Item 2 thereof the acquisition of Layer 5. The Current Report of Form 8-K dated November 15, 1999 also reported, under Item 5 thereof, the announcement of the approval by our Board of Directors of a three-for-one split of our common stock.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 27th day of March, 2000.

JUNIPER NETWORKS, INC.

By: /s/ MARCEL GANI

Marcel Gani
Chief Financial Officer
(Duly Authorized Officer and
Principal
Financial and Accounting Officer)

POWER OF ATTORNEY

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

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

SIGNATURE -----	TITLE -----	DATE ----
/s/ SCOTT KRIENS ----- Scott Kriens	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 27, 2000
/s/ MARCEL GANI ----- Marcel Gani	Chief Financial Officer (Principal Financial and Accounting Officer)	March 27, 2000
/s/ PRADEEP SINDHU ----- Pradeep Sindhu	Chief Technical Officer and Vice Chairman of Board	March 27, 2000
/s/ WILLIAM R. HEARST III ----- William R. Hearst III	Director	March 27, 2000
/s/ VINOD KHOSLA ----- Vinod Khosla	Director	March 27, 2000
/s/ C. RICHARD KRAMLICH ----- C. Richard Kramlich	Director	March 27, 2000
/s/ WILLIAM STENSRUD ----- William Stensrud	Director	March 27, 2000

JUNIPER NETWORKS, INC.

**SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS**

**YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(IN THOUSANDS)**

DESCRIPTION -----	BALANCE AT BEGINNING OF YEAR -----	CHARGED TO COSTS AND EXPENSES -----	DEDUCTIONS -----	BALANCE AT END OF YEAR -----
Year ended December 31, 1999				
Allowance for doubtful accounts.....	\$ --	\$632	\$ --	\$632
Year ended December 31, 1998				
Allowance for doubtful accounts.....	\$ --	\$ --	\$ --	\$ --
Year ended December 31, 1997				
Allowance for doubtful accounts.....	\$ --	\$ --	\$ --	\$ --

EXHIBIT INDEX

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27.1	Financial Data Schedule

* Confidential treatment requested and received as to certain portions.

LEASE

BY AND BETWEEN

**MATHILDA ASSOCIATES LLC,
A CALIFORNIA LIMITED LIABILITY COMPANY**

AS LANDLORD

AND

**JUNIPER NETWORKS, INC.,
A DELAWARE CORPORATION**

AS TENANT

FEBRUARY __, 2000

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LEASE

THIS LEASE, dated February ____, 2000 for reference purposes only, is made by and between MATHILDA ASSOCIATES LLC, a California limited liability company ("Landlord") and JUNIPER NETWORKS, INC., a Delaware corporation ("Tenant"), to be effective and binding upon the parties as of the date the last of the designated signatories to this Lease shall have executed this Lease (the "Effective Date of this Lease").

ARTICLE 1

REFERENCE

1.1 REFERENCES. All references in this Lease (subject to any further clarifications contained in this Lease) to the following terms shall have the following meaning or refer to the respective address, person, date, time period, amount, percentage, calendar year or fiscal year as below set forth:

Tenant's Address for Notice: Prior to May 1, 2000:

Juniper Networks, Inc.
385 Ravendale Drive
Mountain View, California 94043

After May 1, 2000:

1194 Mathilda Avenue
Sunnyvale, California 94089

Tenant's Representative: General Counsel

Landlord's Address for Notices: c/o Menlo Equities LLC
525 University Avenue
Suite 100
Palo Alto, California 94301

Landlord's Representative: Henry Bullock/Richard Holmstrom
Phone Number: (650) 326-9300

Intended Delivery Date: May 1, 2001

Intended Commencement Date: August 1, 2001

Lease Term: Twelve (12) years

Lease Expiration Date: Twelve (12) Years from the Lease
Commencement Date, unless earlier terminated in
accordance with the terms of this Lease, or
extended by Tenant pursuant to ARTICLE 15.

Options to Renew: Two (2) option(s) to renew, each for a term of five
(5) years.

First Month's Prepaid Rent: \$327,888.58 (applied to the first month in which
Base Monthly Rent is due)

Tenant's Security Deposit: \$1,000,000, subject to adjustment pursuant to
Paragraph 3.7

Late Charge Amount: Five Percent (5%) of the Delinquent Amount

Tenant's Required Liability
Coverage: \$3,000,000 Combined Single Limit

Tenant's Broker: Joan Haynes and Steve Gibson of Colliers
International

Landlord's Broker: Don Reimann, Gregg Von Thaden and Jon Condrey of
Colliers International

Property: That certain real property situated in the City of
Sunnyvale, County of Santa Clara, State of
California, to be improved with two (2)
building(s), which real property is shown on the
Site Plan attached hereto as Exhibit "A" and is
commonly known as or otherwise described as
follows: Mathilda Research Centre.

Building: That certain building on the Property in which the
Leased Premises are located commonly known as 1184

Mathilda Avenue (the "Building"), which Building is shown outlined on

Exhibit "A" hereto (designated as Building B). The other building on the Property located at 1194 Mathilda Avenue is referred to herein as the "1194 Building."

Outside Areas: The "Outside Areas" shall mean all areas which are located outside of and contiguous to the Building, as shown the Site Plan attached as Exhibit A, such as pedestrian walkways, parking areas, landscaped area, open areas and enclosed trash disposal areas.

Leased Premises: All the interior space within the Building, including stairwells, connecting walkways, and atriums, to consist of approximately rentable 122,435 square feet and, for purposes of this Lease, agreed to contain said number of square feet.

Tenant's Expense Share: The term "Tenant's Expense Share" shall mean the percentage obtained by dividing the rentable square footage of the Leased Premises at the time of calculation by the rentable square footage of the Building. Such percentage is currently 100%. In the event that the rentable square footage of the Leased Premises is changed, Tenant's Expense Share shall be recalculated to equal the percentage described in the first sentence of this paragraph, so that the aggregate Tenant's Expense Share of all tenants of the Building shall equal 100%.

Tenant's Property Share: The term "Tenant's Property Share" shall mean the percentage obtained by dividing the rentable square footage of the Leased Premises at the time of calculation by the rentable square footage of all buildings currently located or to be located on the Property. Such percentage is currently 46%. In the event that any portion of the Property is sold by Landlord, or the rentable square footage of the Leased Premises or the Property is otherwise changed, Tenant's Property Share shall be recalculated to equal the percentage described in the first sentence of this paragraph, so that the aggregate Tenant's Property Share of all tenants of the Property shall equal 100%.

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

Period	Monthly Amount
8/1/01-7/31/02	\$327,888.58

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

Permitted Use: General Office, research and development, marketing, sales, manufacturing, distribution, warehouse and other related lawful uses.

Exhibits: The term "Exhibits" shall mean the Exhibits of this Lease which are described as follows:

Exhibit "A" - Site Plan showing the Property, the Outside Areas and delineating the Building in which the Leased Premises are to be located.

Exhibit "B" - Work Letter

Exhibit "C" - Lease Commencement Date Certificate

Exhibit "D" - Form of Tenant Estoppel Certificate

Exhibit "E" - Form of Letter of Credit

Exhibit "F" - Form of Landlord Waiver

ARTICLE 2

LEASED PREMISES, TERM AND POSSESSION

2.1 DEMISE OF LEASED PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, for the Lease Term and upon the terms and subject to the conditions of this Lease, that certain interior space described in ARTICLE 1 as the Leased Premises, reserving and excepting to Landlord the right to fifty percent (50%) of all assignment consideration and excess rentals as provided in ARTICLE 7 below. Tenant's lease of the Leased Premises, together with the appurtenant right to use the Outside Areas as described in Paragraph 2.2 below, shall be conditioned upon and be subject to the continuing compliance by Tenant with (i) all the terms and conditions of this Lease, (ii) all Laws governing the use of the Leased Premises and the Property, (iii) all Private Restrictions, easements and other matters now of public record respecting the use of the Leased Premises and Property, and (iv) all reasonable rules and regulations from time to time established by Landlord.

2.2 RIGHT TO USE OUTSIDE AREAS. As an appurtenant right to Tenant's right to the use and occupancy of the Leased Premises, Tenant shall have the right to use the Outside Areas in conjunction with its use of the Leased Premises solely for the purposes for which they were designated and intended and for no other purposes whatsoever. Tenant's right to so use the Outside Areas shall be subject to the limitations on such use as set forth in ARTICLE 1 and shall terminate concurrently with any termination of this Lease.

2.3 LEASE COMMENCEMENT DATE AND LEASE TERM. Subject to Paragraph 2.4 below, the term of this Lease shall begin, and the Lease Commencement Date shall be deemed to have occurred on the Intended Commencement Date, subject to Paragraph 2.4 below. The term of this Lease shall in all events end on the Lease Expiration Date (as set forth in ARTICLE 1). The Lease Term shall be that period of time commencing on the Lease Commencement Date and ending on the Lease Expiration Date (the "Lease Term"). In the event the actual Lease Commencement Date is different than the Intended Commencement Date, Landlord and Tenant agree to execute a Lease Commencement Date Certificate in the form attached as Exhibit C setting forth the actual Lease Commencement Date and the Lease Expiration Date (such that the length of the Lease Term is the same as set forth in ARTICLE 1) and an adjustment to the schedule of Base Monthly Rent to reflect the change in the Lease Commencement Date and Lease Expiration Date.

2.4 DELIVERY OF POSSESSION. Landlord shall deliver to Tenant possession of the Leased Premises upon Substantial Completion of the Tenant Improvements as that term is defined in the Work Letter attached hereto as Exhibit B and made a part of this Lease (the "Work Letter"). The date that the Leased Premises are so delivered to the Tenant shall be deemed the "Delivery Date." If Landlord is unable to so deliver possession of the Leased Premises to Tenant in the agreed condition on or before the Intended Delivery Date, Landlord shall have until the date that is thirty (30) days after the Intended Delivery Date (the "Delivery Grace Period") to deliver the Leased Premises. Additionally, the Delivery Grace Period above set forth shall be extended for such number of days as Landlord may be delayed in delivering possession of the Leased Premises to Tenant by reason of Force Majeure or the action or inaction of Tenant. If Landlord is unable to deliver possession of the Leased Premises in the agreed condition to Tenant within the Delivery Grace Period (including any extension thereof by reason of Force Majeure or the actions or inactions of Tenant), then Tenant shall receive as its sole remedy a credit of two (2) days of free rent for each day that the Leased Premises are not delivered to Tenant after expiration of the Delivery Grace Period (including any extension thereof by reason of Force Majeure or the actions or inactions of Tenant), which free rent shall apply to the first month in which Base Monthly Rent is due. If Landlord is unable to deliver possession of the Leased Premises in the agreed condition to Tenant within sixty (60) days after the expiration of the Delivery Grace Period (including any extension thereof by reason of Force Majeure or the actions or inactions of Tenant), Tenant may choose, as its sole remedy, to terminate this Lease, and in the event of such termination Landlord shall not be liable in damages to Tenant for any delay. Tenant may not terminate this Lease at any time after the date Landlord notifies Tenant that the Leased Premises have been put into the agreed condition and are available for delivery to Tenant, unless Landlord's notice is not given in good faith. Tenant may occupy the Leased Premises commencing on the Delivery Date for the Permitted Use, and for purposes of installing furniture, fixtures and equipment, provided that Tenant shall be responsible for Additional Rent during such period and Tenant shall comply with all other provisions of this Lease (other than the payment of Base Monthly Rent).

2.5 PERFORMANCE OF TENANT IMPROVEMENTS; ACCEPTANCE OF POSSESSION. Landlord shall, pursuant to the Work Letter, perform the work and make the installations in the Leased Premises substantially as set forth in the Work Letter (such work and installations hereinafter referred to as the "Tenant Improvements"). It is agreed that by occupying the Leased Premises, Tenant formally accepts same and acknowledges that the Leased Premises are in the condition called for hereunder, subject to reasonable punchlist items and latent defects specified by Tenant to Landlord in writing within ten (10) days of such occupancy.

2.6 SURRENDER OF POSSESSION. Immediately prior to the expiration or upon the sooner termination of this Lease, Tenant shall remove all of Tenant's signs from the exterior of the Building and shall remove all of Tenant's equipment, trade fixtures, furniture, supplies, wall decorations and other personal property from within the Leased Premises, the Building and the Outside Areas, and shall vacate and surrender the Leased Premises, the Building, the Outside Areas and the Property to Landlord in the same condition, broom clean, as existed at the Lease Commencement Date, damage by casualty or condemnation (which events shall be governed by ARTICLES 10 and 11) and reasonable wear and tear excepted. Except for such reasonable wear and tear, Tenant shall (i) repair all damage to the Leased Premises, the exterior of the Building and the Outside Areas caused by Tenant's removal of Tenant's property, (ii) patch and refinish, to Landlord's reasonable satisfaction, all penetrations made by Tenant or its employees to the roof, floor, interior or exterior walls or ceiling of the Leased Premises and the Building, whether

such penetrations were made with Landlord's approval or not, (iii) repair or replace all stained or damaged ceiling tiles, wall coverings and floor coverings to the reasonable satisfaction of Landlord, (iv) repair all damage caused by Tenant to the exterior surface of the Building and the paved surfaces of the Outside Areas and, where necessary, replace or resurface same. Additionally, to the extent that Landlord shall have notified or is deemed to have notified Tenant in writing at the time the improvements were completed that it desired to have certain improvements made by Tenant or at the request of Tenant removed at the expiration or sooner termination of the Lease, Tenant shall, upon the expiration or sooner termination of the Lease, remove any such improvements constructed or installed by Landlord or Tenant and repair all damage caused by such removal; provided however, Tenant shall not be required to remove the Tenant Improvements installed pursuant to the Work Letter. If the Leased Premises, the Building, the Outside Areas and the Property are not surrendered to Landlord in the condition required by this paragraph at the expiration or sooner termination of this Lease, Landlord may, at Tenant's expense, so remove Tenant's signs, property and/or improvements not so removed and make such repairs and replacements not so made or hire, at Tenant's expense, independent contractors to perform such work. Tenant shall be liable to Landlord for all costs incurred by Landlord in returning the Leased Premises, the Building and the Outside Areas to the required condition, together with interest on all costs so incurred from the date paid by Landlord at the then maximum rate of interest not prohibited or made usurious by law until paid. Tenant shall pay to Landlord the amount of all costs so incurred plus such interest thereon, within ten (10) days of Landlord's billing Tenant for same. Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in surrendering the Leased Premises, including, without limitation, any claims made by any succeeding Tenant or any losses to Landlord with respect to lost opportunities to lease to succeeding tenants.

ARTICLE 3

RENT, LATE CHARGES AND SECURITY DEPOSITS

3.1 **BASE MONTHLY RENT.** Commencing on the Lease Commencement Date (as determined pursuant to Paragraph 2.3 above) and continuing throughout the Lease Term, Tenant shall pay to Landlord, without prior demand therefor, in advance on the first day of each calendar month, the amount set forth as "Base Monthly Rent" in ARTICLE 1 (the "Base Monthly Rent").

3.2 **ADDITIONAL RENT.** Commencing on the Lease Commencement Date (as determined pursuant to Paragraph 2.3 above) and continuing throughout the Lease Term, in addition to the Base Monthly Rent and to the extent not required by Landlord to be contracted for and paid directly by Tenant, Tenant shall pay to Landlord as additional rent (the "Additional Rent") the following amounts:

(a) An amount equal to all Property Operating Expenses (as defined in ARTICLE 13) incurred by Landlord. Payment shall be made by whichever of the following methods (or combination of methods) is (are) from time to time designated by Landlord:

(i) Landlord may forward invoices or bills for such expenses to Tenant, and Tenant shall, no later than thirty (30) days following receipt of any such invoices or bills, pay such invoices or bills and deliver satisfactory evidence of such payment to Landlord, and/or

(ii) Landlord may bill to Tenant, on a periodic basis not more frequently than monthly, the amount of such expenses (or group of expenses) as paid or incurred by Landlord, and Tenant shall pay to Landlord the amount of such expenses within thirty (30) days after receipt of a written bill therefor from Landlord, and/or

(iii) Landlord may deliver to Tenant Landlord's reasonable estimate of any given expense (such as Landlord's Insurance Costs or Real Property Taxes), or group of expenses, which it anticipates will be paid or incurred for the ensuing calendar or fiscal year, as Landlord may determine, and Tenant shall pay to Landlord an amount equal to the estimated amount of such expenses for such year in equal monthly installments during such year with the installments of Base Monthly Rent.

Landlord reserves the right to change from time to time the methods of billing Tenant for any given expense or group of expenses or the periodic basis on which such expenses are billed.

(b) Landlord's share of the consideration received by Tenant upon certain assignments and sublettings as required by ARTICLE 7.

(c) Any legal fees and costs that Tenant is obligated to pay or reimburse to Landlord pursuant to ARTICLE 13; and

(d) Any other charges or reimbursements due Landlord from Tenant pursuant to the terms of this Lease.

Notwithstanding the foregoing, Landlord may elect by thirty (30) days prior written notice to Tenant (provided such written notice is received by Tenant at least thirty (30) days prior to delinquency) to have Tenant pay Real Property Taxes or any portion thereof directly to the applicable taxing authority, in which case Tenant shall make such payments and deliver satisfactory evidence of payment to Landlord no later than ten (10) days before such Real Property Taxes become delinquent.

Tenant may cause an audit of Landlord's books and records to determine the accuracy of Landlord's billings for Property Operating Expenses under this Lease, provided Tenant commences such audit within sixty (60) days after Tenant's receipt of the year-end statement described in Section 3.3 above setting forth the annual reconciliation of

the Property Operating Expenses or any change in estimated monthly expenses under Section 3.2(a)(iii) above. If such audit reveals that the actual Property Operating Expenses for any given year were less than the amount that Tenant paid for Property Operating Expenses for any such year, then Landlord shall pay to Tenant the excess. If such audit reveals a discrepancy of more than three (3%) percent of the actual amount of any Property Operating Expenses charges, then Landlord shall pay the cost of the audit.

Additionally, Tenant shall have the right, by appropriate proceedings, to protest or contest any assessment, reassessment or allocation of Real Property Taxes or any change therein or any application of any Law to the Leased Premises or Tenant's use thereof. Landlord will reasonably cooperate with Tenant in the contest or proceedings. If Tenant does not pay the Real Property Taxes when due which are the subject of such protest or contest, Tenant shall post a bond in lieu thereof in an amount reasonably determined by Landlord but not less than one hundred twenty-five percent (125%) of the amount demanded by the taxing authorities which holds Landlord and the Property harmless from any damage arising out of the contest and ensuring the payment of any judgment that may be rendered. With respect to any contest of Real Property Taxes or Laws conducted by Tenant, Tenant shall hold Landlord and the Property harmless from any damage arising out of such protest or contest and shall pay any judgment that may be rendered in connection with such contest or protest. Any protest or contest conducted by Tenant under this paragraph shall be at Tenant's expense and if interest or late charges become payable as a result of such contest or protest, Tenant shall pay the same. Tenant shall receive a proportionate share of any refund applicable to the Lease Term based on the amount of Real Property Taxes paid by Tenant as Tenant's Property Share (if the refund is applicable to the land) or Tenant's Expense Share (if the refund is applicable to the Building or other improvements in the Outside Areas).

3.3 YEAR-END ADJUSTMENTS. If Landlord shall have elected to bill Tenant for the Property Operating Expenses (or any group of such expenses) on an estimated basis in accordance with the provisions of Paragraph 3.2(a)(iii) above, Landlord shall furnish to Tenant within three months following the end of the applicable calendar or fiscal year, as the case may be, a statement setting forth (i) the amount of such expenses paid or incurred during the just ended calendar or fiscal year, as appropriate, and (ii) the amount that Tenant has paid to Landlord for credit against such expenses for such period. If Tenant shall have paid more than its obligation for such expenses for the stated period, Landlord shall, at its election, either (i) credit the amount of such overpayment toward the next ensuing payment or payments of Additional Rent that would otherwise be due or (ii) refund in cash to Tenant the amount of such overpayment within thirty (30) days after it has been conclusively determined by Landlord that an overpayment has been made by Tenant. If such year-end statement shall show that Tenant did not pay its obligation for such expenses in full, then Tenant shall pay to Landlord the amount of such underpayment within ten days from Landlord's billing of same to Tenant. The provisions of this Paragraph shall survive the expiration or sooner termination of this Lease.

3.4 LATE CHARGE, AND INTEREST ON RENT IN DEFAULT. Tenant acknowledges that the late payment by Tenant of any monthly installment of Base Monthly Rent or any Additional Rent will cause Landlord to incur certain costs and expenses not contemplated under this Lease, the exact amounts of which are extremely difficult or impractical to fix. Such costs and expenses will include without limitation, administration and collection costs and processing and accounting expenses. Therefore, if any installment of Base Monthly Rent is not received by Landlord from Tenant when the same becomes due, Tenant shall immediately pay to Landlord a late charge in an amount equal to the amount set forth in ARTICLE 1 as the "Late Charge Amount," and if any Additional Rent is not received by Landlord when the same becomes due, Tenant shall immediately pay to Landlord a late charge in an amount equal to 5% of the Additional Rent not so paid; provided, however, that once but only once in any twelve (12) month period during the Lease Term, Tenant shall be entitled to written notice of non-receipt of Base Monthly Rent or Additional Rent from Landlord, and Tenant shall not be liable for any Late Charge Amount or other late charge hereunder if such installment of Base Monthly Rent or Additional Rent is received by Landlord within ten (10) days after Tenant's receipt of such notice from Landlord. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for the anticipated loss Landlord would suffer by reason of Tenant's failure to make timely payment. In no event shall this provision for a late charge be deemed to grant to Tenant a grace period or extension of time within which to pay any rental installment or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to pay each rental installment due under this Lease when due, including the right to terminate this Lease. If any rent remains delinquent for a period in excess of 10 calendar days, then, in addition to such late charge, Tenant shall pay to Landlord interest on any rent that is not so paid from said tenth day at the then maximum rate of interest not prohibited or made usurious by Law until paid.

3.5 PAYMENT OF RENT. Except as specifically provided otherwise in this Lease, all rent shall be paid in lawful money of the United States, without any abatement, reduction or offset for any reason whatsoever, to Landlord at such address as Landlord may designate from time to time. Tenant's obligation to pay Base Monthly Rent and all Additional Rent shall be appropriately prorated at the commencement and expiration of the Lease Term. The failure by Tenant to pay any Additional Rent as required pursuant to this Lease when due shall be treated the same as a failure by Tenant to pay Base Monthly Rent when due, and Landlord shall have the same rights and remedies against Tenant as Landlord would have had Tenant failed to pay the Base Monthly Rent when due.

3.6 PREPAID RENT. Tenant shall, within ten (10) days following execution of this Lease, pay to Landlord the amount set forth in ARTICLE 1 as "First Month's Prepaid Rent" as prepayment of rent for credit against the first payment of Base Monthly Rent due hereunder.

3.7 SECURITY DEPOSIT.

(a) Tenant, within ten (10) days following execution of this Lease, shall deposit with Landlord the amount set forth in ARTICLE 1 as the "Security Deposit" as security for the performance by Tenant of the terms of this Lease to be performed by Tenant, and not as prepayment of rent. Upon the commencement of the second year of the Lease

Term, and at the commencement of each subsequent year, provided that Tenant is not then in default (and has never been in default beyond any applicable notice and cure periods) in its payment of Base Monthly Rent or Additional Rent, the amount of the Security Deposit shall be reduced by twenty percent (20%) of the outstanding amount. In the event (i) Tenant becomes a publicly traded company and (ii) Tenant reports net profits for three (3) consecutive quarters (as shown on its quarterly financial statements prepared in accordance with generally accepted accounting principles), and provided that Tenant is not then in default (and has never been in default beyond any applicable notice and cure periods) in its payment of Base Monthly Rent or Additional Rent, the Security Deposit shall be returned to Tenant and thereafter no Security Deposit will be required. In the event (1) Tenant becomes a publicly traded company and maintains a market capitalization of Two Billion Dollars (\$2,000,000,000) for two consecutive quarters and (2) quarterly revenues exceed Twenty Five Million Dollars (\$25,000,000) for two consecutive quarters (as shown on its quarterly financial statements prepared in accordance with generally accepted accounting principles), and provided that Tenant is not then in default (and has never been in default beyond any applicable notice and cure periods) in its payment of Base Monthly Rent or Additional Rent, the Security Deposit shall be reduced by an amount equal to fifty percent (50%) of the original amount.

(b) Landlord may apply such portion or portions of the Security Deposit as are reasonably necessary for the following purposes: (i) to remedy any default by Tenant in the payment of Base Monthly Rent or Additional Rent or a late charge or interest on defaulted rent, or any other monetary payment obligation of Tenant under this Lease; (ii) to repair damage to the Leased Premises, the Building or the Outside Areas caused or permitted to occur by Tenant; (iii) to clean and restore and repair the Leased Premises, the Building or the Outside Areas following their surrender to Landlord if not surrendered in the condition required pursuant to the provisions of ARTICLE 2, and (iv) to remedy any other default of Tenant to the extent permitted by Law including, without limitation, paying in full on Tenant's behalf any sums claimed by materialmen or contractors of Tenant to be owing to them by Tenant for work done or improvements made at Tenant's request to the Leased Premises. In this regard, Tenant hereby waives any restriction on the uses to which the Security Deposit may be applied as contained in Section 1950.7(c) of the California Civil Code and/or any successor statute. In the event the Security Deposit or any portion thereof is so used, Tenant shall pay to Landlord, promptly upon demand, an amount in cash sufficient to restore the Security Deposit to the full original sum or shall replenish the letter of credit, if applicable. Landlord shall not be deemed a trustee of the Security Deposit. Landlord may use the Security Deposit in Landlord's ordinary business and shall not be required to segregate it from Landlord's general accounts. Tenant shall not be entitled to any interest on any cash Security Deposit held by Landlord. If Landlord transfers the Building or the Property during the Lease Term, Landlord may pay the Security Deposit to any subsequent owner in conformity with the provisions of Section 1950.7 of the California Civil Code and/or any successor statute, in which event the transferring landlord shall be released from all liability for the return of the Security Deposit. Tenant specifically grants to Landlord (and Tenant hereby waives the provisions of California Civil Code Section 1950.7 to the contrary) a period of ninety days following a surrender of the Leased Premises by Tenant to Landlord within which to inspect the Leased Premises, make required restorations and repairs, receive and verify workmen's billings therefor, and prepare a final accounting with respect to the Security Deposit. In no event shall the Security Deposit or any portion thereof, be considered prepaid rent. Notwithstanding the foregoing, in lieu of a cash Security Deposit, Tenant may deliver to Landlord a clean, unconditional, irrevocable, transferable letter of credit in the full amount of the Security Deposit required pursuant to ARTICLE 1 hereof (the "Letter of Credit") in form and issued by a financial institution ("Issuer") satisfactory to Landlord in its sole discretion, substantially in the form attached as Exhibit E. The Letter of Credit shall permit partial draws, and provide that draws thereunder will be honored upon receipt by Issuer of a written statement signed by Landlord or its authorized agent stating that Landlord is entitled to draw down on the Letter of Credit pursuant to the terms of the Lease. The Letter of Credit shall have an expiration period of one (1) year but shall automatically renew by its terms unless affirmatively cancelled by either Issuer or Tenant, in which case Issuer must provide Landlord 30 days' prior written notice of such expiration or cancellation. Any amount drawn under the Letter of Credit shall be held or used by Landlord in accordance with this Section 3.7. If the amount of the Letter of Credit is reduced in accordance with the terms of this Lease, Tenant shall have the right to replace the existing Letter of Credit with another Letter of Credit at the reduced amount. If the Tenant fails to renew or replace the Letter of Credit as required under this Lease at least thirty (30) days before its stated expiration date, Landlord may draw upon the entire amount of the Letter of Credit, provided that if Landlord so draws on the Letter of Credit, so long as Tenant is not otherwise in default, Landlord shall deliver the amount so drawn to Tenant upon Tenant's delivery to Landlord of a new Letter of Credit in the amount then required, provided that Tenant makes such delivery within ten (10) days of Landlord's draw.

(c) In the event Mathilda Associates LLC transfers or sells its interest in the Property to person any entity other than an institutional buyer (a "Non-Institutional Buyer"), Tenant shall have the right to require that the Security Deposit be held by the lender, if any, providing the financing for such Non-Institutional Buyer to acquire the Property, or be held in an escrow account controlled by such Non-Institutional Buyer, which account shall be subject to escrow instructions specifying that (1) Landlord shall only have the right to draw on the Letter of Credit to the extent the Landlord is entitled to pursuant to this Section 3.7, (2) Landlord shall deliver a statement to the escrow holder prior to any draw down, certifying that Landlord is entitled to draw on the Letter of Credit pursuant to this Section 3.7, and (3) that within ninety (90) days after expiration of this Lease, the escrow holder shall release the Letter to Credit to Tenant consistent with the terms of this Lease. For purposes hereof, the term "institutional buyer" shall include, without limitation, life insurance companies, banks, pension funds, pension fund advisors, opportunity funds, hedge funds, private owners who directly or indirectly own more than \$200,000,000 of real estate, or real estate investment trusts.

ARTICLE 4

USE OF LEASED PREMISES AND OUTSIDE AREA

4.1 PERMITTED USE. Tenant shall be entitled to use the Leased Premises solely for the "Permitted Use" as set forth in ARTICLE 1 and for no other purpose whatsoever. Tenant shall have the right to vacate the Leased Premises at any time during the Term of this Lease, provided Tenant maintains the Leased Premises in the same condition as if fully occupied and as otherwise required by the terms of this Lease. Tenant shall have the right to use the Outside Areas in conjunction with its Permitted Use of the Leased Premises solely for the purposes for which they were designed and intended and for no other purposes whatsoever.

4.2 GENERAL LIMITATIONS ON USE. Tenant shall not do or permit anything to be done in or about the Leased Premises, the Building, the Outside Areas or the Property which does or could (i) jeopardize the structural integrity of the Building or (ii) cause damage to any part of the Leased Premises, the Building, the Outside Areas or the Property. Tenant shall not operate any equipment within the Leased Premises which does or could (i) injure, vibrate or shake the Leased Premises or the Building, (ii) damage, overload or impair the efficient operation of any electrical, plumbing, heating, ventilating or air conditioning systems within or servicing the Leased Premises or the Building, or (iii) damage or impair the efficient operation of the sprinkler system (if any) within or servicing the Leased Premises or the Building. Tenant shall not (i) install any equipment or antennas on or make any penetrations of the exterior walls or roof of the Building or (ii) affix any equipment or make any penetrations or cuts in the floors, ceiling or walls of the Leased Premises, without Landlord's prior written consent, which consent shall not be unreasonably withheld; provided, however, that it shall be reasonable for Landlord to withhold its consent if Tenant's proposed installations or penetrations impact the structural integrity of the Building. Any installations, penetrations or cuts in the interior or exterior walls, roof, floor or ceiling of the Building will be subject to Tenant's restoration obligations set forth in Section 2.6. Tenant shall not place any loads upon the floors, walls, ceiling or roof systems which could endanger the structural integrity of the Building or damage its floors, foundations or supporting structural components. Tenant shall not place any explosive, flammable or harmful fluids or other waste materials in the drainage systems of the Leased Premises, the Building, the Outside Areas or the Property. Tenant shall not drain or discharge any fluids in the landscaped areas or across the paved areas of the Property. Tenant shall not use any of the Outside Areas for the storage of its materials, supplies, inventory or equipment and all such materials, supplies, inventory or equipment shall at all times be stored within the Leased Premises. Tenant shall not commit nor permit to be committed any waste in or about the Leased Premises, the Building, the Outside Areas or the Property.

4.3 NOISE AND EMISSIONS. All noise generated by Tenant in its use of the Leased Premises shall be confined or muffled so that it does not interfere with the businesses of or annoy the occupants and/or users of adjacent properties. All dust, fumes, odors and other emissions generated by Tenant's use of the Leased Premises shall be sufficiently dissipated in accordance with sound environmental practice and exhausted from the Leased Premises in such a manner so as not to interfere with the businesses of or annoy the occupants and/or users of adjacent properties, or cause any damage to the Leased Premises, the Building, the Outside Areas or the Property or any component part thereof or the property of adjacent property owners.

4.4 TRASH DISPOSAL. Tenant shall provide trash bins or other adequate garbage disposal facilities within the trash enclosure areas provided or permitted by Landlord outside the Leased Premises sufficient for the interim disposal of all of its trash, garbage and waste. All such trash, garbage and waste temporarily stored in such areas shall be stored in such a manner so that it is not visible from outside of such areas, and Tenant shall cause such trash, garbage and waste to be regularly removed from the Property. Tenant shall keep the Leased Premises in a clean, safe and neat condition and keep the Outside Areas (except the trash enclosure areas) free and clear of all of Tenant's trash, garbage, waste and/or boxes, pallets and containers containing same at all times.

4.5 PARKING. Tenant shall have the non-exclusive use of its proportionate share (calculated using the same method as Tenant's Expense Share) of parking spaces located in the Outside Areas (which, subject to any transportation management requirements of the City of Sunnyvale, shall be no less than 3.6 spaces per 1,000 rentable square feet in the Leased Premises). During construction of the 1184 Building (as defined in ARTICLE 16), Tenant shall have the non-exclusive use of all parking areas located on the Property, subject to Landlord's use thereof for construction activities. Notwithstanding the foregoing, Tenant shall have exclusive use of the thirty (30) parking spaces directly in front of the front door to the Leased Premises. Tenant shall not, at any time, park or permit to be parked any recreational vehicles, inoperative vehicles or equipment in the Outside Areas or on any portion of the Property. Tenant agrees to assume responsibility for compliance by its employees and invitees with the parking provisions contained herein. If Tenant or its employees park any vehicle within the Property in violation of these provisions, then Landlord may, upon prior written notice to Tenant giving Tenant one (1) day (or any applicable statutory notice period, if longer than one (1) day) to remove such vehicle(s). Landlord reserves the right to grant easements and access rights to others for use of the parking areas on the Property, provided that such grants do not materially interfere with Tenant's use of the parking areas.

4.6 SIGNS. Other than business identification signs allowed pursuant to this Section 4.6, Tenant shall not place or install on or within any portion of the Leased Premises, the exterior of the Building, the Outside Areas or the Property any sign, advertisement, banner, placard, or picture which is visible from the exterior of the Leased Premises. Subject to Landlord's prior written consent, which shall not be unreasonably withheld, and subject to approval by the City of Sunnyvale, Tenant shall have the right to install an illuminated business identification sign on the Building. Landlord shall cooperate with Tenant's efforts to obtain approval from the City of Sunnyvale for an illuminated sign. Any such sign shall be installed at Tenant's sole cost and expense and only in strict compliance with Landlord's approval (which shall not be unreasonably withheld), and all Laws and all requirements of the City of Sunnyvale, using a person approved by Landlord to install same. Subject to Landlord's prior written consent,

which shall not be unreasonably withheld, and subject to approval by the City of Sunnyvale of the installation of no less than two (2) monument signs for the Property, Tenant shall have the right to its own business identification monument sign on the Property, in a location which indicates that such sign belongs to the Building (or, if Tenant occupies all buildings on the Property, Tenant shall have the exclusive right to all such monument signs), to be installed by Landlord at its sole cost and expense. In the event the City of Sunnyvale only approves the installation of one (1) monument sign for the Property, Tenant shall have the right to place its business identification signage on the top of said monument sign, which monument sign shall be installed by Landlord, at its sole cost and expense. Such monument sign shall comply with all requirements imposed by the City of Sunnyvale. Landlord may remove any signs (which have not been approved in writing by Landlord), advertisements, banners, placards or pictures so placed by Tenant on or within the Leased Premises, the exterior of the Building, the Outside Areas or the Property and charge to Tenant the cost of such removal, together with any costs incurred by Landlord to repair any damage caused thereby, including any cost incurred to restore the surface (upon which such sign was so affixed) to its original condition. Notwithstanding anything to the contrary contained herein, Tenant shall remove all of Tenant's signs, repair any damage caused thereby, and restore the surface upon which the sign was affixed to its original condition, all to Landlord's reasonable satisfaction, upon the termination of this Lease.

4.7 COMPLIANCE WITH LAWS AND PRIVATE RESTRICTIONS. Tenant shall abide by and shall promptly observe and comply with, at its sole cost and expense, all Laws and Private Restrictions respecting the use and occupancy of the Leased Premises, the Building, the Outside Areas or the Property including, without limitation, all Laws governing the use and/or disposal of Hazardous Materials (except that Tenant shall not be responsible for any Hazardous Materials at the Leased Premises, the Building, the Outside Areas or the Property prior to the Delivery Date), and shall defend with competent counsel, indemnify and hold Landlord harmless from any claims, damages or liability resulting from Tenant's failure to so abide, observe, or comply. Tenant's obligations hereunder shall survive the expiration or sooner termination of this Lease.

4.8 COMPLIANCE WITH INSURANCE REQUIREMENTS. With respect to any insurance policies required or permitted to be carried by Landlord in accordance with the provision of this Lease, copies of which have been or will, upon Tenant's written request therefor, be provided to Tenant, Tenant shall not conduct nor permit any other person to conduct any activities nor keep, store or use (or allow any other person to keep, store or use) any item or thing within the Leased Premises, the Building, the Outside Areas or the Property which (i) is prohibited under the terms of any such policies, (ii) could result in the termination of the coverage afforded under any of such policies, (iii) could give to the insurance carrier the right to cancel any of such policies, or (iv) could cause an increase in the rates (over standard rates) charged for the coverage afforded under any of such policies. Tenant shall comply with all requirements of any insurance company, insurance underwriter, or Board of Fire Underwriters which are necessary to maintain, at standard rates, the insurance coverages carried by either Landlord or Tenant pursuant to this Lease.

4.9 LANDLORD'S RIGHT TO ENTER. Landlord and its agents shall have the right to enter the Leased Premises during normal business hours after giving Tenant reasonable notice and subject to Tenant's reasonable security measures for the purpose of (i) inspecting the same; (ii) showing the Leased Premises to prospective purchasers, mortgagees or tenants; (iii) making necessary alterations, additions or repairs; and (iv) performing any of Tenant's obligations when Tenant has failed to do so. Landlord shall have the right to enter the Leased Premises during normal business hours (or as otherwise agreed), subject to Tenant's reasonable security measures, for purposes of supplying any maintenance or services agreed to be supplied by Landlord. Landlord shall have the right to enter the Outside Areas during normal business hours for purposes of (i) inspecting the exterior of the Building and the Outside Areas; (ii) posting notices of nonresponsibility (and for such purposes Tenant shall provide Landlord at least thirty days' prior written notice of any work to be performed on the Leased Premises); and (iii) supplying any services to be provided by Landlord. Any entry into the Leased Premises or the Outside Areas obtained by Landlord in accordance with this paragraph shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Leased Premises, or an eviction, actual or constructive of Tenant from the Leased Premises or any portion thereof. In exercising its rights under this Section 4.9, Landlord shall use commercially reasonable efforts to minimize interference with Tenant's use of the Leased Premises and the Outside Areas.

4.10 USE OF OUTSIDE AREAS. Tenant, in its use of the Outside Areas, shall at all times keep the Outside Areas in a safe condition free and clear of all materials, equipment, debris, trash (except within existing enclosed trash areas), inoperable vehicles, and other items which are not specifically permitted by Landlord to be stored or located thereon by Tenant. If, in the opinion of Landlord, unauthorized persons are using any of the Outside Areas by reason of, or under claim of, the express or implied authority or consent of Tenant, then Tenant, upon demand of Landlord, shall restrain, to the fullest extent then allowed by Law, such unauthorized use, and shall initiate such appropriate proceedings as may be required to so restrain such use. Landlord reserves the right to grant easements and access rights to others for use of the Outside Areas and shall not be liable to Tenant for any diminution in Tenant's right to use the Outside Areas as a result; provided, however, that other than for construction of the 1184 Building and other requirements under the Use Permit, of which the Tenant has knowledge and which the Tenant recognizes will be taking place during the Lease Term, Landlord shall not exercise its rights pursuant to this Section 4.10 in a manner which materially and adversely affects Tenant's ability to use the Leased Premises and the Outside Areas for the Permitted Use or materially and adversely affects Tenant's parking rights.

4.11 ENVIRONMENTAL PROTECTION. Tenant's obligations under this Section 4.11 shall survive the expiration or termination of this Lease.

(a) As used herein, the term "Hazardous Materials" shall mean any toxic or hazardous substance, material or waste or any pollutant or infectious or radioactive material, including but not limited to those substances, materials or wastes regulated now or in the future under any of the following statutes or regulations and any and all of those substances included within the definitions of "hazardous substances," "hazardous materials," "hazardous waste," "hazardous chemical substance or mixture," "imminently hazardous chemical substance or mixture," "toxic

substances," "hazardous air pollutant," "toxic pollutant," or "solid waste" in the (a) Comprehensive Environmental Response, Compensation and Liability Act of 1990 ("CERCLA" or "Superfund"), as amended by the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), 42 U.S.C. Section 9601 et seq., (b) Resource Conservation and Recovery Act of 1976 ("RCRA"), 42 U.S.C. Section 6901 et seq., (c) Federal Water Pollution Control Act ("FSPCA"), 33 U.S.C. Section 1251 et seq., (d) Clean Air Act ("CAA"), 42 U.S.C. Section 7401 et seq., (e) Toxic Substances Control Act ("TSCA"), 14 U.S.C. Section 2601 et seq., (f) Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., (g) Carpenter-Presley-Tanner Hazardous Substance Account Act ("California Superfund"), Cal. Health & Safety Code Section 25300 et seq., (h) California Hazardous Waste Control Act, Cal. Health & Safety code Section 25100 et seq., (i) Porter-Cologne Water Quality Control Act ("Porter-Cologne Act"), Cal. Water Code Section 13000 et seq., (j) Hazardous Waste Disposal Land Use Law, Cal. Health & Safety codes Section 25220 et seq., (k) Safe Drinking Water and Toxic Enforcement Act of 1986 ("Proposition 65"), Cal. Health & Safety code Section 25249.5 et seq., (l) Hazardous Substances Underground Storage Tank Law, Cal. Health & Safety code Section 25280 et seq., (m) Air Resources Law, Cal. Health & Safety Code Section 39000 et seq., and (n) regulations promulgated pursuant to said laws or any replacement thereof, or as similar terms are defined in the federal, state and local laws, statutes, regulations, orders or rules. Hazardous Materials shall also mean any and all other biohazardous wastes and substances, materials and wastes which are, or in the future become, regulated under applicable Laws for the protection of health or the environment, or which are classified as hazardous or toxic substances, materials or wastes, pollutants or contaminants, as defined, listed or regulated by any federal, state or local law, regulation or order or by common law decision, including, without limitation, (i) trichloroethylene, tetrachloroethylene, perchloroethylene and other chlorinated solvents, (ii) any petroleum products or fractions thereof, (iii) asbestos, (iv) polychlorinated biphenyls, (v) flammable explosives, (vi) urea formaldehyde, (vii) radioactive materials and waste, and (viii) materials and wastes that are harmful to or may threaten human health, ecology or the environment.

(b) Notwithstanding anything to the contrary in this Lease, Tenant, at its sole cost, shall comply with all Laws relating to the storage, use and disposal of Hazardous Materials by Tenant, its subtenants, their respective agents, employees, contractors or invitees (collectively, the "Tenant Parties"). Tenant shall not store, use or dispose of any Hazardous Materials except for those Hazardous Materials listed in a Hazardous Materials management plan ("HMMP") which Tenant shall deliver to Landlord upon execution of this Lease and update at least annually with Landlord ("Permitted Materials") which may be used, stored and disposed of provided (i) such Permitted Materials are used, stored, transported, and disposed of in strict compliance with applicable laws,

(ii) such Permitted Materials shall be limited to the materials listed on and may be used only in the quantities specified in the HMMP, and (iii) Tenant shall provide Landlord with copies of all material safety data sheets and other documentation required under applicable Laws in connection with Tenant's use of Permitted Materials as and when such documentation is provided to any regulatory authority having jurisdiction, in no event shall Tenant cause or permit to be discharged into the plumbing or sewage system of the Building or onto the land underlying or adjacent to the Building any Hazardous Materials. Tenant shall be solely responsible for and shall defend, indemnify, and hold Landlord and its agents harmless from and against all claims, costs and liabilities, including attorneys' fees and costs, arising out of or in connection with Tenant's storage, use and/or disposal of Hazardous Materials. If the presence of Hazardous Materials on the Leased Premises caused or permitted by Tenant results in contamination or deterioration of water or soil, then Tenant shall promptly take any and all action necessary to clean up such contamination as required by Law, but the foregoing shall in no event be deemed to constitute permission by Landlord to allow the presence of such Hazardous Materials. At any time prior to the expiration of the Lease Term if Tenant has a reasonable basis to suspect that there has been any release or the presence of Hazardous Materials in the ground or ground water on the Leased Premises which did not exist upon commencement of the Lease Term, Tenant shall have the right to conduct appropriate tests of water and soil and to deliver to Landlord the results of such tests to demonstrate that no contamination in excess of permitted levels has occurred as a result of Tenant's use of the Leased Premises. Tenant shall further be solely responsible for, and shall defend, indemnify, and hold Landlord and its agents harmless from and against all claims, costs and liabilities, including attorneys' fees and costs, arising out of or in connection with any removal, cleanup and restoration work and materials required hereunder to return the Leased Premises and any other property of whatever nature to their condition existing prior to the appearance of the Hazardous Materials, to the extent such removal, cleanup and restoration work is required by Law.

(c) Upon termination or expiration of the Lease, Tenant at its sole expense shall cause all Hazardous Materials placed in or about the Leased Premises, the Building and/or the Property by any Tenant Parties, and all installations (whether interior or exterior) made by or on behalf of Tenant relating to the storage, use, disposal or transportation of Hazardous Materials to be removed from the property and transported for use, storage or disposal in accordance and compliance with all Laws and other requirements respecting Hazardous Materials used or permitted to be used by Tenant. Tenant shall apply for and shall obtain from all appropriate regulatory authorities (including any applicable fire department or regional water quality control board) all permits, approvals and clearances necessary for the closure of the Property and shall take all other actions as may be required to complete the closure of the Building and the Property. In addition, prior to vacating the Leased Premises, Tenant shall undertake and submit to Landlord an environmental site assessment from an environmental consulting company reasonably acceptable to Landlord which site assessment shall evidence Tenant's compliance with this Paragraph 4.11.

(d) At any time prior to expiration of the Lease term, subject to reasonable prior notice (not less than forty-eight (48) hours) and Tenant's reasonable security requirements and provided such activities do not unreasonably interfere with the conduct of Tenant's business at the Leased Premises, Landlord shall have the right to enter in and upon the Property, Building and Leased Premises in order to conduct appropriate tests of water and soil to determine whether levels of any Hazardous Materials in excess of legally permissible levels has occurred as a result of any Tenant Parties' use thereof. Landlord shall furnish copies of all such test results and reports to Tenant and, at Tenant's option and cost, shall permit split sampling for testing and analysis by Tenant. Such testing shall be at Tenant's expense if Landlord has a reasonable basis for suspecting and confirms the presence of Hazardous

Materials in the soil or surface or ground water in, on, under, or about the Property, the Building or the Leased Premises, which has been caused by or resulted from the activities of any Tenant Parties.

(e) Landlord may voluntarily cooperate in a reasonable manner with the efforts of all governmental agencies in reducing actual or potential environmental damage. Tenant shall not be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of such compliance or cooperation. Tenant agrees at all times to cooperate fully with the requirements and recommendations of governmental agencies regulating, or otherwise involved in, the protection of the environment.

4.12 RULES AND REGULATIONS. In the event Juniper Networks, Inc. is no longer the sole tenant of the Building, Landlord shall have the right from time to time to establish reasonable rules and regulations and/or amendments or additions thereto respecting the use of the Leased Premises and the Outside Areas for the care and orderly management of the Property. Upon delivery to Tenant of a copy of such rules and regulations or any amendments or additions thereto, Tenant shall comply with such rules and regulations. A violation by Tenant of any of such rules and regulations shall constitute a default by Tenant under this Lease. If there is a conflict between the rules and regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail. Landlord shall not be responsible or liable to Tenant for the violation of such rules and regulations by any other tenant of the Property.

4.13 RESERVATIONS. Landlord reserves the right from time to time to grant, without the consent or joinder of Tenant, such easements, rights of way and dedications that Landlord deems necessary, and to cause the recordation of parcel maps and covenants, conditions and restrictions, so long as such easements, rights of way, dedications and covenants, conditions and restrictions do not materially and adversely affect the use of the Leased Premises by Tenant, materially and adversely affect Tenant's parking rights, and do not prohibit any Permitted Use. Tenant agrees to execute any documents reasonably request by Landlord to effectuate any such easement rights, dedications, maps or covenants, conditions and restrictions.

ARTICLE 5

REPAIRS, MAINTENANCE, SERVICES AND UTILITIES

5.1 REPAIR AND MAINTENANCE. Except in the case of damage to or destruction of the Leased Premises, the Building, the Outside Areas or the Property caused by an act of God or other peril, in which case the provisions of ARTICLE 10 shall control, the parties shall have the following obligations and responsibilities with respect to the repair and maintenance of the Leased Premises, the Building, the Outside Areas, and the Property.

(a) **TENANT'S OBLIGATIONS.** Tenant shall, at all times during the Lease Term and at its sole cost and expense, regularly clean and continuously keep and maintain in good order, condition and repair the Leased Premises and every part thereof including, without limiting the generality of the foregoing, (i) all interior walls, floors and ceilings, (ii) all windows, doors and skylights, (iii) all electrical wiring, conduits, connectors and fixtures, (iv) all plumbing, pipes, sinks, toilets, faucets and drains, (v) all lighting fixtures, bulbs and lamps and all heating, ventilating and air conditioning equipment, and (vi) all entranceways to the Leased Premises. Tenant shall hire, at Tenant's sole cost and expense, a licensed heating, ventilating and air conditioning contractor to regularly and periodically (not less frequently than every three months) inspect and perform required maintenance on the heating, ventilating and air conditioning equipment and systems serving the Leased Premises. Tenant shall hire, at Tenant's sole cost and expense, a licensed roofing contractor to regularly and periodically (not less frequently than semi-annually) inspect and perform required maintenance on the roof of the Building. If Tenant shall be in default of its obligations to maintain the heating, ventilating and air conditioning equipment and systems or roof, Landlord may, at its election, contract in its own name for such regular and periodic inspections and maintenance of the heating, ventilating and air conditioning equipment and systems and/or roof, and charge to Tenant, as Additional Rent, the cost thereof. Tenant shall, at its sole cost and expense, repair all damage to the Leased Premises, the Building, the Outside Areas or the Property caused by the activities of Tenant, its employees, invitees or contractors promptly following written notice from Landlord to so repair such damages (subject to Section 9.3 of this Lease). If Tenant shall fail to perform the required maintenance or fail to make repairs required of it pursuant to this paragraph within a reasonable period of time following notice from Landlord to do so, then Landlord may, at its election and without waiving any other remedy it may otherwise have under this Lease or at law, perform such maintenance or make such repairs and charge to Tenant, as Additional Rent, the costs so incurred by Landlord for same. All glass within or a part of the Leased Premises, both interior and exterior, is at the sole risk of Tenant and any broken glass shall promptly be replaced by Tenant at Tenant's expense with glass of the same kind, size and quality. Notwithstanding the foregoing, in the event that, due to normal wear and tear (and not due to other factors, including, without limitation, Tenant's misuse, overuse or Tenant's alterations, improvements or modifications to the Leased Premises, the Outside Areas or the Building), Tenant would be required by this Section 5.1(a) to make a repair or replacement that would be considered a "capital improvement" as determined in accordance with generally accepted accounting principles, Landlord shall make such repair or replacement and charge to Tenant, as Additional Rent, the cost thereof (provided that the cost of such repair or replacement shall be amortized over its useful life and only the amortizing portion of such cost shall be included in Additional Rent on a monthly basis).

(b) **LANDLORD'S OBLIGATION.** Landlord shall at its sole cost and expense, at all times during the Lease Term, maintain in good condition and repair the foundation, the footings, the roof screen, the roof screen penetrations, the roof structure, load-bearing and exterior walls of the Building. Landlord shall, at all times during the Lease Term, regularly and continuously keep and maintain in good order and repair and in a clean and safe condition the Outside Areas, and charge to Tenant, as Additional Rent, the cost thereof. Landlord shall regularly and periodically sweep and clean the driveways and parking areas, and charge to Tenant, as Additional Rent, the cost thereof.

5.2 UTILITIES. Tenant shall arrange at its sole cost and expense and in its own name, for the supply of gas and electricity to the Leased Premises. In the event that such services are not separately metered, Tenant shall, at its sole expense, cause such meters to be installed. Landlord shall maintain the water meter(s) in its own name; provided, however, that if at any time during the Lease Term Landlord shall require Tenant to put the water service in Tenant's name, Tenant shall do so at Tenant's sole cost. Tenant shall be responsible for determining if the local supplier of water, gas and electricity can supply the needs of Tenant and whether or not the existing water, gas and electrical distribution systems within the Building and the Leased Premises are adequate for Tenant's needs. Tenant shall be responsible for determining if the existing sanitary and storm sewer systems now servicing the Leased Premises and the Property are adequate for Tenant's needs. Tenant shall pay all charges for water, gas, electricity and storm and sanitary sewer services as so supplied to the Leased Premises, irrespective of whether or not the services are maintained in Landlord's or Tenant's name.

5.3 SECURITY. Tenant acknowledges that Landlord has not undertaken any duty whatsoever to provide security for the Leased Premises, the Building, the Outside Areas or the Property and, accordingly, Landlord is not responsible for the security of same or the protection of Tenant's property or Tenant's employees, invitees or contractors. To the extent Tenant determines that such security or protection services are advisable or necessary, Tenant shall arrange for and pay the costs of providing same.

5.4 ENERGY AND RESOURCE CONSUMPTION. Landlord may voluntarily cooperate in a reasonable manner with the efforts of governmental agencies and/or utility suppliers in reducing energy or other resource consumption within the Property. Tenant shall not be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of such compliance or cooperation. Tenant agrees at all times to cooperate fully with Landlord and to abide by all reasonable rules established by Landlord (i) in order to maximize the efficient operation of the electrical, heating, ventilating and air conditioning systems and all other energy or other resource consumption systems with the Property and/or (ii) in order to comply with the requirements and recommendations of utility suppliers and governmental agencies regulating the consumption of energy and/or other resources.

5.5 LIMITATION OF LANDLORD'S LIABILITY. Landlord shall not be liable to Tenant for injury to Tenant, its employees, agents, invitees or contractors, damage to Tenant's property or loss of Tenant's business or profits, nor shall Tenant be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of (i) Landlord's failure to provide security services or systems within the Property for the protection of the Leased Premises, the Building or the Outside Areas, or the protection of Tenant's property or Tenant's employees, invitees, agents or contractors, or (ii) Landlord's failure to perform any maintenance or repairs to the Leased Premises, the Building, the Outside Areas or the Property until Tenant shall have first notified Landlord, in writing, of the need for such maintenance or repairs, and then only after Landlord shall have had a reasonable period of time following its receipt of such notice within which to perform such maintenance or repairs, or (iii) any failure, interruption, rationing or other curtailment in the supply of water, electric current, gas or other utility service to the Leased Premises, the Building, the Outside Areas or the Property from whatever cause (other than to the extent caused by Landlord's active negligence or willful misconduct), or (iv) the unauthorized intrusion or entry into the Leased Premises by third parties (other than Landlord).

ARTICLE 6

ALTERATIONS AND IMPROVEMENTS

6.1 BY TENANT. Tenant shall not make any alterations to or modifications of the Leased Premises or construct any improvements within the Leased Premises until Landlord shall have first approved, in writing, the plans and specifications therefor, which approval shall not be unreasonably withheld or delayed. Landlord's approval shall be deemed given if not denied by Landlord in a written notice to Tenant delivered within fifteen (15) days following receipt of Tenant's written request. Tenant's written request shall also contain a request for Landlord to elect whether or not it will require Tenant to remove the subject alterations, modifications or improvements at the expiration or earlier termination of this Lease. If such additional request is not included, Landlord may make such election at the expiration or earlier termination of this Lease (and for purposes of Tenant's removal obligations set forth in Section 2.6 above, Landlord shall be deemed to have made the election at the time the alterations, modifications or improvements were completed). Notwithstanding the foregoing, Tenant shall have the right, at its sole cost and expense, subject to the prior written approval of Landlord (which approval shall not be unreasonably withheld or delayed) to construct a covered open walkway between the Building and the 1194 Building and Tenant shall not be required to remove such walkway upon the termination of this Lease. All modifications, alterations or improvements, once approved by Landlord, shall be made, constructed or installed by Tenant at Tenant's expense (including all permit fees and governmental charges related thereto), using a licensed contractor first approved by Landlord, in substantial compliance with the Landlord-approved plans and specifications therefor. All work undertaken by Tenant shall be done in accordance with all Laws and in a good and workmanlike manner using new materials of good quality. Tenant shall not commence the making of any such modifications or alterations or the construction of any such improvements until

(i) all required governmental approvals and permits shall have been obtained, (ii) all requirements regarding insurance imposed by this Lease have been satisfied, (iii) Tenant shall have given Landlord at least five business days prior written notice of its intention to commence such work so that Landlord may post and file notices of non-responsibility, and (iv) if requested by Landlord, Tenant shall have obtained contingent liability and broad form builder's risk insurance in an amount satisfactory to Landlord in its reasonable discretion to cover any perils relating to the proposed work not covered by insurance carried by Tenant pursuant to ARTICLE 9. In no event shall Tenant make any modification, alterations or improvements whatsoever to the Outside Areas or the exterior or structural components of the Building including, without limitation, any cuts or penetrations in the floor, roof or exterior walls of the Leased Premises (except to the extent Tenant has obtained Landlord's approval pursuant to Section 4.2). As used in this ARTICLE, the term "modifications, alterations and/or improvements" shall include, without limitation, the installation of additional electrical outlets, overhead lighting

fixtures, drains, sinks, partitions, doorways, or the like. Notwithstanding the foregoing, Tenant, without Landlord's prior written consent, shall be permitted to make non-structural alterations to the Building, provided that: (a) such alterations do not exceed \$20,000 individually, (b) Tenant shall timely provide Landlord the notice required pursuant to Paragraph 4.9 above, (c) Tenant shall notify Landlord in writing within thirty (30) days of completion of the alteration and deliver to Landlord a set of the plans and specifications therefor, either "as built" or marked to show construction changes made, and (d) Tenant shall, upon Landlord's request, remove the alteration at the termination of the Lease and restore the Leased Premises to their condition prior to such alteration.

6.2 OWNERSHIP OF IMPROVEMENTS. All modifications, alterations and improvements made or added to the Leased Premises by Tenant (other than Tenant's inventory, equipment, movable furniture, wall decorations and trade fixtures) shall be deemed real property and a part of the Leased Premises, but shall remain the property of Tenant during the Lease. Any such modifications, alterations or improvements, once completed, shall not be altered or removed from the Leased Premises during the Lease Term without Landlord's written approval first obtained in accordance with the provisions of Paragraph 6.1 above. At the expiration or sooner termination of this Lease, all such modifications, alterations and improvements other than Tenant's inventory, equipment, movable furniture, wall decorations and trade fixtures, shall automatically become the property of Landlord and shall be surrendered to Landlord as part of the Leased Premises as required pursuant to ARTICLE 2, unless Landlord shall require Tenant to remove any of such modifications, alterations or improvements in accordance with the provisions of ARTICLE 2, in which case Tenant shall so remove same. Landlord shall have no obligations to reimburse Tenant for all or any portion of the cost or value of any such modifications, alterations or improvements so surrendered to Landlord. All modifications, alterations or improvements which are installed or constructed on or attached to the Leased Premises by Landlord and/or at Landlord's expense shall be deemed real property and a part of the Leased Premises and shall be property of Landlord. All lighting, plumbing, electrical, heating, ventilating and air conditioning fixtures, partitioning, window coverings, wall coverings and floor coverings installed by Tenant shall be deemed improvements to the Leased Premises and not trade fixtures of Tenant. Landlord shall have no lien or interest whatsoever in any of Tenant's property or equipment located in the Leased Premises or elsewhere, and Landlord waives any such liens and interests and Landlord hereby agrees to execute a Landlord Waiver with respect thereto in favor of any lender or equipment lessor of Tenant strictly in the form attached as Exhibit F.

6.3 ALTERATIONS REQUIRED BY LAW. Tenant shall make all modifications, alterations and improvements to the Leased Premises, at its sole cost, that are required by any Law because of (i) Tenant's use or occupancy of the Leased Premises, the Building, the Outside Areas or the Property, (ii) Tenant's application for any permit or governmental approval, or (iii) Tenant's making of any modifications, alterations or improvements to or within the Leased Premises. If Landlord shall, at any time during the Lease Term, be required by any governmental authority to make any modifications, alterations or improvements to the Building or the Property, the cost incurred by Landlord in making such modifications, alterations or improvements, including interest at a rate equal to the greater of (a) 12%, or (b) the sum of that rate quoted by Wells Fargo Bank, N.T. & S.A. from time to time as its prime rate, plus two percent (2%) ("Wells Prime Plus Two") (but in no event more than the maximum interest rate permitted by law), shall be amortized by Landlord over the useful life of such modifications, alterations or improvements, as determined in accordance with generally accepted accounting principles, and the monthly amortized cost of such modifications, alterations and improvements as so amortized shall be considered a Property Maintenance Cost.

6.4 LIENS. Tenant shall keep the Property and every part thereof free from any lien, and shall pay when due all bills arising out of any work performed, materials furnished, or obligations incurred by Tenant, its agents, employees or contractors relating to the Property. If any such claim of lien is recorded against Tenant's interest in this Lease, the Property or any part thereof, Tenant shall bond against, discharge or otherwise cause such lien to be entirely released within ten days after the same has been recorded. Tenant's failure to do so shall be conclusively deemed a material default under the terms of this Lease.

ARTICLE 7

ASSIGNMENT AND SUBLETTING BY TENANT

7.1 BY TENANT. Tenant shall not sublet the Leased Premises or any portion thereof or assign its interest in this Lease, whether voluntarily or by operation of Law, without Landlord's prior written consent which shall not be unreasonably withheld. Any attempted subletting or assignment without Landlord's prior written consent, at Landlord's election, shall constitute a default by Tenant under the terms of this Lease. The acceptance of rent by Landlord from any person or entity other than Tenant, or the acceptance of rent by Landlord from Tenant with knowledge of a violation of the provisions of this paragraph, shall not be deemed to be a waiver by Landlord of any provision of this ARTICLE or this Lease or to be a consent to any subletting by Tenant or any assignment of Tenant's interest in this Lease. Without limiting the circumstances in which it may be reasonable for Landlord to withhold its consent to an assignment or subletting, Landlord and Tenant acknowledge that it shall be reasonable for Landlord to withhold its consent in the following instances:

- (a) the proposed assignee or sublessee is a governmental agency;
- (b) in Landlord's reasonable judgment, the use of the Leased Premises by the proposed assignee or sublessee would involve occupancy by other than a Permitted Use as set forth in ARTICLE 1, would entail any alterations which would lessen the value of the leasehold improvements in the Leased Premises, or would require increased services by Landlord;
- (c) in Landlord's reasonable judgment, the financial worth of the proposed assignee is less than that of Tenant or does not meet the credit standards applied by Landlord at the time of the proposed assignment;

(d) the proposed assignee or sublessee (or any of its affiliates) has been in material default under a lease, has been in litigation with a previous landlord due to a default under a lease, or in the ten years prior to the assignment or sublease has filed for bankruptcy protection, has been the subject of an involuntary bankruptcy, or has been adjudged insolvent;

(e) Landlord has experienced a previous default by or is in litigation with the proposed assignee or sublessee;

(f) in Landlord's reasonable judgment, the Leased Premises, or the relevant part thereof, will be used in a manner that will violate any negative covenant as to use contained in this Lease;

(g) the use of the Leased Premises by the proposed assignee or sublessee will violate any applicable law, ordinance or regulation;

(h) the proposed assignment or sublease fails to include all of the terms and provisions required to be included therein pursuant to this ARTICLE 7;

(i) Tenant is in default of any obligation of Tenant under this Lease, or Tenant has defaulted on any of its payment obligations under this Lease on three or more occasions during the 12 months preceding the date that Tenant shall request consent; or

(j) in the case of a subletting of less than the entire Leased Premises, if the subletting would result in the division of any floor of the Building into more than two subleased parcels or would require improvements to be made outside of the Leased Premises.

7.2 MERGER, REORGANIZATION, OR SALE OF ASSETS. Each of the following shall be deemed a voluntary assignment of Tenant's interest in this Lease: (a) dissolution, merger, consolidation or other reorganization of Tenant; or (b) at any time that the capital stock of Tenant is not publicly traded on a recognized exchange, the sale or transfer in one or more transactions to one or more related parties of a controlling percentage of the capital stock of Tenant; or

(c) or the sale or transfer of all or substantially all of the assets of Tenant. The phrase "controlling percentage" means the ownership of and the right to vote stock possessing more than fifty percent of the total combined voting power of all classes of Tenant's capital stock issued, outstanding and entitled to vote for the election of directors. If Tenant is a partnership, a withdrawal or change, voluntary, involuntary or by operation of Law, of any general partner, or the dissolution of the partnership, shall be deemed a voluntary assignment of Tenant's interest in this Lease. Notwithstanding the foregoing, Tenant (or any Permitted Assignee, as defined herein) may, without Landlord's prior written consent and without being subject to any of the provisions of this ARTICLE 7, including without limitation, Landlord's right to recapture any portion of the Leased Premises, sublet the Leased Premises or assign this Lease to

(individually, a "Permitted Assignee," collectively, "Permitted Assignees"): (i) a subsidiary, affiliate, division, corporation or joint venture controlling, controlled by or under common control with Tenant; or (ii) a successor corporation related to Tenant by merger, consolidation, nonbankruptcy reorganization, or government action; or (iii) a purchaser of all or substantially all of the assets of Tenant; provided that either (1) Tenant shall remain primarily liable under the Lease (except in the event it is not the surviving entity in the merger) or (2) that any Permitted Assignee under (i),

(ii) or (iii) above has a net worth equal to or greater than Tenant and does not have any contingent or off-balance sheet liabilities that make it less credit worthy than Tenant. In the event any proposed assignee or subtenant under (i),

(ii) or (iii) above has a net worth less than Tenant or has contingent or off-balance sheet liabilities that make it less credit worthy than Tenant, Landlord's consent (pursuant to Section 7.1 above) shall be required and all of the terms and conditions of this ARTICLE 7 shall apply, except that Landlord shall not be entitled to terminate this Lease pursuant to Section 7.3, and Landlord shall not be entitled to any assignment consideration or excess rentals pursuant to Section 7.5 of this Lease. If any proposed assignee or subtenant under (i), (ii) or (iii) above does not qualify as a Permitted Assignee because it has a net worth which is less than Tenant or has contingent or off-balance sheet liabilities that make it less creditworthy than Tenant, then in the event Landlord nevertheless consents (pursuant to the provisions of Section 7.1 above) to such proposed assignee or subtenant, such proposed assignee or subtenant shall constitute a Permitted Assignee under this Lease.

7.3 LANDLORD'S ELECTION. If Tenant shall desire to assign its interest under the Lease or to sublet the Leased Premises, Tenant must first notify Landlord, in writing, of its intent to so assign or sublet, at least thirty (30) days in advance of the date it intends to so assign its interest in this Lease or sublet the Leased Premises but not sooner than one hundred eighty days in advance of such date, specifying in detail the terms of such proposed assignment or subletting, including the name of the proposed assignee or sublessee, the property assignee's or sublessee's intended use of the Leased Premises, current financial statements (including a balance sheet, income statement and statement of cash flow, all prepared in accordance with generally accepted accounting principles) of such proposed assignee or sublessee, the form of documents to be used in effectuating such assignment or subletting and such other information as Landlord may reasonably request. Landlord shall have a period of ten (10) business days following receipt of such notice and the required information within which to do one of the following: (i) consent to such requested assignment or subletting subject to Tenant's compliance with the conditions set forth in Paragraph 7.4 below, or (ii) refuse to so consent to such requested assignment or subletting, provided that such consent shall not be unreasonably refused, or (iii) in the case of an assignment of this Lease or sublet of 100% of the Leased Premises, terminate this Lease. During such ten (10) business day period, Tenant covenants and agrees to supply to Landlord, upon request, all necessary or relevant information which Landlord may reasonably request respecting such proposed assignment or subletting and/or the proposed assignee or sublessee. Notwithstanding the foregoing, if Landlord elects to terminate the Lease as provided herein, Landlord shall notify Tenant thereof during such ten

(10) business day period and Tenant shall have ten (10) business days thereafter to either (i) accept Landlord's termination or (ii) rescind its request for consent to the assignment or subletting, in which case the Lease shall continue in full force and effect between Tenant and Landlord.

7.4 CONDITIONS TO LANDLORD'S CONSENT. If Landlord elects to consent, or shall have been ordered to so consent by a court of competent jurisdiction, to such requested assignment or subletting, such consent shall be expressly conditioned upon the occurrence of each of the conditions below set forth, and any purported assignment or subletting made or ordered prior to the full and complete satisfaction of each of the following conditions shall be void and, at the election of Landlord, which election may be exercised at any time following such a purported assignment or subletting but prior to the satisfaction of each of the stated conditions, shall constitute a material default by Tenant under this Lease until cured by satisfying in full each such condition by the assignee or sublessee. The conditions are as follows:

- (a) Landlord having approved in form and substance the assignment or sublease agreement and any ancillary documents, which approval shall not be unreasonably withheld by Landlord if the requirements of this ARTICLE 7 are otherwise complied with.
- (b) Each such sublessee or assignee having agreed, in writing satisfactory to Landlord and its counsel and for the benefit of Landlord, to assume, to be bound by, and to perform the obligations of this Lease to be performed by Tenant which relate to space being subleased.
- (c) Tenant having fully and completely performed all of its obligations under the terms of this Lease through and including the date of such assignment or subletting.
- (d) Tenant having reimbursed to Landlord all reasonable costs and reasonable attorneys' fees incurred by Landlord in conjunction with the processing and documentation of any such requested subletting or assignment.
- (e) Tenant having delivered to Landlord a complete and fully-executed duplicate original of such sublease agreement or assignment agreement (as applicable) and all related agreements.
- (f) Tenant having paid, or having agreed in writing to pay as to future payments, to Landlord fifty percent (50%) of all assignment consideration or excess rentals to be paid to Tenant or to any other on Tenant's behalf or for Tenant's benefit for such assignment or subletting as follows:
 - (i) If Tenant assigns its interest under this Lease and if all or a portion of the consideration for such assignment is to be paid by the assignee at the time of the assignment, that Tenant shall have paid to Landlord and Landlord shall have received an amount equal to fifty percent (50%) of the assignment consideration so paid or to be paid (whichever is the greater) at the time of the assignment by the assignee; or
 - (ii) If Tenant assigns its interest under this Lease and if Tenant is to receive all or a portion of the consideration for such assignment in future installments, that Tenant and Tenant's assignee shall have entered into a written agreement with and for the benefit of Landlord satisfactory to Landlord and its counsel whereby Tenant and Tenant's assignee jointly agree to pay to Landlord an amount equal to fifty percent (50%) of all such future assignment consideration installments to be paid by such assignee as and when such assignment consideration is so paid.
 - (iii) If Tenant subleases the Leased Premises, that Tenant and Tenant's sublessee shall have entered into a written agreement with and for the benefit of Landlord satisfactory to Landlord and its counsel whereby Tenant and Tenant's sublessee jointly agree to pay to Landlord fifty percent (50%) of all excess rentals to be paid by such sublessee as and when such excess rentals are so paid.

7.5 ASSIGNMENT CONSIDERATION AND EXCESS RENTALS DEFINED. For purposes of this ARTICLE, including any amendment to this ARTICLE by way of addendum or other writing, the term "assignment consideration" shall mean all consideration to be paid by the assignee to Tenant or to any other party on Tenant's behalf or for Tenant's benefit as consideration for such assignment, after deduction for reasonable leasing commissions and reasonable legal fees incurred by Tenant in connection with such assignment and, during the first six (6) years of the Lease Term, the cost of tenant improvements made by Tenant at Tenant's sole cost and expense to prepare the Leased Premises for the assignee, but without deduction for any other costs or expenses, and the term "excess rentals" shall mean all consideration to be paid by the sublessee to Tenant or to any other party on Tenant's behalf or for Tenant's benefit for the sublease of the Leased Premises in excess of the rent due to Landlord under the terms of this Lease for the same period, after deduction for reasonable leasing commissions and reasonable legal fees incurred by Tenant in connection with such sublease and, during the first six (6) years of the Lease Term, the cost of tenant improvements made by Tenant at Tenant's sole cost and expense to prepare the Leased Premises for the subtenant, but without deduction for any other costs or expenses. Tenant agrees that the portion of any assignment consideration and/or excess rentals arising from any assignment or subletting by Tenant which is to be paid to Landlord pursuant to this ARTICLE now is and shall then be the property of Landlord and not the property of Tenant.

7.6 PAYMENTS. All payments required by this ARTICLE to be made to Landlord shall be made in cash in full as and when they become due. At the time Tenant, Tenant's assignee or sublessee makes each such payment to Landlord, Tenant or Tenant's assignee or sublessee, as the case may be, shall deliver to Landlord an itemized statement in reasonable detail showing the method by which the amount due Landlord was calculated and certified by the party making such payment as true and correct.

7.7 GOOD FAITH. The rights granted to Tenant by this ARTICLE are granted in consideration of Tenant's express covenant that all pertinent allocations which are made by Tenant between the rental value of the Leased Premises and the value of any of Tenant's personal property which may be conveyed or leased generally concurrently with and which may reasonably be considered a part of the same transaction as the permitted assignment or subletting

shall be made fairly, honestly and in good faith. If Tenant shall breach this covenant, Landlord may immediately declare Tenant to be in default under the terms of this Lease and terminate this Lease and/or exercise any other rights and remedies Landlord would have under the terms of this Lease in the case of a material default by Tenant under this Lease.

7.8 EFFECT OF LANDLORD'S CONSENT. No subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its personal and primary obligation to pay rent and to perform all of the other obligations to be performed by Tenant hereunder. Consent by Landlord to one or more assignments of Tenant's interest in this Lease or to one or more sublettings of the Leased Premises shall not be deemed to be a consent to any subsequent assignment or subletting. If Landlord shall have been ordered by a court of competent jurisdiction to consent to a requested assignment or subletting, or such an assignment or subletting shall have been ordered by a court of competent jurisdiction over the objection of Landlord, such assignment or subletting shall not be binding between the assignee (or sublessee) and Landlord until such time as all conditions set forth in Paragraph 7.4 above have been fully satisfied (to the extent not then satisfied) by the assignee or sublessee, including, without limitation, the payment to Landlord of all agreed assignment considerations and/or excess rentals then due Landlord.

ARTICLE 8

LIMITATION ON LANDLORD'S LIABILITY AND INDEMNITY

8.1 LIMITATION ON LANDLORD'S LIABILITY AND RELEASE. Landlord shall not be liable to Tenant for, and Tenant hereby releases Landlord and its partners, principals, members, officers, agents, employees, lenders, attorneys, and consultants from, any and all liability, whether in contract, tort or on any other basis, for any injury to or any damage sustained by Tenant, Tenant's agents, employees, contractors or invitees, any damage to Tenant's property, or any loss to Tenant's business, loss of Tenant's profits or other financial loss of Tenant resulting from or attributable to the condition of, the management of, the repair or maintenance of, the protection of, the supply of services or utilities to, the damage in or destruction of the Leased Premises, the Building, the Property or the Outside Areas, including without limitation (i) the failure, interruption, rationing or other curtailment or cessation in the supply of electricity, water, gas or other utility service to the Property, the Building or the Leased Premises; (ii) the vandalism or forcible entry into the Building or the Leased Premises; (iii) the penetration of water into or onto any portion of the Leased Premises; (iv) the failure to provide security and/or adequate lighting in or about the Property, the Building or the Leased Premises, (v) the existence of any design or construction defects within the Property, the Building or the Leased Premises; (vi) the failure of any mechanical systems to function properly (such as the HVAC systems); (vii) the blockage of access to any portion of the Property, the Building or the Leased Premises, except that Tenant does not so release Landlord from such liability to the extent such damage was proximately caused by Landlord's active negligence, willful misconduct, or Landlord's failure to perform an obligation expressly undertaken pursuant to this Lease after a reasonable period of time shall have lapsed following receipt of written notice from Tenant to so perform such obligation. In this regard, Tenant acknowledges that it is fully apprised of the provisions of Law relating to releases, and particularly to those provisions contained in Section 1542 of the California Civil Code which reads as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Notwithstanding such statutory provision, and for the purpose of implementing a full and complete release and discharge, Tenant hereby (i) waives the benefit of such statutory provision and (ii) acknowledges that, subject to the exceptions specifically set forth herein, the release and discharge set forth in this paragraph is a full and complete settlement and release and discharge of all claims and is intended to include in its effect, without limitation, all claims which Tenant, as of the date hereof, does not know of or suspect to exist in its favor.

8.2 TENANT'S INDEMNIFICATION OF LANDLORD. Tenant shall defend with competent counsel satisfactory to Landlord any claims made or legal actions filed or threatened against Landlord with respect to the violation of any Law, or the death, bodily injury, personal injury, property damage, or interference with contractual or property rights suffered by any third party, occurring within the Leased Premises or resulting from Tenant's use or occupancy of the Leased Premises, the Building or the Outside Areas, or resulting from Tenant's activities in or about the Leased Premises, the Building, the Outside Areas or the Property, and Tenant shall indemnify and hold Landlord, Landlord's partners, principals, members, employees, agents and contractors harmless from any loss liability, penalties, or expense whatsoever (including any loss attributable to vacant space which otherwise would have been leased, but for such activities) resulting therefrom, except to the extent proximately caused by the active negligence or willful misconduct of Landlord or Landlord's failure to perform an obligation expressly undertaken pursuant to this Lease after a reasonable period of time shall have lapsed following receipt of written notice from Tenant to so perform such obligation. This indemnity agreement shall survive the expiration or sooner termination of this Lease.

ARTICLE 9

INSURANCE

9.1 TENANT'S INSURANCE. Tenant shall maintain insurance complying with all of the following:

(a) Tenant shall procure, pay for and keep in full force and effect, at all times during the Lease Term, the following:

(i) Comprehensive general liability insurance insuring Tenant against liability for personal injury, bodily injury, death and damage to property occurring within the Leased Premises, or resulting from Tenant's use or occupancy of the Leased Premises, the Building, the Outside Areas or the Property, or resulting from Tenant's activities in or about the Leased Premises or the Property, with coverage in an amount equal to Tenant's Required Liability Coverage (as set forth in ARTICLE 1), which insurance shall contain a "broad form liability" endorsement insuring Tenant's performance of Tenant's obligations to indemnify Landlord as contained in this Lease.

(ii) Fire and property damage insurance in so-called "fire and extended coverage" form insuring Tenant against loss from physical damage to Tenant's personal property, inventory, trade fixtures and improvements within the Leased Premises with coverage for the full actual replacement cost thereof;

(iii) Plate glass insurance, at actual replacement cost;

(iv) Pressure vessel insurance, if applicable;

(v) Workers' compensation insurance and any other employee benefit insurance sufficient to comply with all laws; and

(vi) With respect to making of alterations or the construction of improvements or the like undertaken by Tenant, contingent liability and builder's risk insurance, in an amount and with coverage reasonably satisfactory to Landlord.

(b) Each policy of liability insurance required to be carried by Tenant pursuant to this paragraph or actually carried by Tenant with respect to the Leased Premises or the Property: (i) shall, except with respect to insurance required by subparagraph (a)(vi) above, name Landlord, and such others as are designated by Landlord, as additional insureds; (ii) shall be primary insurance providing that the insurer shall be liable for the full amount of the loss, up to and including the total amount of liability set forth in the declaration of coverage, without the right of contribution from or prior payment by any other insurance coverage of Landlord; (iii) shall be in a form satisfactory to Landlord; (iv) shall be carried with companies reasonably acceptable to Landlord with Best's ratings of at least A and XI; (v) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least thirty days prior written notice to Landlord, and (vi) shall contain a so-called "severability" or "cross liability" endorsement. Each policy of property insurance maintained by Tenant with respect to the Leased Premises or the Property or any property therein (i) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least thirty days prior written notice to Landlord and (ii) shall contain a waiver and/or a permission to waive by the insurer of any right of subrogation against Landlord, its partners, principals, members, officers, employees, agents and contractors, which might arise by reason of any payment under such policy or by reason of any act or omission of Landlord, its partners, principals, members, officers, employees, agents and contractors.

(c) Prior to the time Tenant or any of its contractors enters the Leased Premises, Tenant shall deliver to Landlord, with respect to each policy of insurance required to be carried by Tenant pursuant to this ARTICLE, a copy of such policy (appropriately authenticated by the insurer as having been issued, premium paid) or a certificate of the insurer certifying in form satisfactory to Landlord that a policy has been issued, premium paid, providing the coverage required by this Paragraph and containing the provisions specified herein. With respect to each renewal or replacement of any such insurance, the requirements of this Paragraph must be complied with not less than thirty days prior to the expiration or cancellation of the policies being renewed or replaced. Landlord may, at any time and from time to time, inspect and/or copy any and all insurance policies required to be carried by Tenant pursuant to this ARTICLE. If Landlord's Lender, insurance broker, advisor or counsel reasonably determines at any time that the amount of coverage set forth in Paragraph 9.1(a) for any policy of insurance Tenant is required to carry pursuant to this ARTICLE is not adequate, then Tenant shall increase the amount of coverage for such insurance to such greater amount as Landlord's Lender, insurance broker, advisor or counsel reasonably deems adequate.

9.2 LANDLORD'S INSURANCE. With respect to insurance maintained by Landlord:

(a) Landlord shall maintain, as the minimum coverage required of it by this Lease, fire and property damage insurance in so-called "fire and extended coverage" form insuring Landlord (and such others as Landlord may designate) against loss from physical damage to the Building with coverage of not less than one hundred percent (100%) of the full actual replacement cost thereof and against loss of rents for a period of not less than six months. Such fire and property damage insurance, at Landlord's election but without any requirements on Landlord's behalf to do so, (i) may be written in so-called "all risk" form, excluding only those perils commonly excluded from such coverage by Landlord's then property damage insurer; (ii) may provide coverage for physical damage to the improvements so insured for up to the entire full actual replacement cost thereof; (iii) may be endorsed to cover loss or damage caused by any additional perils against which Landlord may elect to insure, including earthquake and/or flood; and/or (iv) may provide coverage for loss of rents for a period of up to twelve months. Landlord shall not be required to cause such insurance to cover any of Tenant's personal property, inventory, and trade fixtures, or any modifications, alterations or improvements made or constructed by Tenant to or within the Leased Premises. Landlord shall use commercially reasonable efforts to obtain such insurance at competitive rates.

(b) Landlord shall maintain comprehensive general liability insurance insuring Landlord (and such others as are designated by Landlord) against liability for personal injury, bodily injury, death, and damage to property occurring in, on or about, or resulting from the use or occupancy of the Property, or any portion thereof, with combined single limit coverage of at least Three Million Dollars (\$3,000,000). Landlord may carry such greater

coverage as Landlord or Landlord's Lender, insurance broker, advisor or counsel may from time to time determine is reasonably necessary for the adequate protection of Landlord and the Property.

(c) Landlord may maintain any other insurance which in the opinion of its insurance broker, advisor or legal counsel is prudent in carry under the given circumstances, provided such insurance is commonly carried by owners of property similarly situated and operating under similar circumstances.

9.3 MUTUAL WAIVER OF SUBROGATION. Landlord hereby releases Tenant, and Tenant hereby releases Landlord and its respective partners, principals, members, officers, agents, employees and servants, from any and all liability for loss, damage or injury to the property of the other in or about the Leased Premises or the Property which is caused by or results from a peril or event or happening which is covered by insurance actually carried and in force at the time of the loss by the party sustaining such loss; provided, however, that such waiver shall be effective only to the extent permitted by the insurance covering such loss and to the extent such insurance is not prejudiced thereby.

ARTICLE 10

DAMAGE TO LEASED PREMISES

10.1 LANDLORD'S DUTY TO RESTORE. If the Leased Premises, the Building or the Outside Area are damaged by any peril after the Effective Date of this Lease, Landlord shall restore the same, as and when required by this paragraph, unless this Lease is terminated by Landlord pursuant to Paragraph 10.3 or by Tenant pursuant to Paragraph 10.4. If this Lease is not so terminated, then upon the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the Leased Premises, the Building or the Outside Area, as the case may be, to the extent then allowed by law, to substantially the same condition in which it existed as of the Lease Commencement Date. Landlord's obligation to restore shall be limited to the improvements constructed by Landlord. Landlord shall have no obligation to restore any Improvements made by Tenant to the Leased Premises or any of Tenant's personal property, inventory or trade fixtures. Upon completion of the restoration by Landlord, Tenant shall forthwith replace or fully repair all of Tenant's personal property, inventory, trade fixtures and other improvements constructed by Tenant to like or similar conditions as existed at the time immediately prior to such damage or destruction.

10.2 INSURANCE PROCEEDS. All insurance proceeds available from the fire and property damage insurance carried by Landlord shall be paid to and become the property of Landlord. If this Lease is terminated pursuant to either Paragraph 10.3 or 10.4, all insurance proceeds available from insurance carried by Tenant which cover loss of property that is Landlord's property or would become Landlord's property on termination of this Lease shall be paid to and become the property of Landlord, and the remainder of such proceeds shall be paid to and become the property of Tenant. If this Lease is not terminated pursuant to either Paragraph 10.3 or 10.4, all insurance proceeds available from insurance carried by Tenant which cover loss to property that is Landlord's property shall be paid to and become the property of Landlord, and all proceeds available from such insurance which cover loss to property which would only become the property of Landlord upon the termination of this Lease shall be paid to and remain the property of Tenant. The determination of Landlord's property and Tenant's property shall be made pursuant to Paragraph 6.2.

10.3 LANDLORD'S RIGHT TO TERMINATE. Landlord shall have the option to terminate this Lease in the event any of the following occurs, which option may be exercised only by delivery to Tenant of a written notice of election to terminate within thirty days after the date of such damage or destruction:

(a) The Building is damaged by any peril covered by valid and collectible insurance actually carried by Landlord and in force at the time of such damage or destruction or by any peril which would have been covered by the insurance Landlord is required to maintain pursuant to Section 9.2 (an "Insured Peril") to such an extent that the estimated cost to restore the Building exceeds the lesser of (i) the insurance proceeds available from insurance actually carried by Landlord (or which Landlord was required to carry pursuant to Section 9.2(a) hereof) plus the amount of any deductible (up to a maximum amount of five percent (5%) of the replacement cost of the Building), plus any amount that the Tenant agrees in writing to contribute towards restoration, or
(ii) fifty percent of the then actual replacement cost of the Building;

(b) The Building is damaged by an uninsured peril, which peril Landlord was not required to insure against pursuant to the provisions of ARTICLE 9 of this Lease, provided, however, that, subject to the requirements of the holder of any deed of trust encumbering the Property, Landlord shall not have the right to terminate this Lease if Tenant notifies Landlord, within thirty (30) days after Tenant receives Landlord's written notice of termination pursuant to this Section 10.3, that Tenant will pay for the cost of restoration of the Leased Premises, in excess of any insurance proceeds to be received by Landlord.

(c) The Building is damaged by any peril and, because of the laws then in force, the Building (i) cannot be restored at reasonable cost or (ii) if restored, cannot be used for the same use being made thereof before such damage.

10.4 TENANT'S RIGHT TO TERMINATE. If the Leased Premises, the Building or the Outside Area are damaged by any peril and Landlord does not elect to terminate this Lease or is not entitled to terminate this Lease pursuant to this ARTICLE, then as soon as reasonably practicable, Landlord shall furnish Tenant with the written opinion of Landlord's architect or construction consultant as to when the restoration work required of Landlord may be complete. Tenant shall have the option to terminate this Lease in the event any of the following occurs, which option may be exercised only by delivery to Landlord of a written notice of election to terminate within seven days after Tenant receives

from Landlord the estimate of the time needed to complete such restoration:

(a) If the time estimated to substantially complete the restoration exceeds nine (9) months from and after the date the architect's or construction consultant's written opinion is delivered; or

(b) If the damage occurred within twelve months of the last day of the Lease Term and the time estimated to substantially complete the restoration exceeds one hundred eighty days from and after the date such restoration is commenced.

10.5 TENANT'S WAIVER. Landlord and Tenant agree that the provisions of Paragraph 10.4 above, captioned "Tenant's Right To Terminate", are intended to supersede and replace the provisions contained in California Civil Code, Section 1932, Subdivision 2, and California Civil Code, Section 1934, and accordingly, Tenant hereby waives the provisions of such Civil Code Sections and the provisions of any successor Civil Code Sections or similar laws hereinafter enacted.

10.6 ABATEMENT OF RENT. In the event of damage to the Leased Premises which does not result in the termination of this Lease, the Base Monthly Rent (and any Additional Rent) shall be temporarily abated during the period of restoration in proportion in the degree to which Tenant's use of the Leased Premises is impaired by such damage.

ARTICLE 11

CONDEMNATION

11.1 TENANT'S RIGHT TO TERMINATE. Except as otherwise provided in Paragraph 11.4 below regarding temporary takings, Tenant shall have the option to terminate this Lease if, as a result of any taking, (i) all of the Leased Premises is taken, or (ii) twenty-five percent (25%) or more of the Leased Premises is taken and the part of the Leased Premises that remains cannot, within a reasonable period of time, be made reasonably suitable for the continued operation of Tenant's business, or (iii) a portion of the Outside Area is taken such that the parking available to Tenant is reduced by more than twenty percent (20%), and the Landlord does not, within a reasonable period of time, provide alternative parking arrangements within a reasonable walking distance of the Leased Premises. Tenant must exercise such option within a reasonable period of time, to be effective on the later to occur of (i) the date that possession of that portion of the Leased Premises that is condemned is taken by the condemner or (ii) the date Tenant vacated the Leased Premises.

11.2 LANDLORD'S RIGHT TO TERMINATE. Except as otherwise provided in Paragraph 11.4 below regarding temporary takings, Landlord shall have the option to terminate this Lease if, as a result of any taking, (i) all of the Leased Premises is taken, (ii) twenty-five percent (25%) or more of the Leased Premises is taken and the part of the Leased Premises that remains cannot, within a reasonable period of time, be made reasonably suitable for the continued operation of Tenant's business, or (iii) because of the laws then in force, the Leased Premises may not be used for the same use being made before such taking, whether or not restored as required by Paragraph 11.3 below. Any such option to terminate by Landlord must be exercised within a reasonable period of time, to be effective as of the date possession is taken by the condemner.

11.3 RESTORATION. If any part of the Leased Premises or the Building is taken and this Lease is not terminated, then Landlord shall, to the extent not prohibited by laws then in force, repair any damage occasioned thereby to the remainder thereof to a condition reasonably suitable for Tenant's continued operations and otherwise, to the extent practicable, in the manner and to the extent provided in Paragraph 10.1.

11.4 TEMPORARY TAKING. If a portion of the Leased Premises is temporarily taken for a period of one year or less and such period does not extend beyond the Lease Expiration Date, this Lease shall remain in effect. If any portion of the Leased Premises is temporarily taken for a period which exceeds one year or which extends beyond the Lease Expiration Date, then the rights of Landlord and Tenant shall be determined in accordance with Paragraphs 11.1 and 11.2 above.

11.5 DIVISION OF CONDEMNATION AWARD. Any award made for any taking of the Property, the Building, or the Leased Premises, or any portion thereof, shall belong to and be paid to Landlord, and Tenant hereby assigns to Landlord all of its right, title and interest in any such award; provided, however, that Tenant shall be entitled to receive any portion of the award that is made specifically (i) for the taking of personal property, inventory or trade fixtures belonging to Tenant, (ii) for the interruption of Tenant's business or its moving costs, or (iii) for the value of any leasehold improvements installed and paid for by Tenant. The rights of Landlord and Tenant regarding any condemnation shall be determined as provided in this ARTICLE, and each party hereby waives the provisions of Section 1265.130 of the California Code of Civil Procedure, and the provisions of any similar law hereinafter enacted, allowing either party to petition the Supreme Court to terminate this Lease and/or otherwise allocate condemnation awards between Landlord and Tenant in the event of a taking of the Leased Premises.

11.6 ABATEMENT OF RENT. In the event of a taking of the Leased Premises which does not result in a termination of this Lease (other than a temporary taking), then, as of the date possession is taken by the condemning authority, the Base Monthly Rent shall be reduced in the same proportion that the area of that part of the Leased Premises so taken (less any addition to the area of the Leased Premises by reason of any reconstruction) bears to the area of the Leased Premises immediately prior to such taking.

11.7 TAKING DEFINED. The term "taking" or "taken" as used in this ARTICLE 11 shall mean any transfer or conveyance of all or any portion of the Property to a public or quasi-public agency or other entity having the power of eminent domain pursuant to or as a result of the exercise of such power by such an agency, including any inverse

condemnation and/or any sale or transfer by Landlord of all or any portion of the Property to such an agency under threat of condemnation or the exercise of such power.

ARTICLE 12

DEFAULT AND REMEDIES

12.1 EVENTS OF TENANT'S DEFAULT. Tenant shall be in default of its obligations under this Lease if any of the following events occur:

- (a) Tenant shall have failed to pay Base Monthly Rent or any Additional Rent within three (3) days after notice from Landlord that such rent is past due provided, however, that such notice shall be concurrent with, and not in addition to, any notice required by applicable Laws; or
- (b) Tenant shall have done or permitted to be done any act, use or thing in its use, occupancy or possession of the Leased Premises or the Building or the Outside Areas which is prohibited by the terms of this Lease or Tenant shall have failed to perform any term, covenant or condition of this Lease (except those requiring the payment of Base Monthly Rent or Additional Rent, which failures shall be governed by subparagraph (a) above) within thirty (30) days after written notice from Landlord to Tenant specifying the nature of such failure and requesting Tenant to perform same or within such longer period as is reasonably required in the event such default is curable but not within such thirty (30) day period, provided such cure is promptly commenced within such thirty (30) day period and is thereafter diligently prosecuted to completion; or
- (c) Tenant shall have sublet the Leased Premises or assigned or encumbered its interest in this Lease in violation of the provisions contained in ARTICLE 7, whether voluntarily or by operation of law; or
- (d) Tenant shall have abandoned the Leased Premises; or
- (e) Tenant or any Guarantor of this Lease shall have permitted or suffered the sequestration or attachment of, or execution on, or the appointment of a custodian or receiver with respect to, all or any substantial part of the property or assets of Tenant (or such Guarantor) or any property or asset essential to the conduct of Tenant's (or such Guarantor's) business, and Tenant (or such Guarantor) shall have failed to obtain a return or release of the same within thirty days thereafter, or prior to sale pursuant to such sequestration, attachment or levy, whichever is earlier; or
- (f) Tenant or any Guarantor of this Lease shall have made a general assignment of all or a substantial part of its assets for the benefit of its creditors; or
- (g) Tenant or any Guarantor of this Lease shall have allowed (or sought) to have entered against it a decree or order which: (i) grants or constitutes an order for relief, appointment of a trustee, or condemnation or a reorganization plan under the bankruptcy laws of the United States; (ii) approves as properly filed a petition seeking liquidation or reorganization under said bankruptcy laws or any other debtor's relief law or similar statute of the United States or any state thereof; or (iii) otherwise directs the winding up or liquidation of Tenant; provided, however, if any decree or order was entered without Tenant's consent or over Tenant's objection, Landlord may not terminate this Lease pursuant to this Subparagraph if such decree or order is rescinded or reversed within thirty days after its original entry; or
- (h) Tenant or any Guarantor of this Lease shall have availed itself of the protection of any debtor's relief law, moratorium law or other similar law which does not require the prior entry of a decree or order.
- (i) Tenant shall be in default of its obligations under any other Lease between Landlord and Tenant.

12.2 LANDLORD'S REMEDIES. In the event of any default by Tenant, and without limiting Landlord's right to indemnification as provided in ARTICLE 8.2, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law or otherwise provided in this Lease, to which Landlord may resort cumulatively, or in the alternative:

- (a) Landlord may, at Landlord's election, keep this Lease in effect and enforce, by an action at law or in equity, all of its rights and remedies under this Lease including, without limitation, (i) the right to recover the rent and other sums as they become due by appropriate legal action, (ii) the right to make payments required by Tenant, or perform Tenant's obligations and be reimbursed by Tenant for the cost thereof with interest at the then maximum rate of interest not prohibited by law from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant, and (iii) the remedies of injunctive relief and specific performance to prevent Tenant from violating the terms of this Lease and/or to compel Tenant to perform its obligations under this Lease, as the case may be.
- (b) Landlord may, at Landlord's election, terminate this Lease by giving Tenant written notice of termination, in which event this Lease shall terminate on the date set forth for termination in such notice, in which event Tenant shall immediately surrender the Leased Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Leased Premises and expel or remove Tenant and any other person who may be occupying the Leased Premises or any part thereof, without being liable for prosecution or any claim or damages therefor. Any termination under this subparagraph shall not relieve Tenant from its obligation to pay to Landlord all Base Monthly Rent and Additional Rent then or thereafter due,

or any other sums due or thereafter accruing to Landlord, or from

any claim against Tenant for damages previously accrued or then or thereafter accruing. In no event shall any one or more of the following actions by Landlord, in the absence of a written election by Landlord to terminate this Lease constitute a termination of this Lease:

(i) Appointment of a receiver or keeper in order to protect Landlord's interest hereunder;

(ii) Consent to any subletting of the Leased Premises or assignment of this Lease by Tenant, whether pursuant to the provisions hereof or otherwise; or

(iii) Any action taken by Landlord or its partners, principals, members, officers, agents, employees, or servants, which is intended to mitigate the adverse effects of any breach of this Lease by Tenant, including, without limitation, any action taken to maintain and preserve the Leased Premises on any action taken to relet the Leased Premises or any portion thereof for the account at Tenant and in the name of Tenant.

(c) In the event Tenant breaches this Lease and abandons the Leased Premises, Landlord may terminate this Lease, but this Lease shall not terminate unless Landlord gives Tenant written notice of termination. If Landlord does not terminate this Lease by giving written notice of termination, Landlord may enforce all its rights and remedies under this Lease, including the right and remedies provided by California Civil Code Section 1951.4 ("lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations"), as in effect on the Effective Date of this Lease.

(d) In the event Landlord terminates this Lease, Landlord shall be entitled, at Landlord's election, to the rights and remedies provided in California Civil Code Section 1951.2, as in effect on the Effective Date of this Lease. For purposes of computing damages pursuant to Section 1951.2, an interest rate equal to the maximum rate of interest then not prohibited by law shall be used where permitted. Such damages shall include, without limitation:

(i) The worth at the time of the award of the unpaid rent which had been earned at the time of termination;

(ii) The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided, computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco, at the time of award plus one percent; and

(iii) Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom, including without limitation, the following: (i) expenses for cleaning, repairing or restoring the Leased Premises, (ii) expenses for altering, remodeling or otherwise improving the Leased Premises for the purpose of reletting, including removal of existing leasehold improvements and/or installation of additional leasehold improvements (regardless of how the same is funded, including reduction of rent, a direct payment or allowance to a new tenant, or otherwise), (iii) broker's fees allocable to the remainder of the term of this Lease, advertising costs and other expenses of reletting the Leased Premises; (iv) costs of carrying and maintaining the Leased Premises, such as taxes, insurance premiums, utility charges and security precautions, (v) expenses incurred in removing, disposing of and/or storing any of Tenant's personal property, inventory or trade fixtures remaining therein; (vi) reasonable attorney's fees, expert witness fees, court costs and other reasonable expenses incurred by Landlord (but not limited to taxable costs) in retaking possession of the Leased Premises, establishing damages hereunder, and releasing the Leased Premises; and (vii) any other expenses, costs or damages otherwise incurred or suffered as a result of Tenant's default.

12.3 LANDLORD'S DEFAULT AND TENANT'S REMEDIES. In the event Landlord fails to perform its obligations under this Lease, Landlord shall nevertheless not be in default under the terms of this Lease until such time as Tenant shall have first given Landlord written notice specifying the nature of such failure to perform its obligations, and then only after Landlord shall have had thirty (30) days following its receipt of such notice within which to perform such obligations; provided that, if longer than thirty (30) days is reasonably required in order to perform such obligations, Landlord shall have such longer period. In the event of Landlord's default as above set forth, then, and only then, Tenant may then proceed in equity or at law to compel Landlord to perform its obligations and/or to recover damages proximately caused by such failure to perform (except as and to the extent Tenant has waived its right to damages as provided in this Lease).

12.4 LIMITATION OF TENANT'S RECOURSE. If Landlord is a corporation, trust, partnership, joint venture, limited liability company, unincorporated association, or other form of business entity, Tenant agrees that (i) the obligations of Landlord under this Lease shall not constitute personal obligations of the officers, directors, trustees, partners, joint venturers, members, owners, stockholders, or other principals of such business entity, and

(ii) Tenant shall have recourse only to the property of such corporation, trust, partnership, joint venture, limited liability company, unincorporated association, or other form of business entity for the satisfaction of such obligations and not against the assets of such officers, directors, trustees, partners, joint venturers, members, owners, stockholders or principals. Additionally, if Landlord is a partnership or limited liability company, then Tenant covenants and agrees:

(a) No partner or member of Landlord shall be sued or named as a party in any suit or action brought by Tenant with respect to any alleged breach of this Lease (except to the extent necessary to secure jurisdiction over the partnership and then only for that sole purpose);

(b) No service of process shall be made against any partner or member of Landlord except for the sole purpose of securing jurisdiction over the partnership; and

(c) No writ of execution will ever be levied against the assets of any partner or member of Landlord other than to the extent of his or her interest in the assets of the partnership or limited liability company constituting Landlord.

Tenant further agrees that each of the foregoing covenants and agreements shall be enforceable by Landlord and by any partner or member of Landlord and shall be applicable to any actual or alleged misrepresentation or nondisclosure made regarding this Lease or the Leased Premises or any actual or alleged failure, default or breach of any covenant or agreement either expressly or implicitly contained in this Lease or imposed by statute or at common law.

12.5 TENANT'S WAIVER. Landlord and Tenant agree that the provisions of Paragraph 12.3 above are intended to supersede and replace the provisions of California Civil Code Sections 1932(1), 1941 and 1942, and accordingly, Tenant hereby waives the provisions of California Civil Code Sections 1932(1), 1941 and 1942 and/or any similar or successor law regarding Tenant's right to terminate this Lease or to make repairs and deduct the expenses of such repairs from the rent due under this Lease.

ARTICLE 13

GENERAL PROVISIONS

13.1 TAXES ON TENANT'S PROPERTY. Tenant shall pay before delinquency any and all taxes, assessments, license fees, use fees, permit fees and public charges of whatever nature or description levied, assessed or imposed against Tenant or Landlord by a governmental agency arising out of, caused by reason of or based upon Tenant's estate in this Lease, Tenant's ownership of property, improvements made by Tenant to the Leased Premises or the Outside Areas, improvements made by Landlord for Tenant's use within the Leased Premises or the Outside Areas, Tenant's use (or estimated use) of public facilities or services or Tenant's consumption (or estimated consumption) of public utilities, energy, water or other resources (collectively, "Tenant's Interest"). Upon demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of these payments. If any such taxes, assessments, fees or public charges are levied against Landlord, Landlord's property, the Building or the Property, or if the assessed value of the Building or the Property is increased by the inclusion therein of a value placed upon Tenant's Interest, regardless of the validity thereof, Landlord shall have the right to require Tenant to pay such taxes, and if not paid and satisfactory evidence of payment delivered to Landlord at least ten days prior to delinquency, then Landlord shall have the right to pay such taxes on Tenant's behalf and to invoice Tenant for the same. Tenant shall, within the earlier to occur of (a) thirty (30) days of the date it receives an invoice from Landlord setting forth the amount of such taxes, assessments, fees, or public charge so levied, or (b) the due date of such invoice, pay to Landlord, as Additional Rent, the amount set forth in such invoice. Failure by Tenant to pay the amount so invoiced within such time period shall be conclusively deemed a default by Tenant under this Lease. Tenant shall have the right to bring suit in any court of competent jurisdiction to recover from the taxing authority the amount of any such taxes, assessments, fees or public charges so paid.

13.2 HOLDING OVER. This Lease shall terminate without further notice on the Lease Expiration Date (as set forth in ARTICLE 1). Any holding over by Tenant after expiration of the Lease Term shall neither constitute a renewal nor extension of this Lease nor give Tenant any rights in or to the Leased Premises except as expressly provided in this Paragraph. Any such holding over to which Landlord has consented shall be construed to be a tenancy from month to month, on the same terms and conditions herein specified insofar as applicable, except that the Base Monthly Rent shall be increased to an amount equal to one hundred fifty percent (150%) of the Base Monthly Rent payable during the last full month immediately preceding such holding over. Tenant acknowledges that if Tenant holds over without Landlord's consent, such holding over may compromise or otherwise affect Landlord's ability to enter into new leases with prospective tenants regarding the Leased Premises. Therefore, if Tenant fails to surrender the Leased Premises upon the expiration or termination of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from and against all claims resulting from such failure, including, without limiting the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender, and any losses suffered by Landlord, including lost profits, resulting from such failure to surrender.

13.3 SUBORDINATION TO MORTGAGES. This Lease is subject to and subordinate to all ground leases, mortgages and deeds of trust which affect the Building or the Property and which are of public record as of the Effective Date of this Lease, and to all renewals, modifications, consolidations, replacements and extensions thereof. However, if the lessor under any such ground lease or any lender holding any such mortgage or deed of trust shall advise Landlord that it desires or requires this Lease to be made prior and superior thereto, then, upon written request of Landlord to Tenant, Tenant shall promptly execute, acknowledge and deliver any and all customary or reasonable documents or instruments which Landlord and such lessor or lender deems necessary or desirable to make this Lease prior thereto. Tenant hereby consents to Landlord's ground leasing the land underlying the Building or the Property and/or encumbering the Building or the Property as security for future loans on such terms as Landlord shall desire, all of which future ground leases, mortgages or deeds of trust shall be subject to and subordinate to this Lease. However, if any lessor under any such future ground lease or any lender holding such future mortgage or deed of trust shall desire or require that this Lease be made subject to and subordinate to such future ground lease, mortgage or deed of trust, then Tenant agrees, within ten (10) days after Landlord's written request therefor, to execute, acknowledge and deliver to Landlord any and all documents or instruments reasonably requested by Landlord or by such lessor or lender as may be necessary or proper to assure the subordination of this Lease to such future ground lease, mortgage or deed of trust, but only if such lessor or lender agrees to recognize Tenant's rights under this Lease and agrees not

to disturb Tenant's quiet possession of the Leased Premises so long as Tenant is not in default under this Lease. If Landlord assigns the Lease as security for a loan, Tenant agrees to execute such documents as are reasonably requested by the lender and to provide reasonable provisions in the Lease protecting such lender's security interest which are customarily required by institutional lenders making loans secured by a deed of trust provided that such documents do not materially increase Tenant's obligations under this Lease.

13.4 TENANT'S ATTORNTMENT UPON FORECLOSURE. Tenant shall, upon request, attorn

(i) to any purchaser of the Building or the Property at any foreclosure sale or private sale conducted pursuant to any security instruments encumbering the Building or the Property, (ii) to any grantee or transferee designated in any deed given in lieu of foreclosure of any security interest encumbering the Building or the Property, or (iii) to the lessor under an underlying ground lease of the land underlying the Building or the Property, should such ground lease be terminated; provided that such purchaser, grantee or lessor recognizes Tenant's rights under this Lease.

13.5 MORTGAGEE PROTECTION. In the event of any default on the part of Landlord, Tenant will give notice by registered mail to any Lender or lessor under any underlying ground lease who shall have requested, in writing, to Tenant that it be provided with such notice, and Tenant shall offer such Lender or lessor a reasonable opportunity to cure the default, including time to obtain possession of the Leased Premises by power of sale or judicial foreclosure or other appropriate legal proceedings if reasonably necessary to effect a cure.

13.6 ESTOPPEL CERTIFICATE. Tenant will, following any request by Landlord, promptly execute and deliver to Landlord an estoppel certificate substantially in form attached as Exhibit B, (i) certifying that this Lease is unmodified and in full force and effect, or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (ii) stating the date to which the rent and other charges are paid in advance, if any, (iii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed, and (iv) certifying such other information about this Lease as may be reasonably requested by Landlord, its Lender or prospective lenders, investors or purchasers of the Building or the Property. Tenant's failure to execute and deliver such estoppel certificate within ten days after Landlord's request therefor shall be a material default by Tenant under this Lease, and Landlord shall have all of the rights and remedies available to Landlord as Landlord would otherwise have in the case of any other material default by Tenant, including the right to terminate this Lease and sue for damages proximately caused thereby, it being agreed and understood by Tenant that Tenant's failure to so deliver such estoppel certificate in a timely manner could result in Landlord being unable to perform committed obligations to other third parties which were made by Landlord in reliance upon this covenant of Tenant. Landlord and Tenant intend that any statement delivered pursuant to this paragraph may be relied upon by any Lender or purchaser or prospective Lender or purchaser of the Building, the Property, or any interest in them.

13.7 TENANT'S FINANCIAL INFORMATION. Tenant shall, within ten business days after Landlord's request therefor, deliver to Landlord a copy of Tenant's (and any guarantor's) current financial statements (including a balance sheet, income statement and statement of cash flow, all prepared in accordance with generally accepted accounting principles) and any such other information reasonably requested by Landlord regarding Tenant's financial condition. Landlord shall be entitled to disclose such financial statements or other information to its Lender, to any present or prospective principal of or investor in Landlord, or to any prospective Lender or purchaser of the Building, the Property, or any portion thereof or interest therein. Any such financial statement or other information which is marked "confidential" or "company secrets" (or is otherwise similarly marked by Tenant) shall be confidential and shall not be disclosed by Landlord to any third party except as specifically provided in this paragraph and then only if the person to whom disclosure is made first agrees to be bound by the requirements of this Section 13.7, unless the same becomes a part of the public domain without the fault of Landlord.

13.8 TRANSFER BY LANDLORD. Landlord and its successors in interest shall have the right to transfer their interest in the Building, the Property, or any portion thereof at any time and to any person or entity. In the event of any such transfer, the Landlord originally named herein (and in the case of any subsequent transfer, the transferor), from the date of such transfer, (i) shall be automatically relieved, without any further act by any person or entity, of all liability for the performance of the obligations of the Landlord hereunder which may accrue after the date of such transfer so long as the Security Deposit (or the remaining amount of such Security Deposit after deductions made in accordance with Section 3.7 of this Lease) is transferred to the transferee (or returned to the Tenant) and the transferee has agreed to assume and perform all such obligations which may accrue after the date of such transfer and (ii) shall be relieved of all liability for the performance of the obligations of the Landlord hereunder which have accrued before the date of transfer if its transferee agrees to assume and perform all such prior obligations of the Landlord hereunder. Tenant shall attorn to any such transferee. After the date of any such transfer, the term "Landlord" as used herein shall mean the transferee of such interest in the Building or the Property.

13.9 FORCE MAJEURE. The obligations of each of the parties under this Lease (other than the obligations to pay money) shall be temporarily excused if such party is prevented or delayed in performing such obligations by reason of any strikes, lockouts or labor disputes; government restrictions, regulations, controls, action or inaction; civil commotion; or extraordinary weather, fire or other acts of God.

13.10 NOTICES. Any notice required or permitted to be given under this Lease shall be in writing and (i) personally delivered, (ii) sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, (iii) sent by Federal Express or similar nationally recognized overnight courier service, or (iv) transmitted by facsimile with a hard copy sent within one (1) business day by any of the foregoing means, and in all cases addressed as follows, and such notice shall be deemed to have been given upon the date of actual receipt or delivery (or refusal to accept delivery) at the address specified below (or such other addresses as may be specified by notice in the foregoing manner) as indicated on the return receipt or air bill:

IF TO LANDLORD: Mathilda Associates LLC
c/o Menlo Equities LLC
525 University Avenue
Suite 100
Palo Alto, California 94301
Attention: Henry Bullock/Richard Holmstrom

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

and to: Cooley Godward LLP
One Maritime Plaza
20th Floor
San Francisco, California 94111
Attention: Paul Churchill

IF TO TENANT: Prior to May 1, 2000:

Juniper Networks, Inc.
385 Ravendale Drive
Mountain View, California 94043

After May 1, 2000:
1194 Mathilda Avenue
Sunnyvale, California 94089
Attention: General Counsel

with a copy to: Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304
Attention: Bradford C. O'Brien

Any notice given in accordance with the foregoing shall be deemed received upon actual receipt or refusal to accept delivery.

13.11 ATTORNEYS' FEES. In the event any party shall bring any action, arbitration proceeding or legal proceeding alleging a breach of any provision of this Lease, to recover rent, to terminate this Lease, or to enforce, protect, determine or establish any term or covenant of this Lease or rights or duties hereunder of either party, the prevailing party shall be entitled to recover from the non-prevailing party as a part of such action or proceeding, or in a separate action for that purpose brought within one year from the determination of such proceeding, reasonable attorneys' fees, expert witness fees, court costs and other reasonable expenses incurred by the prevailing party.

13.12 DEFINITIONS. Any term that is given a special meaning by any provision in this Lease shall, unless otherwise specifically stated, have such meaning wherever used in this Lease or in any Addenda or amendment hereto. In addition to the terms defined in ARTICLE 1, the following terms shall have the following meanings:

(a) REAL PROPERTY TAXES. The term "Real Property Tax" or "Real Property Taxes" shall each mean the sum of Tenant's Property Share (as to the land component of the Property) and Tenant's Expense Share (as to the Building and other improvements in the Outside Areas) of (i) all taxes, assessments, levies and other charges of any kind or nature whatsoever, general and special, foreseen and unforeseen (including all instruments of principal and interest required to pay any general or special assessments for public improvements and any increases resulting from reassessments caused by any change in ownership or new construction), now or hereafter imposed by any governmental or quasi-governmental authority or special district having the direct or indirect power to tax or levy assessments, which are levied or assessed for whatever reason against the Property or any portion thereof, or Landlord's interest herein, or the fixtures, equipment and other property of Landlord that is an integral part of the Property and located thereon, or Landlord's business of owning, leasing or managing the Property or the gross receipts, income or rentals from the Property, (ii) all charges, levies or fees imposed by any governmental authority against Landlord by reason of or based upon the use of or number of parking spaces within the Property, the amount of public services or public utilities used or consumed (e.g. water, gas, electricity, sewage or waste water disposal) at the Property, the number of person employed by tenants of the Property, the size (whether measured in area, volume, number of tenants or whatever) or the value of the Property, or the type of use or uses conducted within the Property, and all costs and fees (including attorneys' fees) reasonably incurred by Landlord in contesting any Real Property Tax and in negotiating with public authorities as to any Real Property Tax. If, at any time during the Lease Term, the taxation or assessment of the Property prevailing as of the Effective Date of this Lease shall be altered so that in lieu of or in addition to any the Real Property Tax described above there shall be levied, awarded or imposed (whether by reason of a change in the method of taxation or assessment, creation of a new tax or charge, or any other cause) an alternate, substitute, or additional use or charge (i) on the value, size, use or occupancy of the Property or Landlord's interest therein or (ii) on or measured by the gross receipts, income or rentals from the Property, or on Landlord's business of owning, leasing or managing the Property or (iii) computed in any manner with respect to the operation of the Property, then any such tax or charge, however designated, shall be included within the meaning of the terms "Real Property Tax" or "Real Property Taxes" for purposes of this Lease. If any

Real Property Tax is partly based upon property or rents unrelated to the Property, then only that part of such Real Property Tax that is fairly allocable to the Property shall be included within the meaning of the terms "Real Property Tax" or "Real Property Taxes." Notwithstanding the foregoing, the terms "Real Property Tax" or "Real Property Taxes" shall not include estate, inheritance, transfer, gift or franchise taxes of Landlord or the federal or state income tax imposed on Landlord's income from all sources.

(b) **LANDLORD'S INSURANCE COSTS.** The term "Landlord's Insurance Costs" shall mean Tenant's Expense Share of the costs to Landlord to carry and maintain the policies of fire and property damage insurance for the Building and Tenant's Property Share of the costs to Landlord to carry and maintain the policies of fire and property damage insurance on the Property and general liability and any other insurance required or permitted to be carried by Landlord pursuant to ARTICLE 9, together with any deductible amounts paid by Landlord upon the occurrence of any insured casualty or loss. Any deductible amount in excess of twenty five (25%) of the total casualty shall be amortized over the useful life of the repair or replacement required to restore the Property after such casualty, and the amortized portion shall be included on a monthly basis in Landlord's Insurance Costs. Notwithstanding the foregoing, Landlord's Insurance Costs shall not include the cost of any course of construction insurance carried by Landlord for the construction of the 1184 Building. Notwithstanding the foregoing, if Tenant terminates this Lease pursuant to Section 10.4 hereof, Tenant shall not be required to pay for any insurance deductibles as part of Landlord's Insurance Costs or otherwise.

(c) **PROPERTY MAINTENANCE COSTS.** The term "Property Maintenance Costs" shall mean Tenant's Property Share of all costs and expenses (except Landlord's Insurance Costs and Real Property Taxes) paid or incurred by Landlord in protecting, operating, maintaining, repairing and preserving the Property and all parts thereof, including without limitation, (i) market rate professional management fees of no more than two percent (2%) of Base Monthly Rent, (ii) the amortizing portion of any costs incurred by Landlord in the making of any modifications, alterations or improvements required by any governmental authority as set forth in ARTICLE 6, which are so amortized during the Lease Term, (iii) any and all on-going operation or maintenance costs imposed on the Property by or through any development agreement, use permit, site development agreement, traffic mitigation plan, entitlement, or Private Restrictions (including but not limited to shuttle and emergency transportation), and (iv) such other costs as may be paid or incurred with respect to operating, maintaining, and preserving the Property, repairing and resurfacing paved areas, and repairing and replacing, when necessary, electrical, plumbing, heating, ventilating and air conditioning systems serving the Building, provided that the cost of any capital improvement shall be amortized over the useful life of such improvement and the amortizing portion of the cost shall be included in Property Maintenance Costs. If any costs and expenses are partly based upon property or rents unrelated to the Property, then only that part of such Property Maintenance Costs that is fairly allocable to the Property shall be included within the meaning of the terms "Property Maintenance Costs." Notwithstanding the foregoing provisions of this Section 13.12(c), the following are specifically excluded from the definition of Property Maintenance Costs and Tenant shall have no obligation to pay directly or reimburse Landlord for all or any portion of the following except to the extent any of the foregoing are caused by the actions or inactions of Tenant, or result from the failure of Tenant to comply with the terms of the Lease: (a) costs of development or construction on the Property (other than on-going operation or maintenance costs as set forth in (iii) above); (b) the costs to repair or replace the structural portions of the Building or other buildings on the Property, including, without limitation, the foundation, footings, roof structure, roof screens, roof screen penetrations, and load bearing and exterior walls of the Building or any other building located on the Property; (c) depreciation, amortization or other expense reserves; (d) interest, charges and fees incurred on debt, payments on mortgages and rent under ground leases; (e) costs and expenses for which Tenant reimburses Landlord directly or which Tenant pays directly to a third person or costs for which Landlord has a right of reimbursement from others; (f) costs occasioned by the active negligence or willful misconduct of Landlord or any other occupant of the Property or violations of Law by Landlord or any other occupant of the Property, (g) or costs to correct any construction defect in the Leased Premises, the Building or the Property; or (h) capital costs incurred to bring the Building or the Property into compliance with the Use Permit, any CC&R's, underwriter's requirements, or Laws applicable to the Leased Premises, the Building or the Property at the time the building permit for the Base Building (as defined in the Work Letter) is issued.

(d) **PROPERTY OPERATING EXPENSES.** The term "Property Operating Expenses" shall mean and include all Real Property Taxes, plus all Landlord's Insurance Costs, plus all Property Maintenance Costs.

(e) **LAW.** The term "Law" shall mean any judicial decisions and any statute, constitution, ordinance, resolution, regulation, rule, administrative order, or other requirements of any municipal, county, state, federal, or other governmental agency or authority having jurisdiction over the parties to this Lease, the Leased Premises, the Building or the Property, or any of them, in effect either at the Effective Date of this Lease or at any time during the Lease Term, including, without limitation, any regulation, order, or policy of any quasi-official entity or body (e.g. a board of fire examiners or a public utility or special district).

(f) **LENDER.** The term "Lender" shall mean the holder of any promissory note or other evidence of indebtedness secured by the Property or any portion thereof.

(g) **PRIVATE RESTRICTIONS.** The term "Private Restrictions" shall mean (as they may exist from time to time) any and all covenants, conditions and restrictions, private agreements, easements, and any other recorded documents or instruments affecting the use of the Property, the Building, the Leased Premises, or the Outside Areas.

(h) **RENT.** The term "Rent" shall mean collectively Base Monthly Rent and all Additional Rent.

13.13 GENERAL WAIVERS. One party's consent to or approval of any act by the other party requiring the first party's consent or approval shall not be deemed to waive or render unnecessary the first party's consent to or approval of any subsequent similar act by the other party. No waiver of any provision hereof, or any waiver of any breach of any provision hereof, shall be effective unless in writing and signed by the waiving party. The receipt by Landlord of any rent or payment with or without knowledge of the

breach of any other provision hereof shall not be deemed a waiver of any such breach. No waiver of any provision of this Lease shall be deemed a continuing waiver unless such waiver specifically states so in writing and is signed by both Landlord and Tenant. No delay or omission in the exercise of any right or remedy accruing to either party upon any breach by the other party under this Lease shall impair such right or remedy or be construed as a waiver of any such breach theretofore or thereafter occurring. The waiver by either party of any breach of any provision of this Lease shall not be deemed to be a waiver of any subsequent breach of the same or any other provisions herein contained.

13.14 MISCELLANEOUS. Should any provisions of this Lease prove to be invalid or illegal, such invalidity or illegality shall in no way affect, impair or invalidate any other provisions hereof, and such remaining provisions shall remain in full force and effect. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor. Any copy of this Lease which is executed by the parties shall be deemed an original for all purposes. This Lease shall, subject to the provisions regarding assignment, apply to and bind the respective heirs, successors, executors, administrators and assigns of Landlord and Tenant. The term "party" shall mean Landlord or Tenant as the context implies. If Tenant consists of more than one person or entity, then all members of Tenant shall be jointly and severally liable hereunder. This Lease shall be construed and enforced in accordance with the Laws of the State in which the Leased Premises are located. The captions in this Lease are for convenience only and shall not be construed in the construction or interpretation of any provision hereof. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership, corporation, limited liability company, joint venture, or other form of business entity, and the singular includes the plural. The terms "must," "shall," "will," and "agree" are mandatory. The term "may" is permissive. When a party is required to do something by this Lease, it shall do so at its sole cost and expense without right of reimbursement from the other party unless specific provision is made therefor. Where Landlord's consent is required hereunder, the consent of any Lender shall also be required. Landlord and Tenant shall both be deemed to have drafted this Lease, and the rule of construction that a document is to be construed against the drafting party shall not be employed in the construction or interpretation of this Lease. Where Tenant is obligated not to perform any act or is not permitted to perform any act, Tenant is also obligated to restrain any others reasonably within its control, including agents, invitees, contractors, subcontractors and employees, from performing such act. Landlord shall not become or be deemed a partner or a joint venturer with Tenant by reason of any of the provisions of this Lease.

13.15 COOPERATION. Notwithstanding anything to the contrary contained herein, Tenant consents to and agrees to fully cooperate with Landlord and Landlord's agents, employees and contractors in Landlord's efforts, if any, to improve the Property with an additional building and divide the Property into separate legal parcels, which efforts may include, without limitation, the elimination of landscaping, the restriping or reconfiguration of the parking areas, application for building permits and other development approvals, parcelization of the Property and construction of buildings. Tenant agrees to execute such documents and take such actions as reasonably necessary to assist Landlord with such efforts and actions. Tenant agrees that such efforts and actions of Landlord shall not constitute constructive eviction of Tenant from the Property or Leased Premises. Following any parcelization of the Property, Landlord and Tenant agree to amend this Lease to conform the descriptions of the Property, Site Plan, and Outside Areas, and, subject to Section 4.5, the parking areas contained herein to the parcelization and reconfiguration. Landlord agrees to minimize the disruption of Tenant's use of the Leased Premises, the Building, the Outside Areas and the Property to the extent reasonable, given Landlord's efforts and actions described herein. Specifically, during construction of the 1184 Building, Landlord shall cause all construction trucks to enter the Property from the drive furthest from the Building on 5th Avenue and all grading on the Property for construction of the Building and the 1184 Building (other than grading for landscaping) shall be done at the same time.

ARTICLE 14

CORPORATE AUTHORITY BROKERS AND ENTIRE AGREEMENT

14.1 CORPORATE AUTHORITY. If Tenant is a corporation, each individual executing this Lease on behalf of such corporation represents and warrants that Tenant is validly formed and duly authorized and existing, that Tenant is qualified to do business in the State in which the Leased Premises are located, that Tenant has the full right and legal authority to enter into this Lease, and that he or she is duly authorized to execute and deliver this Lease on behalf of Tenant in accordance with its terms. Tenant shall, within thirty days after execution of this Lease, deliver to Landlord a certified copy of the resolution of its board of directors authorizing or ratifying the execution of this Lease and if Tenant fails to do so, Landlord at its sole election may elect to terminate this Lease.

14.2 BROKERAGE COMMISSIONS. Tenant represents, warrants and agrees that it has not had any dealings with any real estate broker(s), leasing agent(s), finder(s) or salesmen, other than the Brokers (as named in ARTICLE 1) with respect to the lease by it of the Leased Premises pursuant to this Lease, and that it will assume all obligations and responsibility with respect to the payment of such Brokers, and that it will indemnify, defend with competent counsel, and hold Landlord harmless from any liability for the payment of any real estate brokerage commissions, leasing commissions or finder's fees claimed by any other real estate broker(s), leasing agent(s), finder(s), or salesmen to be earned or due and payable by reason of Tenant's agreement or promise (implied or otherwise) to pay (or to have Landlord pay) such a commission or finder's fee by reason of its leasing the Leased Premises pursuant to this Lease.

14.3 ENTIRE AGREEMENT. This Lease and the Exhibits (as described in ARTICLE 1), which Exhibits are by this reference incorporated herein, constitute the entire agreement between the parties, and there are no other agreements, understandings or representations between the parties relating to the lease by Landlord of the Leased

Premises to Tenant, except as expressed herein. No subsequent changes, modifications or additions to this Lease shall be binding upon the parties unless in writing and signed by both Landlord and Tenant.

14.4 LANDLORD'S REPRESENTATIONS. Tenant acknowledges that neither Landlord nor any of its agents made any representations or warranties respecting the Property, the Building or the Leased Premises, upon which Tenant relied in entering into the Lease, which are not expressly set forth in this Lease. Tenant further acknowledges that neither Landlord nor any of its agents made any representations as to (i) whether the Leased Premises may be used for Tenant's intended use under existing Law, or (ii) the suitability of the Leased Premises for the conduct of Tenant's business, or (iii) the exact square footage of the Leased Premises, and that Tenant relies solely upon its own investigations with respect to such matters. Tenant expressly waives any and all claims for damage by reason of any statement, representation, warranty, promise or other agreement of Landlord or Landlord's agent(s), if any, not contained in this Lease or in any Exhibit attached hereto.

ARTICLE 15

OPTIONS TO EXTEND

15.1 So long as Juniper Networks, Inc. (or a Permitted Assignee) is the Tenant hereunder, and subject to the condition set forth in clause (b) below, Tenant shall have two options to extend the term of this Lease with respect to the entirety of the Leased Premises, the first for a period of five (5) years from the expiration of the last year of the Lease Term (the "First Extension Period"), and the second (the "Second Extension Period") for a period of five

(5) years from the expiration of the First Extension Period, subject to the following conditions:

(a) Each option to extend shall be exercised, if at all, by notice of exercise given to Landlord by Tenant not more than twelve (12) months nor less than nine (9) months prior to the expiration of the last year of the Lease Term or the expiration of the First Extension Period, as applicable;

(b) Anything herein to the contrary notwithstanding, if Tenant is in default under any of the material terms, covenants or conditions of this Lease, either at the time Tenant exercises either extension option or on the commencement date of the First Extension Period or the Second Extension Period, as applicable, Landlord shall have, in addition to all of Landlord's other rights and remedies provided in this Lease, the right to terminate such option(s) to extend upon notice to Tenant.

15.2 In the event the applicable option is exercised in a timely fashion, the Lease shall be extended for the term of the applicable extension period upon all of the terms and conditions of this Lease, provided that the Base Monthly Rent for each extension period shall be the "Fair Market Rent" for the Leased Premises, determined as set forth below, with annual increases as determined as part of the process set forth below.

15.3 Within 30 days after receipt of Tenant's notice of exercise, Landlord shall notify Tenant in writing of Landlord's estimate of the Base Monthly Rent for the first year of the applicable extension period, and Landlord's estimate of annual increases. For purposes hereof, "Fair Market Rent" shall mean collectively, (1) Base Monthly Rent for the first year of the applicable extension period and (2) the annual increases determined at the time Base Monthly Rent for the first year is determined. Within 30 days after receipt of such notice from Landlord, Tenant shall have the right either to (i) accept Landlord's estimate of Fair Market Rent or (ii) elect to arbitrate Landlord's estimate of Fair Market Rent, such arbitration to be conducted pursuant to the provisions hereof. Failure on the part of Tenant to require arbitration of Fair Market Rent within such 30-day period shall constitute acceptance of the Fair Market Rent for the applicable extension period as calculated by Landlord. If Tenant elects arbitration, the arbitration shall be concluded within 90 days after the date of Tenant's election, subject to extension for an additional 30-day period if a third arbitrator is required and does not act in a timely manner. To the extent that arbitration has not been completed prior to the expiration of any preceding period for which Base Monthly Rent has been determined, Tenant shall pay Base Monthly Rent at the rate calculated by Landlord, with the potential for an adjustment to be made once Fair Market Rent is ultimately determined by arbitration.

15.4 In the event of arbitration, the judgment or the award rendered in any such arbitration may be entered in any court having jurisdiction and shall be final and binding between the parties. The arbitration shall be conducted and determined in the City and County of San Francisco in accordance with the then prevailing rules of the American Arbitration Association or its successor for arbitration of commercial disputes except to the extent that the procedures mandated by such rules shall be modified as follows:

(a) Tenant shall make demand for arbitration in writing within 30 days after service of Landlord's determination of Fair Market Rent given under Paragraph 15.3 above, specifying therein the name and address of the person to act as the arbitrator on its behalf. The arbitrator shall be qualified as a real estate appraiser familiar with the Fair Market Rent of similar industrial, research and development, or office space in the Silicon Valley area who would qualify as an expert witness over objection to give opinion testimony addressed to the issue in a court of competent jurisdiction. Failure on the part of Tenant to make a proper demand in a timely manner for such arbitration shall constitute a waiver of the right thereto. Within 15 days after the service of the demand for arbitration, Landlord shall give notice to Tenant, specifying the name and address of the person designated by Landlord to act as arbitrator on its behalf who shall be similarly qualified. If Landlord fails to notify Tenant of the appointment of its arbitrator, within or by the time above specified, then the arbitrator appointed by Tenant shall be the arbitrator to determine the issue.

(b) In the event that two arbitrators are chosen pursuant to Paragraph 15.4(a) above, the arbitrators so chosen shall, within 15 days after the second arbitrator is appointed determine the Fair Market Rent. If the two arbitrators shall be unable to agree upon a determination of Fair Market Rent within such 15-day period, they,

themselves, shall appoint a third arbitrator, who shall be a competent and impartial person with qualifications similar to those required of the first two arbitrators pursuant to Paragraph 15.4(a). In the event they are unable to agree upon such appointment within seven days after expiration of such 15-day period, the third arbitrator shall be selected by the parties themselves, if they can agree thereon, within a further period of 15 days. If the parties do not so agree, then either party, on behalf of both, may request appointment of such a qualified person by the then Chief Judge of the United States District Court having jurisdiction over the County of Santa Clara, acting in his private and not in his official capacity, and the other party shall not raise any question as to such Judge's full power and jurisdiction to entertain the application for and make the appointment. The three arbitrators shall decide the dispute if it has not previously been resolved by following the procedure set forth below.

(c) Where an issue cannot be resolved by agreement between the two arbitrators selected by Landlord and Tenant or settlement between the parties during the course of arbitration, the issue shall be resolved by the three arbitrators within 15 days of the appointment of the third arbitrator in accordance with the following procedure. The arbitrator selected by each of the parties shall state in writing his determination of the Fair Market Rent supported by the reasons therefor with counterpart copies to each party. The arbitrators shall arrange for a simultaneous exchange of such proposed resolutions. The role of the third arbitrator shall be to select which of the two proposed resolutions most closely approximates his determination of Fair Market Rent. The third arbitrator shall have no right to propose a middle ground or any modification of either of the two proposed resolutions. The resolution he chooses as most closely approximating his determination shall constitute the decision of the arbitrators and be final and binding upon the parties.

(d) In the event of a failure, refusal or inability of any arbitrator to act, his successor shall be appointed by him, but in the case of the third arbitrator, his successor shall be appointed in the same manner as provided for appointment of the third arbitrator. The arbitrators shall decide the issue within 15 days after the appointment of the third arbitrator. Any decision in which the arbitrator appointed by Landlord and the arbitrator appointed by Tenant concur shall be binding and conclusive upon the parties. Each party shall pay the fee and expenses of its respective arbitrator and both shall share the fee and expenses of the third arbitrator, if any, and the attorneys' fees and expenses of counsel for the respective parties and of witnesses shall be paid by the respective party engaging such counsel or calling such witnesses.

(e) The arbitrators shall have the right to consult experts and competent authorities to obtain factual information or evidence pertaining to a determination of Fair Market Rent, but any such consultation shall be made in the presence of both parties with full right on their part to cross-examine. The arbitrators shall render their decision and award in writing with counterpart copies to each party. The arbitrators shall have no power to modify the provisions of this Lease.

ARTICLE 16

TELEPHONE SERVICE

Notwithstanding any other provision of this Lease to the contrary:

(a) So long as the entirety of the Building is leased to Tenant:

(i) Landlord shall have no responsibility for providing to Tenant any telephone equipment, including wiring, within the Leased Premises or for providing telephone service or connections from the utility to the Leased Premises; and

(ii) Landlord makes no warranty as to the quality, continuity or availability of the telecommunications services in the Building, and Tenant hereby waives any claim against Landlord for any actual or consequential damages (including damages for loss of business) in the event Tenant's telecommunications services in any way are interrupted, damaged or rendered less effective, except to the extent caused by the grossly negligent or willful act or omission by Landlord, its agents or employees. Tenant accepts the telephone equipment (including, without limitation, the INC, as defined below) in its "AS-IS" condition, and Tenant shall be solely responsible for contracting with a reliable third party vendor to assume responsibility for the maintenance and repair thereof (which contract shall contain provisions requiring such vendor to inspect the INC periodically (the frequency of such inspections to be determined by such vendor based on its experience and professional judgment), and requiring such vendor to meet local and federal requirements for telecommunications material and workmanship). Landlord shall not be liable to Tenant and Tenant waives all claims against Landlord whatsoever, whether for personal injury, property damage, loss of use of the Leased Premises, or otherwise, due to the interruption or failure of telephone services to the Leased Premises. Tenant hereby holds Landlord harmless and agrees to indemnify, protect and defend Landlord from and against any liability for any damage, loss or expense due to any failure or interruption of telephone service to the Leased Premises for any reason. Tenant agrees to obtain loss of rental insurance adequate to cover any damage, loss or expense occasioned by the interruption of telephone service.

(b) At such time as the entirety of the Building is no longer leased to Tenant, Landlord shall in its sole discretion have the right, by written notice to Tenant, to elect to assume limited responsibility for INC, as provided below, and upon such assumption of responsibility by Landlord, this subparagraph (b) shall apply prospectively.

(i) Landlord shall provide Tenant access to such quantity of pairs in the Building intra-building network cable ("INC") as is determined to be available by Landlord in its reasonable discretion. Tenant's access to the INC shall be solely by arrangements made by Tenant, as Tenant may elect, directly with Pacific Bell or Landlord (or such vendor as Landlord may designate), and Tenant shall pay all reasonable charges as may be imposed in connection therewith. Pacific Bell's charges shall be deemed to be reasonable. Subject to the foregoing,

Landlord shall have no responsibility for providing to Tenant any telephone equipment, including wiring, within the Leased Premises or for providing telephone service or connections from the utility to the Leased Premises, except as required by law.

(ii) Tenant shall not alter, modify, add to or disturb any telephone wiring in the Leased Premises or elsewhere in the Building without the Landlord's prior written consent, which consent shall not be unreasonably withheld. Tenant shall be liable to Landlord for any damage to the telephone wiring in the Building due to the act, negligent or otherwise, of Tenant or any employee, contractor or other agent of Tenant. Tenant shall have no access to the telephone closets within the Building, except in the manner and under procedures established by Landlord. Tenant shall promptly notify Landlord of any actual or suspected failure of telephone service to the Leased Premises.

(iii) All costs incurred by Landlord for the installation, maintenance, repair and replacement of telephone wiring in the Building shall be a Property Maintenance Cost.

(iv) Landlord makes no warranty as to the quality, continuity or availability of the telecommunications services in the Building, and Tenant hereby waives any claim against Landlord for any actual or consequential damages (including damages for loss of business) in the event Tenant's telecommunications services in any way are interrupted, damaged or rendered less effective, except to the extent caused by the grossly negligent or willful act or omission by Landlord, its agents or employees. Tenant acknowledges that Landlord meets its duty of care to Tenant with respect to the Building INC by contracting with a reliable third party vendor to assume responsibility for the maintenance and repair thereof (which contract shall contain provisions requiring such vendor to inspect the INC periodically (the frequency of such inspections to be determined by such vendor based on its experience and professional judgment), and requiring such vendor to meet local and federal requirements for telecommunications material and workmanship). Subject to the foregoing, Landlord shall not be liable to Tenant and Tenant waives all claims against Landlord whatsoever, whether for personal injury, property damage, loss of use of the Leased Premises, or otherwise, due to the interruption or failure of telephone services to the Leased Premises. Tenant hereby holds Landlord harmless and agrees to indemnify, protect and defend Landlord from and against any liability for any damage, loss or expense due to any failure or interruption of telephone service to the Leased Premises for any reason. Tenant agrees to obtain loss of rental insurance adequate to cover any damage, loss or expense occasioned by the interruption of telephone service.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the respective dates below set forth with the intent to be legally bound thereby as of the Effective Date of this Lease first above set forth.

LANDLORD:

MATHILDA ASSOCIATES LLC, a California limited liability company

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

Dated: 2-28-00

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

By: /s/ RICHARD J. HOLMSTROM

Richard J. Holmstrom, Manager

TENANT:

JUNIPER NETWORKS, INC., a Delaware corporation

Dated: February 23, 2000

By: /s/ Signature Illegible

Title: Chief Financial Officer

Dated: February 23, 2000

By: /s/ LISA C. BERRY

Title: General Counsel Secretary

EXHIBIT A

SITE PLAN

(To be attached)

EXHIBIT B

WORK LETTER

THIS WORK LETTER, dated February ____, 2000, is entered into by and between MATHILDA ASSOCIATES LLC ("Landlord"), and JUNIPER NETWORKS, INC., a Delaware corporation ("Tenant"). On or about the date hereof, Landlord and Tenant entered into that certain Lease (the "Lease") for certain premises (the "Leased Premises") commonly known as 1184 Mathilda Avenue, Sunnyvale, California. This Work Letter sets forth the agreement of Landlord and Tenant with respect to the improvements to be constructed in the Leased Premises. All defined terms used herein shall have the meaning set forth in the Lease, unless otherwise defined in this Work Letter.

1. CONSTRUCTION OF TENANT IMPROVEMENTS. Landlord shall, through a general contractor to be selected pursuant to Paragraph 4 of this Work Letter, furnish and install within the Building, substantially in accordance with the Work Letter, certain items of general construction as described herein (the "Tenant Improvements"). The quantities, character and manner of installation of all of the Tenant Improvements shall be subject to the limitations imposed by any applicable governmental regulations relating to conservation of energy and by applicable building codes and regulations. In addition, Tenant agrees that the Tenant Improvements shall not require Landlord to perform work which would (i) require changes to structural components of the Building or the exterior design of the Building; (ii) be incompatible with the Base Building Plans (defined below) or the use permit to be issued by the City of Sunnyvale (the "Use Permit"); or (iii) delay the completion of the Tenant Improvements beyond the Intended Delivery Date.

2. BASE BUILDING PLANS. Robinson Mills + Williams (the "Architect") has prepared building plans and specifications on behalf of Landlord described as Mathilda Research Centre "Reissues for Building Permit" plans dated September 23, 1999 ("Base Building Plans") which have been approved by Tenant prior to the date hereof. Landlord hereby agrees to construct the Base Building in accordance with the Base Building Plans and the cost thereof shall not be deducted from the Tenant Improvement Allowance.

3. PREPARATION AND APPROVAL OF SPACE PLAN. Commencing on full execution of the Lease, Tenant shall make its representatives available to meet with the Architect in order to begin the programming process. The Tenant shall work with the Architect to complete the programming and preliminary design for Architect's preparation of space plans (the "Space Plans"). Such Space Plans shall be approved by Tenant and submitted for Landlord's review no later than June 1, 2000. Within five (5) business days after Landlord receives the Space Plans, Landlord shall either approve or disapprove the Space Plans. In such event, the Architect shall make the minimum changes necessary in order to correct any design problems identified by the Landlord and shall submit to Landlord and Tenant revised Space Plans, which Landlord and Tenant shall approve or disapprove within two (2) business days after receipt of the revised Space Plans. This procedure shall be repeated until the Space Plans are finally approved by Landlord and Tenant.

4. SELECTION OF CONTRACTOR. Landlord's contractor shall be the contractor selected pursuant to a procedure whereby the Space Plans are submitted to three (3) contractors (one of which shall be LE Wentz), selected by Landlord and approved by Tenant, who are requested to each submit a proposal containing the contractor's fee and general conditions for construction of the improvements designated on the Space Plans. Landlord and Tenant shall jointly open and review the fees and general conditions and the qualifications of each contractor, and shall select the contractor reasonably acceptable to both Landlord and Tenant ("Contractor"). Landlord and Contractor shall enter into a construction contract (the "Construction Contract") consistent with the terms of the bid to construct the Tenant Improvements. The Construction Contract shall require that all subtrades be competitively bid with at least three (3) subcontractors. Tenant shall have the right to propose subcontractors to be used by the Contractor. Subcontracts shall be awarded to the lowest qualified bidder, unless otherwise agreed by Landlord and Tenant.

5. DESIGN DEVELOPMENT. As soon as possible after Landlord's approval of the Space Plans, Tenant shall commence working with the Architect to determine Tenant's design specifications and requirements, such that the Architect can incorporate such specifications and requirements into plans (the "Design Development Plans") no later than August 1, 2000. The Design Development Plans shall include all specifications necessary for the design-build mechanical/HVAC, electrical, plumbing, and telecom/cabbling subcontractors to complete working drawings.. Within five (5) business days Landlord receives the Design Development Plans, Landlord shall either approve or disapprove the Design Development Plans. In such event, the Architect shall make the minimum changes necessary in order to correct any design problems identified by the Landlord and shall submit to Landlord and Tenant revised Design Development Plans, which Landlord and Tenant shall approve or disapprove within two (2) business days after receipt of the revised Design Development Plans. This procedure shall be repeated until the Design Development Plans are finally approved by Landlord and Tenant.

6. APPROVAL OF WORKING DRAWINGS.

(a) After approval of the Design Development Plans and selection of the Contractor, the Architect shall prepare complete and coordinated architectural plans and specifications required for the construction of the Tenant Improvements in conformance with such Space Plans (the "Working Drawings"), and to prepare drawings and specifications for Changes (as defined below), if any, requested or required pursuant to Paragraph 8 below.

(b) Landlord shall submit the completed and coordinated Working Drawings to Tenant for Tenant's approval. Tenant will provide written approval of the Working Drawings within five (5) business days after such submission. If Tenant disapproves any part of the submission, the disapproval shall include written instructions

adequate for the Architect to revise the Working Drawings. Such revisions shall be subject to Landlord's approval, which shall not be unreasonably withheld. Tenant will finally approve the revised Working Drawings within five (5) business days after submission thereof to Tenant. If Tenant's instructions necessitate (i) revisions to the Working Drawings (as originally submitted) which do not conform with the Design Development Plans, or (ii) a change of scope relative to the Space Plans, the costs incurred by Landlord as a result of such instructions (including, without limitation, the cost of revising the Working Drawings) shall be promptly borne and paid by Tenant upon demand by Landlord.

(c) If Tenant fails to approve the Working Drawings within the applicable periods set forth in subparagraph 5(b) above, then (a) Landlord shall not be obligated to commence construction of the Tenant Improvements, (b) Tenant shall be responsible for any resulting delay, and the cost of such delay, in Landlord's completion of the Tenant Improvements and delivery of the Leased Premises, and (c) any such delay shall be deemed a Tenant Delay (as defined below).

7. COST OF TENANT IMPROVEMENTS. Unless specified otherwise herein, Landlord shall bear and pay the cost of the Tenant Improvements (which cost shall include, without limitation, the costs of construction, the cost of permits and permit expediting, and all architectural and engineering services obtained by Landlord in connection with the Tenant Improvements, the Contractor's fees, Landlord's fee for construction administration in an amount equal to the amount charged by any construction manager retained by Landlord (the "Construction Manager") up to a maximum of \$6,121,750 (the "Tenant Improvement Allowance"). The Tenant Improvement Allowance shall be utilized only for building improvements to the Building (and Tenant's architect fees), and not for signage, furniture costs, any third party consulting or contracting fees, any telecom/cabling costs, or any other purpose. Tenant shall bear and pay the cost of the Tenant Improvements (including but not limited to all of the foregoing fees and costs) in excess of the Tenant Improvement Allowance, if any. The cost of the Tenant Improvements shall exclude the cost of furniture, fixtures and inventory and other items of Tenant's Work (as defined below). Notwithstanding the foregoing, the Tenant Improvement Allowance shall not be used for (and Tenant shall have no responsibility for) the following costs except to the extent any of the foregoing are caused by Tenant, are due to Tenant Delays or result from the failure of Tenant to comply with the terms of the Lease or this Work Letter: (1) Property Maintenance Costs prior to the Delivery Date; (2) charges for overtime, except to the extent approved by Tenant; (3) costs to correct construction defects; (4) costs incurred to enforce contracts or cure contractor or subcontractor defaults (including legal fees); or (5) principal or interest on construction loan obtained by Landlord for construction of the Tenant Improvements.

8. CHANGES.

(a) Any request by Tenant for a change in the Tenant Improvements after approval of the Final Plans (a "Change") shall be accompanied by all information necessary to clearly identify and explain the proposed Change. As soon as practicable after receipt of such an Estimate Request form, Landlord shall notify Tenant of the estimated cost of such Change as well as the estimated increase in construction time caused by the Change, if any. Tenant shall approve in writing such estimates within two (2) business days after receipt of Landlord's notice. Upon receipt of such written request, Landlord shall be authorized to cause the Contractor to proceed with the implementation of the requested Change.

(b) The increased cost and time, as determined by Landlord, of all Changes, including the cost of architectural and engineering services required to revise the Working Drawings to reflect such Changes, the Contractor's overhead and fee, and Landlord's fee for construction administration services, shall be treated as costs of the Tenant Improvements, and shall be as determined by Landlord upon completion of the Tenant Improvements, subject only to Landlord's furnishing to Tenant appropriate back-up information from the Contractor concerning the increased costs and increased construction time.

9. TENANT'S WORK. Landlord and Tenant acknowledge and agree that certain work required for Tenant's occupancy of the Leased Premises, including but not limited to the procurement and installation of furniture, fixtures, equipment, artwork and interior signage are beyond the scope of the Tenant Improvements and shall be performed by Tenant or its contractors at Tenant's sole cost and expense. All such work ("Tenant's Work") shall be subject to Landlord's prior written approval. Tenant shall adopt a construction schedule for Tenant's Work in conformance with the Contractor's schedule, and shall perform Tenant's Work in such a way as not to hinder or delay the operations of Landlord or the Contractor in the Building. Any costs incurred by Landlord as a result of any interference with Landlord's operations by Tenant or its contractors shall be promptly paid by Tenant to Landlord upon demand. Landlord shall make all reasonable efforts to notify Tenant of any such interference of which Landlord has actual knowledge, but failure to provide such notice shall in no way limit Landlord's right to demand payment for such costs. Tenant's contractors shall be subject to Landlord's prior written approval, and to the administrative supervision of the Contractor. Tenant's Work shall comply with all of the following requirements:

(a) Tenant's Work shall not proceed until Landlord has approved in writing: (i) Tenant's contractors, (ii) proof of the amount and coverage of public liability and property damage insurance carried by Tenant's contractors in the form of an endorsed insurance certificate naming Landlord, the Contractor, and the agents of Landlord and the Contractor as additional insureds, in an amount not less than two million dollars, and (iii) complete and detailed plans and specifications for Tenant's Work.

(b) Tenant's Work shall be performed in conformity with a valid permit when required, a copy of which shall be furnished to Landlord before such work is commenced. In any event, all Tenant's Work shall comply with all applicable laws, codes and ordinances of any governmental entity having jurisdiction over the Building.

Landlord shall have no responsibility for Tenant's failure to comply with such applicable laws. Any and all delay in obtaining a certificate of occupancy due to Tenant's vendors is the responsibility of Tenant and shall be a Tenant Delay.

(c) In connection with Tenant's Work (e.g., delivering or installing furniture or equipment to the second floor of the Leased Premises), Tenant or its contractors shall arrange for any necessary hoisting or elevator service with Landlord and shall pay such reasonable costs for such services as may be charged by Landlord.

(d) Tenant shall promptly pay Landlord upon demand for any extra expense incurred by Landlord by reason of faulty work done by Tenant or its contractors, by reason of damage to existing work caused by Tenant or its contractors, or by reason of inadequate cleanup by Tenant or its contractors.

10. COMPLETION; TENANT DELAY.

(a) As used herein, the term "Substantial Completion of the Tenant Improvements" shall be deemed to mean the date when all of the following shall have occurred: (i) Landlord shall have delivered to Tenant a certificate of occupancy issued by the City of Sunnyvale for the Leased Premises, or Tenant may legally occupy the Leased Premises for the operation of its business without violating any law or regulation or voiding or adversely affecting its insurance coverage, whether pursuant to a temporary certificate of occupancy or otherwise; and (ii) Landlord shall have substantially completed construction of the Base Building substantially in accordance with the Base Building Plans and all Tenant Improvements substantially in accordance with the Final Plans, subject only to the completion of reasonable punch list items, which, in the absence of manifest error, shall be established by a certificate executed by Landlord's architect certifying that such state of completion has been achieved. Without limiting the generality of the foregoing, "Substantial Completion of the Tenant Improvements" shall not be deemed to have been achieved unless and until (i) the building systems, including roof, plumbing, HVAC, sprinkler, electrical (including panels and outlets), doors (both personnel and shipping), lighting, ceiling tiles, and window coverings are in good working order, (ii) the interior and exterior of the Building are in compliance with all applicable Laws, (iii) all debris and clutter has been removed from the Leased Premises and final cleanup completed,

(iv) exterior windows are washed inside and out, and (v) parking lot and landscaping are in good condition and free of debris, clutter and all construction equipment. After substantial completion of the Tenant Improvements and delivery of the Leased Premises to Tenant, Landlord and Tenant shall execute a Lease Commencement Date Certificate in the form attached as Exhibit "C" to the Lease.

(b) If Landlord shall be delayed in substantially completing the Tenant Improvements as a result of:

(i) Tenant's failure to furnish the information, instructions and plans required in paragraph 3 or approve the Working Drawings, within the applicable time periods specified in paragraph 5; or

(ii) Any changes in the scope of the Tenant Improvements from that set forth in the Space Plans, or any Changes to the Final Plans requested by Tenant after approval thereof pursuant to paragraph 7; or

(iii) Any interruption or interference in Landlord's construction of the Tenant Improvements caused by Tenant, its contractors or its vendors; or

(iv) Tenant's failure to timely pay any amounts which Tenant is obligated to pay under this Work Letter; or

(v) Any other act, neglect, failure or omission of Tenant, its agents, employees or contractors (items (i) through (v) above being collectively referred to as "Tenant Delays");

then the date upon which the payment of rental under the Lease, shall commence shall be advanced by the cumulative duration of such Tenant Delays.

11. CONSTRUCTION WARRANTY. Landlord shall construct the Tenant Improvements substantially in accordance with this Work Letter and the Final Plans, all Laws and Private Restrictions, and in a good and workmanlike manner, and all materials and equipment furnished will substantially conform to said plans and shall be new and otherwise of good quality. Landlord's Contractor and subcontractors shall be responsible for the correction of defects in design, workmanship, materials and equipment supplied, and the cost of correction shall not be charged against the Tenant Improvement Allowance or be a Property Maintenance Expense.

12. OWNERSHIP OF TENANT IMPROVEMENTS. All of the Tenant Improvements which are constructed with the Tenant Improvement Allowance shall become the property of Landlord upon installation and shall not be removed or altered by Tenant, except to the extent permitted by the Lease. Any part of the Tenant Improvements which are constructed by Landlord with funds of Tenant shall become the property of Tenant upon installation and Tenant shall have the right to depreciate and claim and collect investment tax credits in such improvements; provided, however, that

(i) Tenant shall not remove or alter such improvements except in accordance with the terms of the Lease; (ii) such improvements shall be surrendered to Landlord, and title to such improvements shall vest in Landlord, at the expiration or earlier termination of the Lease Term; and

(iii) in no event shall Landlord have any obligation to pay Tenant for the cost or value of such improvements. As soon as reasonably practicable, Landlord and Tenant shall agree in writing which of such improvements are to be constructed using the Tenant Improvement Allowance (and therefore are Landlord's property) and which of them are to be installed with Tenant's funds (and therefore are Tenant's property) during the Lease Term.

13. DESIGNATION OF AGENT. Tenant hereby designates and appoints Nova Partners ("Agent") as its agent to act on its behalf with respect to its duties and obligations under this Work Letter. For the purposes of this appointment, Agent's authority shall specifically include, but in no way be limited to, the following: (i) the approval of the Design Development Plans, (ii) the submission of any Changes, (iii) the delivery of any Estimate Requests, (iv) the approval of any Landlord responses to Estimate Requests, (v) the approval of all costs and time, including architectural and engineering services, required to revise the Working Drawings to reflect any Changes, (v) the authorization of any overtime, and (vi) the authority to execute and deliver to Landlord any written authorizations requested by Landlord in connection with the construction of the Tenant Improvements. Tenant expressly acknowledges that this Appointment is made with the knowledge that Landlord and its affiliates will rely on the authority granted to Agent herein. Accordingly, Landlord shall be deemed a third party beneficiary of this Appointment. Tenant further acknowledges that the authority hereby conferred will continue in full force and effect until Landlord shall receive notice in writing, signed by the Tenant, of the revocation of the authority herein granted. Such revocation shall be effective only as to actions taken by the Agent subsequent to receipt by Landlord of such notice. Tenant agrees to indemnify, defend and hold Landlord harmless from any and all claims, liabilities, losses, damages, costs and expenses, including without limitation, all reasonable attorneys' fees, asserted against or suffered by Landlord resulting from Landlord's reliance on this appointment.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Work Letter as of the respective dates set forth below.

LANDLORD:

MATHILDA ASSOCIATES LLC, a California limited liability company

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

Dated: 2-28-00

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

By: /s/ RICHARD J. HOLMSTROM

Richard J. Holmstrom, Manager

TENANT:

JUNIPER NETWORKS, INC., a Delaware corporation

Dated: February 25, 2000

By: /s/ Signature Illegible

Title: Chief Financial Officer

Dated: February 25, 2000

By: /s/ LISA C. BERRY

Title: General Counsel Secretary

EXHIBIT C

LEASE COMMENCEMENT DATE CERTIFICATE

This Lease Commencement Date Certificate is entered into by Landlord and Tenant pursuant to the Work Letter attached as Exhibit B to the Lease.

- 1. (a) Landlord: Mathilda Associates LLC, a California limited liability company
- (b) Tenant: Juniper Networks, Inc., a Delaware corporation
- (c) Lease: Lease dated February ____, 2000 between Landlord and Tenant.
- (d) Leased Premises: 1184 Mathilda Avenue, Sunnyvale, California

2. CONFIRMATION OF LEASE COMMENCEMENT.

Landlord and Tenant confirm that the Lease Commencement Date is _____ and the Expiration Date is _____ and that ARTICLE 1 of the Lease is amended accordingly.

Landlord and Tenant have executed this Lease Commencement Date Certificate as of the dates set forth below.

LANDLORD:

MATHILDA ASSOCIATES LLC, a California limited liability company

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

Dated: By: Member

TENANT:

JUNIPER NETWORKS, INC., a Delaware corporation

Dated: _____

By: _____

Title: _____

Dated: _____

By: _____

Title:

EXHIBIT D

FORM OF ESTOPPEL CERTIFICATE

-----, ----

Re 1184 Mathilda Avenue
Sunnyvale, California

Ladies and Gentlemen:

Reference is made to that certain Lease, dated as of February ____, 2000, between MATHILDA ASSOCIATES LLC, a California limited liability company ("Landlord"), and the undersigned (herein referred to as the "Lease"). A copy of the Lease [and all amendment thereto] is[are] attached hereto as EXHIBIT A. At the request of Landlord in connection with [State reasons for request for estoppel certificate], the undersigned hereby certifies to Landlord and to [State names of other parties requiring certification] and each of your respective successors and assigns as follows:

1. The undersigned is the tenant under the Lease.
2. The Lease is in full force and effect and has not been amended, modified, supplemented or superseded except as indicated in Exhibit A.
3. There is no defense, offset, claim or counterclaim by or in favor of the undersigned against Landlord under the Lease or against the obligations of the undersigned under the Lease. The undersigned has no renewal, extension or expansion option, no right of first offer or right of first refusal and no other similar right to renew or extend the term of the Lease or expand the property demised thereunder except as may be expressly set forth in the Lease.
4. The undersigned is not aware of any default now existing of the undersigned or of Landlord under the Lease, nor of any event which with notice or the passage of time or both would constitute a default of the undersigned or of Landlord under the Lease except_____.
5. The undersigned has not received notice of a prior transfer, assignment, hypothecation or pledge by Landlord of any of Landlord's interest in the Lease.
6. The monthly rent due under the Lease is \$_____ and has been paid through _____, and all additional rent due and payable under the Lease has been paid through _____.
7. The term of the Lease commenced on _____, and expires on _____, unless sooner terminated pursuant to the provisions of the Lease. Landlord has performed all work required by the Lease for the undersigned's initial occupancy of the demised property.
8. The undersigned has deposited the sum of \$_____ with Landlord as security for the performance of its obligations as tenant under the Lease, and no portion of such deposit has been applied by Landlord to any obligation under the Lease.
9. Except as set forth in the Lease, there is no free rent period pending, nor is Tenant entitled to any Landlord's contribution.

The above certifications are made to Landlord and Lender knowing that Landlord and Lender will rely thereon in accepting an assignment of the Lease.

Very truly yours,

JUNIPER NETWORKS, INC., a Delaware corporation

By:
Name:
Title:

EXHIBIT E

FORM OF LETTER OF CREDIT

Date: _____, 2000
Irrevocable Standby Letter of Credit Number: _____

Beneficiary:

Mathilda Associates LLC
525 University Avenue, Suite 100
Palo Alto, California 94301

Applicant:

Juniper Networks, Inc.

Amount:

USD \$ 1,000,000
(FOUR MILLION THREE HUNDRED TWENTY-NINE
THOUSAND FOUR HUNDRED FIFTY AND 00/100
U.S. DOLLARS)

Expiration:

We hereby establish our Irrevocable Standby Letter of Credit No. _____ in your favor for the account of _____, _____, on behalf of _____, available for drawings for up to an aggregate amount of U.S. \$ 4,329,450.00 (FOUR MILLION THREE HUNDRED TWENTY-NINE THOUSAND FOUR HUNDRED FIFTY AND 00/100 U.S. DOLLARS). This Letter of Credit is available by payment upon your draft drawn at sight on us, submitted at the office of _____, Attention: Letter of Credit Services, and expires at our close of business on the expiration date or any automatically extended expiration date as hereinafter set forth.

This Letter of Credit shall expire on _____, but such expiration date shall be automatically extended for a period of one (1) year on _____ and on each successive expiration date, unless at least sixty (60) days before the current expiration date we notify you by overnight courier that this Letter of Credit is not extended beyond the current expiration date. In the event you are so notified, any unused portion of the Letter of Credit shall be available upon presentation of a sight draft by Mathilda Associates LLC, within the current expiration date.

We give our undertaking to the Beneficiary that sums drawn under and in compliance with the terms of this Letter of Credit will be duly honored by our bank on presentation of drawings in accordance with the terms of this credit.

This Letter of Credit is transferable by the Beneficiary. Transfer of this Letter of Credit is subject to our consent and receipt of Beneficiary's instructions in the form attached hereto as Exhibit A accompanied by the original Letter of Credit and amendment(s) if any. Cost or expenses of such transfer shall be for the account of the Beneficiary.

This Letter of Credit is subject to the Uniform Customs and Practices for Documentary Credits (1993 Revision) International Chamber of Commerce Publication No. 500 and engages us to the terms herein.

Yours very truly,

Authorized Signature Letter of Credit Services (_____)_____

EXHIBIT A

Attention: Letter of Credit Services

Re: Irrevocable Letter of Credit No. _____

Dear Sirs:

The undersigned acknowledges receipt of your advice No. _____ of a credit issued in our favor, the terms of which are satisfactory. We now return the original advice of the said credit with all amendments and extensions, if any, and hereby irrevocably transfer the said credit and all amendments and extensions thereof, if any, to:

[Name of Transferee]

[Address]

You are to inform the transferee of this transfer and such transferee shall have sole rights as beneficiary under the credit, including any amendments, extension or increases thereof, without notice to or further assent from us.

Yours very truly,

By:
(The above signature with title as stated with that on file with us and is authorized for execution of this instrument.)

(Bank)

EXHIBIT F

FORM OF LANDLORD WAIVER

THIS LANDLORD WAIVER (this "Waiver") dated _____, 2____ is entered into by and between MATHILDA ASSOCIATES LLC, a California limited liability company ("Landlord") and _____ ("Secured Party").

RECITALS

WHEREAS, Landlord is the owner and landlord of the premises described as 1184 Mathilda Avenue, Sunnyvale, California (the "Property"); and

WHEREAS, Landlord and Juniper Networks, Inc. ("Tenant") have entered into that certain lease dated February ____, 2000 (as previously and/or hereafter amended, the "Real Property Lease") pursuant to which Tenant has leased approximately 144,315 square feet of space at the Property (the "Premises"); and

WHEREAS, Tenant has entered into an equipment lease and/or financing agreement pursuant to which Tenant has granted a security interest in the personal property described on Schedule 1 attached hereto (the "Personal Property") to Secured Party under that certain [Equipment Lease and/or Financing Agreement] between Tenant and Secured Party dated _____ (the "Financing Agreement"); and

WHEREAS, Secured Party and Landlord desire to establish their respective rights regarding the Personal Property and Secured Party's access to the Premises;

AGREEMENT

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. During the term of the Real Property Lease, and subject to Landlord's interest in the Personal Property, if any, at the expiration or earlier termination of the Real Property Lease, the Personal Property shall remain personal property and severable from the Premises and shall not become part of the Premises or construed as a fixture at the Premises to the extent that the Tenant Improvement Allowance (as defined in the Real Property Lease) has not been utilized to pay for the Personal Property or the financing thereof.
2. So long as Tenant occupies the Premises and is not in default under the Real Property Lease, Secured Party may enter the Premises at any time or from time to time upon reasonable written notice to Landlord and in compliance with the terms of the Financing Agreement for purposes of inspecting and/or removing any and all of the Personal Property in the exercise of its rights and remedies arising from the Financing Agreement. In the event of a default by Tenant under the Real Property Lease, Secured Party shall obtain Landlord's prior written consent prior to entering the Premises.
3. Landlord shall notify Secured Party in the event the Personal Property remains at the Premises after either (i) Tenant is evicted from the Premises or (ii) Tenant abandons (as opposed to vacates) the Premises prior to the expiration of the Real Property Lease. Secured Party shall have 15 days to remove the Personal Property from the Premises after notification of such action from Landlord. If Secured Party has not removed the Personal Property within such 15 day period, Landlord shall have all rights regarding the Personal Property accorded to it by law and/or pursuant to the Real Property Lease and Secured Party shall have no further rights regarding such Personal Property. After Tenant has abandoned or been evicted from the Premises, Secured Party shall be liable for holdover rent for the total amount of time the Personal Property remains at the Premises after such eviction or abandonment. For purposes hereof, "holdover rent" shall mean 200% of the rent in effect under the Real Property Lease for the period immediately prior to such vacation or eviction.
4. If Secured Party exercises its right to remove the Personal Property from the Premises as provided herein, Secured Party shall repair any damage to the Premises caused by such removal. Landlord shall have the right to require Secured Party to post a bond acceptable to Landlord to cover the potential cost of such repair prior to removing any such Personal Property.
5. No auction or sale of the Personal Property shall be conducted by Secured Party from the Premises without Landlord's prior written consent, which consent Landlord may withhold in Landlord's sole and absolute discretion.
6. This waiver shall be binding upon the heirs, administrators, executors, successors and assigns of the Landlord, and shall inure to the benefit of the successors and assigns of the Secured Party.

IN WITNESS WHEREOF, the parties hereto have executed, sealed and delivered this Waiver this _____ day of _____, 2_____.

MATHILDA ASSOCIATES LLC, a California limited liability company

By: Menlo Equities LLC, a California limited liability company

By: Member

SECURED PARTY:

By:

Title:

By:

Title:

2.

SCHEDULE 1

PERSONAL PROPERTY

3.

EXHIBIT 13.1

JUNIPER NETWORKS, INC.

1999 Consolidated Financial Statements
and
Financial Review

JUNIPER NETWORKS, INC.

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JUNIPER NETWORKS, INC.

ITEM 6 SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,			PERIOD FROM INCEPTION (FEBRUARY 2, 1996) TO DECEMBER 31, 1996
	1999	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Net revenues	\$ 102,606	\$ 3,807	\$ --	\$ --
Operating loss	(14,620)	(32,270)	(11,598)	(1,939)
Net loss	\$ (9,034)	\$ (30,971)	\$ (10,363)	\$ (1,799)
	=====	=====	=====	=====
Basic and diluted net loss per share(1)	\$ (0.10)	\$ (0.80)	\$ (0.40)	\$ (0.15)
	=====	=====	=====	=====
Shares used in computing basic and diluted net loss per share(1) ..	94,661	38,871	25,773	11,874
	=====	=====	=====	=====
Pro forma basic and diluted net loss per share (unaudited)(1)	\$ (0.07)	\$ (0.28)		
	=====	=====		
Shares used in computing pro forma basic and diluted net loss per share (unaudited)(1)	131,480	111,210		
	=====	=====		

	AS OF DECEMBER 31,			
	1999	1998	1997	1996
	(IN THOUSANDS)			
CONSOLIDATED BALANCE SHEET DATA:				
Cash, cash equivalents, and short-term investments ..	\$345,958	\$ 20,098	\$ 46,227	\$ 9,468
Working capital	322,170	14,432	44,691	9,315
Total assets	513,378	36,671	50,210	10,388
Total long-term debt	--	5,204	2,083	408
Stockholders' equity	457,715	17,065	46,048	9,728

(1) See Note 1 of Notes to Consolidated Financial Statements for an explanation of the determination of the shares used to compute net loss per share. All share and per share amounts have been adjusted to reflect the three-for-one split of our common stock to stockholders of record on December 31, 1999.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS

The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes thereto included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors including the risks discussed in "Risk Factors" and elsewhere herein.

OVERVIEW

We are a leading provider of Internet infrastructure solutions that enable Internet service providers and other telecommunications service providers, collectively described in this discussion as service providers, to meet the demands resulting from the rapid growth of the Internet. Our Internet backbone routers are specifically designed and purpose-built for service provider networks and offer our customers increased reliability, performance, scalability, interoperability and flexibility, and reduced complexity and cost compared to current alternatives.

In September 1998 we began shipping our first product, the M40 Internet backbone router, with volume shipments beginning in October 1998. We began shipping the M20, a derivative of the M40, in December 1999. We currently sell our products to major service providers in North America through our direct sales force and sell to international customers primarily through value added resellers.

From our inception in February 1996 through September 1998, our operating activities were primarily devoted to expanding our research and development capabilities, designing our ASICs, developing our software, developing and testing the M40 and developing other products. We also expanded our administrative, marketing and sales organizations and implemented strategic relationships. Since our inception, we have incurred significant losses, and as of December 31, 1999, we had an accumulated deficit of \$52.2 million. We achieved our first quarter of profitability in the quarter ended December 31, 1999. In order to maintain profitability, we will need to generate significantly higher revenues because we expect to continue to incur significant research and development, sales and marketing and general and administrative expenses as the business and operations continue to grow.

RESULTS OF OPERATIONS

NET REVENUES

We began generating net revenues in the fourth quarter of 1998. Our total net revenue increased to \$102.6 million for the year ended December 31, 1999 from \$3.8 million for the year ended December 31, 1998. The increase in net revenues was primarily due to the following three factors: 1999 being the first full year of product sales; an increase in market acceptance of our products; and overall growth in the marketplace due to the growth of the Internet and an increase in emerging customers and networks.

Our revenues for the year ended December 31, 1999 were derived from sales of one product, the M40. While we have introduced new products, such as the M20, and plan to continue to introduce new products, there can be no assurance that we will be successful in these efforts or that such products will be well-received by our existing and potential customer base. A limited number of customers have historically accounted for a substantial portion of our revenues. Two customers accounted for 58% of our total net revenues for the year ended December 31, 1999 and two customers accounted for 100% of our revenues for the year ended December 31, 1998. We expect that a significant portion of our future revenues will continue to come from sales of our products to a relatively small number of customers because our direct sales and marketing efforts are focused primarily on the world's leading service providers. For the year ended December 31, 1999, export sales accounted for approximately 22% of our total net revenue. We are seeking to diversify our customer base, but we cannot be certain that our efforts in this regard will be successful.

Because the market for Internet backbone routers is new and evolving, the volume and timing of orders are difficult to predict. A customer's decision to purchase our products typically involves a significant commitment of their resources and a lengthy evaluation and product qualification process which involves technical evaluation, integration, testing, network planning and implementation and typically takes several months. Even after making the decision to purchase our products, our customers tend to deploy the products slowly and deliberately. Timing of deployment can vary widely. Customers with large networks usually expand their networks in large increments on a periodic basis. Accordingly, we expect to receive purchase orders for significant dollar amounts on an irregular basis. Because of our limited operating history, we cannot predict these sales and development cycles. Long sales and implementation cycles for our products, as well as the 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. Historically, selling prices in the Internet infrastructure equipment market have been relatively stable. However, as competitors launch new products, this pricing trend may change.

We generally recognize product revenue at the time of shipment, assuming that collectibility is probable, unless we have future obligations for network interoperability or have to obtain customer acceptance, in which case revenue is deferred until these obligations are met. Revenue from service obligations is deferred and recognized on a straight-line basis over the contractual period. Amounts billed in excess of revenue recognized are included as deferred revenue and accounts receivable in the accompanying consolidated balance sheets.

At December 31, 1999, a total of \$19.3 million of revenue was deferred, which we currently expect to recognize in 2000. Our products generally carry a one year warranty that includes factory repair services as needed for replacement parts. Estimated expenses for warranty obligations are accrued as revenue is recognized.

COST OF REVENUES

Cost of revenues for the year ended December 31, 1999, were \$45.3 million resulting in a gross margin of 55.9% for the year. Cost of revenues for the year ended December 31, 1998 were \$4.4 million. The increase in cost of revenues is primarily related to the increase in net revenues, as well as increases in our customer service and support organizations. We expect cost of revenues to

continue to increase as net revenues increase. Our gross margins are highly variable and dependent on many factors, some of which are outside of our control. Some of the primary factors affecting gross margins include:

- demand for our products and services;
- changes in our pricing policies and those of our competitors;
- new product introductions both by us and by our competitors;
- the mix of interfaces sold;
- the volume manufacturing pricing we are able to attain from our partner for outsourced manufacturing; and o the mix of products and services sold.

Cost of revenues includes the cost of our manufacturing overhead and customer service and support organizations. We have outsourced our manufacturing, our repair operations and the majority of our supply chain management operations. Accordingly, a significant portion of our cost of revenues consists of payments to Solectron, our primary contract manufacturer. Solectron manufactures our products using quality assurance programs and standards which we established. Manufacturing engineering and documentation control are conducted at our facility in Mountain View, California.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased to \$41.5 million in 1999 from \$24.0 million in 1998 and \$9.4 million in 1997. Research and development expenses consist primarily of salaries and related personnel costs, non-recurring engineering charges and prototype costs related to the design, development, testing and enhancement of our ASICs. Salary and related personnel costs accounted for 40% of the increase from 1998 to 1999 and 30% of the increase from 1997 to 1998. Non-recurring engineering and prototype costs accounted for approximately 20% of the increase from 1998 to 1999 and 50% of the increase from 1997 to 1998.

We expense our research and development costs as they are incurred. Several components of our research and development effort require significant expenditures, the timing of which can cause significant quarterly variability in our expenses. For example, a large number of prototypes are required to build and test our products and the building and testing process occurs over a short period of time. Our ASIC development requires a payment for non-recurring engineering charges at the beginning of the process to design and develop the ASIC, regardless of whether the integrated circuit works. In addition, a per unit cost is payable as we purchase ASICs. With several large ASICs in our architecture, we will incur large non-recurring engineering and prototype expenses with every enhancement of the existing products and for any new product development. We expect to continue to devote substantial resources to the development of new products and the enhancement of existing products. We believe that research and development is critical to our strategic product development objectives and that to leverage our leading technology and meet the changing requirements of our customers, we will need to fund investments in several development projects in parallel. As a result, we expect our research and development expenses to increase in absolute dollars in the future.

SALES AND MARKETING EXPENSES

Sales and marketing expenses increased to \$20.9 million in 1999 from \$4.2 million in 1998, and \$1.1 million in 1997. The increases from period to period in sales and marketing expenses were primarily attributable to salaries, commissions (resulting from increased sales) and related expenses for personnel engaged in sales, marketing and customer engineering support functions, including international expansion, as well as costs associated with promotional and other marketing expenses.

We intend to expand our direct and indirect sales operations substantially, both domestically and internationally, in order to increase market awareness of our products and to better support our existing customers worldwide. We believe that continued investment in sales and marketing is critical to our success and expect these expenses to increase in absolute dollars in the future as we hire additional sales and marketing personnel, initiate additional marketing programs to support our products and establish sales offices in new domestic and international locations.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased to \$5.2 million in 1999 from \$2.2 million in 1998 and \$1.0 million in 1997. General and administrative expenses consist primarily of salaries and related expenses for executive, finance, accounting, facilities, and human resources personnel, as well as recruiting expenses, professional fees and other corporate expenses. The increases from period to period in general and administrative expenses were primarily attributable to the costs associated with additional headcount to support increased levels of business activity. In addition, the increase from 1998 to 1999 was also due to costs associated with being a publicly traded company. We expect general and administrative expenses to increase in absolute dollars as we add personnel and incur additional costs related to the growth of our business and our operation as a public company.

AMORTIZATION OF GOODWILL AND PURCHASED INTANGIBLES AND DEFERRED STOCK COMPENSATION

In connection with the grant of certain stock options to employees during 1998 and the three months ended March 31, 1999, we recorded deferred compensation of \$6.4 million in 1998 and \$1.1 million in 1999 representing the difference between the deemed value of the common stock for accounting purposes and the exercise price of these options at the date of grant. Deferred compensation is presented as a reduction of stockholders' equity and is amortized over the vesting period of the applicable options using the graded vesting method. This compensation expense relates to stock options granted to individuals in all operating expense categories. In November 1999, we acquired certain intellectual property and intangible assets resulting in our recording of \$18.4 million of goodwill and other intangibles. The goodwill and other intangibles will be amortized over a three-year period. We expensed \$4.3 million of goodwill and purchased intangibles and deferred compensation during 1999, and \$1.2 million of deferred compensation during 1998.

INTEREST INCOME, NET

Net interest income includes income earned on cash and investments partially offset by expenses related to financing obligations. Net interest income was \$8.0 million in 1999, \$1.3 million in 1998 and

\$1.2 million in 1997. The increase from 1998 to 1999 is directly due to interest earned on large cash and investment balances as a result of our initial public offering in June 1999 and our secondary offering in October 1999.

PROVISION FOR INCOME TAXES

We recorded a tax provision of \$2.4 million for the year ended December 31, 1999. The provision for income taxes consists primarily of federal alternative minimum taxes, state taxes and foreign taxes. As of December 31, 1999 we had approximately \$37.0 million of federal net operating loss carryforwards and \$32.0 million of state net operating loss carryforwards for tax reporting purposes available to offset future taxable income. Such net operating loss carryforwards expire at various dates beginning in 2004 to the extent that they are not utilized. We have not recognized any benefit from the future use of loss carryforwards for these periods, or for any other periods, since inception. Management's evaluation of all the underlying assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize the tax benefits currently.

LIQUIDITY AND CAPITAL RESOURCES

Prior to our initial public offering, we financed operations primarily through the private placement of convertible preferred stock and capital leases. In June 1999, we completed the initial public offering of our common stock and realized net proceeds from the offering of approximately \$65.2 million. In October 1999, we completed a secondary public offering of our common stock and realized net proceeds from the offering of \$324.3 million. At December 31, 1999, we had cash and cash equivalents of \$158.0 million, short-term investments of \$187.9 million and long-term investments of \$97.2 million. Subsequent to December 31, 1999, we completed a \$1.15 billion 4.75% convertible subordinated note offering. We regularly invest our excess funds in money market funds, commercial paper and government and non-government debt securities.

Net cash provided by operating activities was \$20.5 million for the year ended December 31, 1999. Net cash used in operating activities was \$24.8 million for the year ended December 31, 1998 and \$8.6 million for the year ended December 31, 1997. Net cash flows used in operating activities primarily consist of the net loss for all periods, as well as increases in accounts receivable for the years ending December 31, 1999 and 1998. Net cash provided by operating activities in each period are primarily attributed to non-cash charges such as depreciation and amortization, as well as increases in accounts payable and other liabilities and deferred revenue for the years ended December 31, 1999 and 1998.

Net cash used in investing activities was \$305.4 million for the year ended December 31, 1999 and \$13.0 million for the year ended December 31, 1997. Net cash provided by investing activities was \$9.3 million for the year ended December 31, 1998. Net cash used in investing activities for all periods primarily consisted of purchases of available for sale investments, as well as purchases of property and equipment. Net cash provided by investing activities for all periods consisted entirely of maturities of available-for-sale investments.

Net cash provided by financing activities was \$422.9 million for the year ended December 31, 1999, primarily from the net proceeds of our initial and secondary public offerings, as well as our convertible preferred stock offering, partially offset by payments on lease obligations. Net cash

provided by financing activities was \$5.2 million for the year ended December 31, 1998, primarily from proceeds from sale-leaseback liabilities, partially offset by payments on lease obligations. Net cash provided by financing activities was \$48.5 million for the year ended December 31, 1997, primarily from the net proceeds from private sales of convertible preferred stock, as well as proceeds from sale-leaseback liabilities.

Our capital requirements depend on numerous factors, including:

- market acceptance of our products;
- the resources we devote to developing, marketing, selling and supporting our products; and
- the timing and extent of establishing international operations.

We expect to devote substantial capital resources to continue our research and development efforts, to hire and expand our sales, support, marketing and product development organizations, to expand marketing programs, to establish additional facilities worldwide and for other general corporate activities. Although we believe that our current cash balances will be sufficient to fund our operations for at least the next 12 months, there can be no assurance that we will not require additional financing within this time frame or that such additional funding, if needed, will be available on terms acceptable to us or at all.

YEAR 2000

We have not experienced any problems with our computer systems relating to such systems being unable to recognize appropriate dates related to the year 2000. We are also not aware of any material problems with our clients or vendors. Accordingly, we do not anticipate incurring material expenses or experiencing any material operational disruptions as a result of any Year 2000 issues.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS No. 133, as amended, establishes methods for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. We are required to adopt FAS No. 133 effective January 1, 2001. Because we do not currently hold any derivative instruments and do not engage in hedging activities, we do not currently believe that the adoption of FAS No. 133, as amended, will have a significant impact on our financial position, results of operations or cash flows.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, or SAB 101. This summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. We believe that our current revenue recognition principles comply with SAB 101.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of

the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, we maintain our portfolio of cash equivalents and short-term and long-term investments in a variety of securities, including commercial paper, money market funds and government and non-government debt securities. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. See Note 2 to the Consolidated Financial Statements.

The following table presents the amounts of cash equivalents and investments that are subject to market risk and the weighted-average interest rates, by year of expected maturity for our investment portfolios as of December 31, 1999 and December 31, 1998. This table does not include money market funds because those funds are not subject to market risk.

	MATURING DURING 2000 -----	MATURING DURING 2001 -----	MATURING DURING 2002 -----
DECEMBER 31, 1999:			
Cash equivalents	\$ 89,151	\$ --	\$ --
Weighted-average interest rate ..	5.68%	--	--
Investments	187,915	93,963	3,238
Weighted-average interest rate ..	5.96%	6.23%	7.01%
	-----	-----	-----
Total	\$277,066	\$93,963	\$3,238
	=====	=====	=====
Weighted-average interest rate ..	5.87%	6.23%	7.01%
	MATURING DURING 1999 -----	MATURING DURING 2000 -----	MATURING DURING 2001 -----
DECEMBER 31, 1998:			
Cash equivalents.....	\$ 16,520	\$ --	\$ --
Weighted-average interest rate.....	5.33%	--	--

EXCHANGE RATE SENSITIVITY

We operate primarily in the United States, and all sales to date have been made in US dollars. Accordingly, we have had no material exposure to foreign currency rate fluctuations.

JUNIPER NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31,	
	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 158,043	\$ 20,098
Short-term investments	187,915	--
Accounts receivable, net of allowance for doubtful accounts of \$632 in 1999 (none in 1998)(1)	23,950	8,056
Prepaid expenses and other current assets	7,925	680
Total current assets	377,833	28,834
Property and equipment, net	12,416	7,702
Long-term investments	97,201	--
Intangibles and other long-term assets	25,928	135
Total assets	\$ 513,378	\$ 36,671
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,368	\$ 4,245
Accrued warranty	9,641	684
Accrued compensation and related liabilities	5,371	1,114
Other accrued liabilities	6,013	500
Deferred revenue	19,270	5,639
Current obligations under capital leases	--	2,220
Total current liabilities	55,663	14,402
Long-term liabilities	--	5,204
Commitments		
Stockholders' equity:		
Convertible preferred stock, \$0.00001 par value, issuable in series: 10,000 and 10,859 shares authorized at December 31, 1999 and 1998; none and 10,717 shares issued and outstanding at December 31, 1999 and 1998	--	--
Common stock, \$0.00001 par value, 200,000 shares authorized; 155,939 and 61,732 shares issued and outstanding at December 31, 1999 and 1998	2	1
Additional paid-in capital	513,696	65,350
Deferred stock compensation	(3,001)	(5,153)
Accumulated other comprehensive loss	(815)	--
Accumulated deficit	(52,167)	(43,133)
Stockholders' equity	457,715	17,065
Total liabilities and stockholders' equity	\$ 513,378	\$ 36,671

(1) Includes \$632 due from Ericsson Business Networks AB, a related party, as of December 31, 1999.

See accompanying notes.

JUNIPER NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Net revenues(1)	\$ 102,606	\$ 3,807	\$ --
Cost of revenues	45,272	4,416	--
Gross profit (loss)	57,334	(609)	--
Operating expenses:			
Research and development	41,502	23,987	9,406
Sales and marketing	20,931	4,216	1,149
General and administrative	5,235	2,223	1,043
Amortization of goodwill and purchased intangibles and deferred stock compensation	4,286	1,235	--
Total operating expenses	71,954	31,661	11,598
Operating loss	(14,620)	(32,270)	(11,598)
Interest income, net	8,011	1,301	1,235
Loss before income taxes	(6,609)	(30,969)	(10,363)
Provision for income taxes	2,425	2	--
Net loss	\$ (9,034)	\$ (30,971)	\$ (10,363)
Basic and diluted net loss per share	\$ (0.10)	\$ (0.80)	\$ (0.40)
Shares used in computing basic and diluted net loss per share	94,661	38,871	25,773
Pro forma basic and diluted net loss per share (unaudited)	\$ (0.07)	\$ (0.28)	
Shares used in computing pro forma basic and diluted net loss per share (unaudited)	131,480	111,210	

(1) Includes \$5.5 million in revenue from Ericsson Business Networks AB, a related party, for the year ended December 31, 1999.

See accompanying notes.

JUNIPER NETWORKS, INC.

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)**

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE LOSS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT					
Balance at December 31, 1996	5,566	\$--	47,683	\$--	\$ 11,527	\$ --	\$ --	\$ (1,799)	\$ 9,728
Issuance of warrants to purchase Series B preferred stock	--	--	--	--	1	--	--	--	1
Issuance of Series C preferred stock to investors	5,151	--	--	--	45,953	--	--	--	45,953
Issuance of warrants to purchase Series C preferred stock	--	--	--	--	3	--	--	--	3
Issuance of common stock, net of repurchases	--	--	9,681	--	375	--	--	--	375
Compensation expense related to stock options ..	--	--	--	--	351	--	--	--	351
Net loss	--	--	--	--	--	--	--	(10,363)	(10,363)
Balance at December 31, 1997	10,717	--	57,364	--	58,210	--	--	(12,162)	46,048
Exercise of stock options by employees, net of repurchases	--	--	4,368	1	752	--	--	--	753
Deferred stock compensation	--	--	--	--	6,388	(6,388)	--	--	--
Amortization of deferred stock compensation	--	--	--	--	--	1,235	--	--	1,235
Net loss	--	--	--	--	--	--	--	(30,971)	(30,971)
Balance at December 31, 1998	10,717	--	61,732	1	65,350	(5,153)	--	(43,133)	17,065
Issuance of Series D and D-1 preferred stock to investors	3,080	--	--	--	33,948	--	--	--	33,948
Conversion of preferred stock to common stock	(13,797)	--	76,794	--	--	--	--	--	--
Issuance of common stock, net of issuance costs of \$1,885	--	--	11,613	1	389,454	--	--	--	389,455
Exercise of common stock warrants	--	--	779	--	--	--	--	--	--
Exercise of stock options by employees, net of repurchases	--	--	4,888	--	6,870	--	--	--	6,870
Issuance of common stock and options in connection with the acquisition of intellectual property and other intangibles	--	--	133	--	16,960	--	--	--	16,960
Deferred stock compensation	--	--	--	--	1,114	(1,114)	--	--	--
Amortization of deferred stock compensation	--	--	--	--	--	3,266	--	--	3,266
Other comprehensive loss: Change in unrealized loss on available-for- sale securities	--	--	--	--	--	--	(815)	--	(815)
Net loss	--	--	--	--	--	--	--	(9,034)	(9,034)
Comprehensive loss	--	--	--	--	--	--	--	--	(9,849)
Balance at December 31, 1999	--	\$--	155,939	\$2	\$513,696	\$(3,001)	\$(815)	\$(52,167)	\$457,715

See accompanying notes.

JUNIPER NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net loss	\$ (9,034)	\$ (30,971)	\$ (10,363)
Adjustments to reconcile net loss to net cash from operating activities:			
Depreciation and amortization	5,306	2,171	712
Amortization of goodwill and purchased intangibles, prepaid maintenance contracts And deferred stock compensation	4,933	1,602	589
Loss on disposal of property and equipment	--	--	59
Issuance of stock for consulting services	--	30	21
Issuance of warrants in connection with certain leasing arrangements	--	--	14
Changes in operating assets and liabilities:			
Accounts receivable	(15,894)	(8,056)	--
Prepaid expenses and other current assets	(7,892)	(504)	(699)
Other long-term assets	(398)	(10)	(104)
Accounts payable and other current liabilities	16,593	4,084	489
Accrued warranty	8,957	684	--
Accrued milestone payment	--	(423)	423
Accrued compensation and related liabilities	4,257	869	245
Deferred revenue	13,631	5,639	--
Other long-term liabilities	--	43	--
Net cash provided by (used in) operating activities	20,459	(24,842)	(8,614)
INVESTING ACTIVITIES:			
Purchases of property and equipment, net	(10,020)	(6,531)	(3,110)
Purchases of available-for-sale investments	(324,437)	(3,501)	(20,715)
Maturities of available-for-sale investments	38,506	19,286	10,800
Minority equity investments	(8,000)	--	--
Acquisition of intellectual property and other intangibles	(1,456)	--	--
Net cash provided by (used in) investing activities	(305,407)	9,254	(13,025)
FINANCING ACTIVITIES:			
Proceeds from sale-leaseback liabilities	--	5,705	2,603
Payments on lease obligations	(7,381)	(1,157)	(439)
Proceeds from issuance of preferred stock	33,948	--	45,953
Proceeds from issuance of common stock	396,326	696	366
Net cash provided by financing activities	422,893	5,244	48,483
Net increase (decrease) in cash and cash equivalents	137,945	(10,344)	26,844
Cash and cash equivalents at beginning of period	20,098	30,442	3,598
Cash and cash equivalents at end of period	\$ 158,043	\$ 20,098	\$ 30,442
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	\$ 477	\$ 592	\$ 210
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Acquisition of property and equipment under capital lease	\$ --	\$ 5,692	\$ 2,243
Deferred stock compensation	\$ 1,114	\$ 6,388	\$ --
Common stock issued in connection with the acquisition of intellectual property and other intangibles	\$ 16,960	\$ --	\$ --

See accompanying notes.

JUNIPER NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Juniper Networks, Inc. ("Juniper Networks") was incorporated in the state of California on February 2, 1996. Juniper Networks was reincorporated in the state of Delaware effective as of March 15, 1998. Juniper Networks was established for the purpose of providing Internet infrastructure solutions to Internet service providers and other telecommunication service providers. Juniper Networks develops next generation Internet backbone routers.

From inception, in February 1996, through September 1998, Juniper Networks' operating activities were primarily devoted to increasing research and development capabilities, designing ASICs, developing software, developing and testing the M40 and other products, staffing the administrative, marketing and sales organizations and establishing strategic relationships. Accordingly, Juniper Networks was classified as a development stage company through that date. Juniper Networks commenced product shipments in October 1998 and therefore emerged from the development stage.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Juniper Networks and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

RECLASSIFICATIONS

Certain reclassifications, none of which affected operating or net loss, have been made to prior year amounts to conform to the current year presentation.

CASH, CASH EQUIVALENTS, SHORT-TERM AND LONG-TERM INVESTMENTS

Juniper Networks considers all highly liquid investment securities with maturities from date of purchase of 90 days or less to be cash equivalents. Short-term and long-term investments consist of debt securities with original maturities between three months and three years.

Management determines the appropriate classification of debt and equity securities at the time of purchase and evaluates such designation as of each balance sheet date. To date, all marketable debt securities have been classified as available-for-sale and are carried at fair value with unrealized gains and losses, if any, included in stockholders' equity. Realized gains and losses and declines in value of securities judged to be other than temporary are included in interest income and have not been significant to date. Interest and dividends on all securities are included in interest income.

CONCENTRATIONS

Financial instruments that potentially subject Juniper Networks to concentrations of credit risk consist principally of investments in debt securities and trade receivables. Management believes the financial risks associated with these financial instruments are minimal. Juniper Networks maintains its cash, cash equivalents and investments with high quality financial institutions. Juniper Networks performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable.

Juniper Networks' revenues to date have been derived for the sale of one product, the M40. For the year ended December 31, 1999, two customers, A and C, accounted for 32% and 26% of Juniper Networks' net revenues. For the year ended December 31, 1998, two customers, A and B, accounted for 78% and 22% of Juniper Networks' net revenues. For the year ended December 31, 1999, export sales to Europe and Asia accounted for a total of 21.9% of net revenues.

Juniper Networks purchases certain custom semiconductor chips from a sole supplier. Additionally, Juniper Networks relies on one hardware manufacturer for the production of its product. The inability of the supplier or manufacturer to fulfill supply requirements of Juniper Networks could negatively impact future results.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of Juniper Networks' short-term and long-term investments is based on quoted market prices.

The fair value of short-term and long-term capital lease obligations is estimated based on current interest rates available to Juniper Networks for debt instruments with similar terms, degrees of risk, and remaining maturities. The

carrying values of these obligations approximate their respective fair values as of December 31, 1998.

PROPERTY AND EQUIPMENT

Property and equipment, including equipment leased under capital leases, are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful life, generally three to five years, or the lease term of the respective assets.

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets include equity investments made in privately held companies in which Juniper Networks has less than a 20% equity ownership interest and over which Juniper Networks has no ability to exercise significant influence. Such investments are accounted for on the cost basis and are reviewed for impairment indicators. Through December 31, 1999, no impairment indicators have been identified and no write-downs of the cost basis of these investments has been made. Also included in intangibles and other assets is goodwill and other intangibles as a result of the November 1999 acquisition of intellectual property and other intangible assets. The goodwill and other intangibles are being amortized over a three-year period.

REVENUE RECOGNITION

Juniper Networks generally recognizes product revenue at the time of shipment, assuming that collectibility is probable, unless Juniper Networks has future obligations for network interoperability or has to obtain customer acceptance, in which case revenue is deferred until these obligations are met. Revenue from service obligations is deferred and recognized on a straight-line basis over the contractual period. Amounts billed in excess of revenue recognized are included as deferred revenue and accounts receivable in the accompanying consolidated balance sheets.

WARRANTY RESERVES

Juniper Networks' product generally carries a one-year warranty that includes factory repair services as needed for replacement of parts. Estimated expenses for warranty obligations are accrued as revenue is recognized.

RESEARCH AND DEVELOPMENT

Costs to develop Juniper Networks' products are expensed as incurred in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2, "Accounting for Research and

Development Costs," which establishes accounting and reporting standards for research and development.

Juniper Networks adopted SOP 98-1 "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" during 1999, which requires that all costs related to the development of internal use software be expensed as incurred, other than those incurred during the application development stage. Costs incurred during the application development stage were insignificant for all periods presented.

STOCK-BASED COMPENSATION

Juniper Networks accounts for its stock options and equity awards in accordance with the provisions of the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and has elected to follow the "disclosure only" alternative prescribed by Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123).

STOCK SPLITS

Juniper Networks effected a three-for-two stock split of its common stock on June 27, 1997 and October 2, 1998 and a three-for-one stock split in the form of a 200% common stock dividend paid on January 14, 2000. All share and per share amounts have been adjusted to reflect the splits.

NET LOSS PER SHARE

Basic net loss per share and diluted net loss per share are presented in conformity with Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (FAS 128), for all periods presented. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 98, common stock and convertible preferred stock issued or granted for nominal consideration prior to the anticipated effective date of the initial public offering must be included in the calculation of basic and diluted net loss per common share as if they had been outstanding for all periods presented. To date, Juniper Networks has not had any issuances or grants for nominal consideration.

In accordance with FAS 128, basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less the weighted-average number of shares of common stock issued to founders, investors and employees that are subject to repurchase (see Note 5). Basic and diluted pro forma net loss per share, as presented in the consolidated statements of operations, has been computed as described above and also gives effect, under Securities and Exchange

Commission guidance, to the conversion of the convertible preferred stock (using the if-converted method) from the original date of issuance, using the initial public offering price of \$11.33 per share to calculate the conversion ratio for Series D-1 convertible preferred stock.

The following table presents the calculation of basic and diluted and pro forma basic and diluted net loss per share (in thousands, except per share amounts):

	1999	1998	1997
Net loss	\$ (9,034)	\$ (30,971)	\$ (10,363)
	=====	=====	=====
BASIC AND DILUTED:			
Weighted-average shares of common stock outstanding	109,652	59,073	55,869
Less: weighted-average shares subject to repurchase	(14,991)	(20,202)	(30,096)
	-----	-----	-----
Weighted-average shares used in computing basic and diluted net loss per share	94,661	38,871	25,773
	=====	=====	=====
Basic and diluted net loss per share	\$ (0.10)	\$ (0.80)	\$ (0.40)
	=====	=====	=====
PRO FORMA:			
Net loss	\$ (9,034)	\$ (30,971)	
	=====	=====	
Shares used above	94,661	38,871	
Pro forma adjustment to reflect weighted effect of assumed conversion of convertible preferred stock ...	36,819	72,339	
	-----	-----	
Shares used in computing pro forma basic and diluted net loss per common share (unaudited)	131,480	111,210	
	=====	=====	
Pro forma basic and diluted net loss per common share (unaudited)	\$ (0.07)	\$ (0.28)	
	=====	=====	

Juniper Networks has excluded all convertible preferred stock, warrants for convertible preferred stock, outstanding stock options and shares subject to repurchase from the calculation of diluted loss per share because all such securities are antidilutive for all periods presented. The total number of shares excluded from the calculations of diluted net loss per share were 68,288,000, 101,769,000 and 86,811,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

SEGMENT INFORMATION

Juniper Networks has adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" (FAS 131). Juniper Networks operates solely in one segment, the development and marketing of Internet infrastructure equipment, and therefore there is no impact to Juniper Networks' consolidated financial statements due to the adoption of FAS 131.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). FAS 133, as amended, establishes methods for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. Juniper Networks is required to adopt FAS 133 effective January 1, 2001. Because Juniper Networks currently does not hold any derivative instruments and does not engage in hedging activities, Juniper Networks does

not currently believe that the adoption of FAS 133, as amended, will have a significant impact on its financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Juniper Networks believes that its current revenue recognition principles comply with SAB 101.

2. CASH EQUIVALENTS, SHORT-TERM AND LONG-TERM INVESTMENTS

Cash equivalents, short-term and long-term investments consist of the following (in thousands):

	DECEMBER 31, 1999			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Money market funds	\$ 56,034	\$ --	\$ --	\$ 56,034
Commercial paper	79,862	--	--	79,862
Certificates of deposit	66	--	--	66
Government securities	135,325	5	(181)	135,149
Corporate debt securities	151,829	12	(651)	151,190
Asset-backed securities	8,000	--	--	8,000
	-----	-----	-----	-----
	\$ 431,116	\$ 17	\$ (832)	\$ 430,301
	=====	=====	=====	=====
Included in cash and cash equivalents ..	\$ 145,179	\$ 6	\$ --	\$ 145,185
Included in short-term investments	188,170	11	(266)	187,915
Included in long-term investments	97,767	--	(566)	97,201
	-----	-----	-----	-----
	\$ 431,116	\$ 17	\$ (832)	\$ 430,301
	=====	=====	=====	=====
Due within one year	\$ 333,349	\$ 17	\$ (266)	\$ 333,100
Due between one year and two years	94,500	--	(537)	93,963
Due between two years and three years ..	3,267	--	(29)	3,238
	-----	-----	-----	-----
	\$ 431,116	\$ 17	\$ (832)	\$ 430,301
	=====	=====	=====	=====

	DECEMBER 31, 1998			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Money market funds	\$ 3,037	\$ --	\$ --	\$ 3,037
Commercial paper	16,520	--	--	16,520
	-----	-----	-----	-----
	\$19,557	\$ --	\$ --	\$19,557
	=====	=====	=====	=====
Included in cash and cash equivalents ..	\$19,557	\$ --	\$ --	\$19,557
	=====	=====	=====	=====

3. PROPERTY AND EQUIPMENT, NET

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

	DECEMBER 31,	
	1999	1998
Computers and equipment	\$ 14,953	\$ 7,435
Purchased software	4,252	2,540
Furniture and fixtures	1,383	594
	-----	-----
Total	20,588	10,569
Less accumulated depreciation and lease amortization	(8,172)	(2,867)
	-----	-----
Property and equipment , net	\$ 12,416	\$ 7,702
	=====	=====

4. CAPITAL LEASE OBLIGATIONS

Juniper Networks enters into various capital leases, including sale and leaseback transactions, to finance purchases of property and equipment. As of December 31, 1998, under various lease lines of credit, Juniper Networks had \$1,891,000 available for future purchases of property and equipment that expired on June 30, 1999. Under the terms of certain lease agreements, warrants to purchase the Company's preferred stock were granted as described in Note 5. Capitalized costs of \$8,470,000, and accumulated amortization of \$905,000 are included in property and equipment at December 31, 1998. During the year ending December 31, 1999, Juniper Networks paid off all of the then outstanding capital lease balances.

5. STOCKHOLDERS' EQUITY

CONVERTIBLE PREFERRED STOCK

	SHARES INITIALLY AUTHORIZED	SHARES ISSUED AND OUTSTANDING AT DECEMBER 31,	
		1999	1998
Series A.....	1,743,751	--	1,743,751
Series B.....	3,915,308	--	3,821,975
Series C.....	5,200,000	--	5,151,178
Series D.....	600,000	--	--
Series D-1.....	2,580,000	--	--
Total preferred stock.....	14,039,059	--	10,716,904
	=====	==	=====

All outstanding shares of Juniper Networks' convertible preferred stock automatically converted into 76,794,000 shares of Common Stock upon completion of Juniper Networks' initial public offering. As of December 31, 1999, 10,000,000 shares of convertible preferred stock remain authorized and available for issuance.

WARRANTS

Juniper Networks periodically grants warrants in connection with certain lease arrangements. Juniper Networks had the following warrants to purchase shares of preferred stock outstanding at December 31, 1998:

PREFERRED STOCK SERIES	EXERCISE PRICE PER SHARE	DATE ISSUED	EXPIRATION OF WARRANTS	NUMBER OF SHARES (PREFERRED STOCK)
Series B.....	\$2.40	December 1996	December 2003	83,333
Series B.....	2.40	June 1997	December 2003	10,000
Series C.....	8.93	June 1997	December 2003	23,516
Total.....				116,849
				=====

During the year ended December 31, 1999, all warrants were exercised for a total of approximately 779,000 shares of Common Stock. All of the warrants were exercisable immediately. The fair value of the warrants was amortized as interest expense in accordance with the lease payments.

COMMON STOCK

Juniper Networks is authorized to issue up to 200,000,000 shares of its common stock. At December 31, 1999 and 1998, 155,938,599 and 61,731,984 shares were issued and outstanding. Prior to the adoption of the 1996 Stock Option Plan, Juniper Networks issued shares of common stock to founders, investors, and employees. The shares issued to investors were fully vested upon purchase. Generally, shares issued to founders and employees were sold pursuant to restricted stock purchase agreements containing provisions established by the Board of Directors. These provisions give Juniper Networks the right to repurchase the shares at the original sales price. This right expires at the rate of 25% after one year and 2.0833% per month thereafter. At December 31, 1999 and 1998, 840,001 and 4,148,439 of these shares, issued outside of the 1996 Stock Option Plan, remained subject to repurchase.

STOCK OPTION PLAN

Juniper Networks' 1996 Stock Option Plan (the Plan) provides for the granting of incentive stock options to employees and nonstatutory stock options to employees, directors and consultants. Incentive stock options are granted at an exercise price of not less than the fair value per share of the common stock on the date of grant. Nonstatutory stock options may be granted at an exercise price of not less than 85% of the fair value per share on the date of grant; however, no statutory stock options have been granted for less than fair market value on the date of grant. Vesting and exercise provisions are determined by the Board of Directors. Options granted under the Plan generally become exercisable over a four-year period beginning on the date of grant. Options granted under the Plan have a maximum term of ten years. Options granted to consultants are in consideration for the fair value of services previously rendered, are not contingent upon future events and are expensed in the period of grant. Juniper Networks has authorized 57,562,500 shares of common stock for issuance under the Plan. At December 31, 1999, 1,896,356 shares were available for future option grants or stock sales under the Plan.

Option activity under the Plan is summarized as follows:

	OUTSTANDING OPTIONS	
	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Options granted	5,393,250	\$ 0.07
Balance at December 31, 1997	5,393,250	0.07
Options granted	10,537,440	0.62
Options exercised	(4,521,948)	0.16
Options canceled	(365,028)	0.09
Balance at December 31, 1998	11,043,714	0.56
Options granted	16,837,006	33.76
Options exercised	(4,935,090)	1.13
Options canceled	(476,465)	7.78
Balance at December 31, 1999	22,469,165	25.11

The Plan also provides for the sale of shares of common stock to employees and consultants at the fair value per share of the common stock. Shares issued

to consultants are for the fair value of services previously rendered and are not contingent upon future events. Shares sold to employees are made pursuant to restricted stock purchase agreements containing provisions established by the Board of Directors. These provisions give Juniper Networks the right to repurchase the shares at the original sales price. This right expires at a rate determined by the Board of Directors, generally at the rate of 25% after one year and 2.0833% per month thereafter.

During the year ended December 31, 1997 and the period from inception (February 2, 1996) to December 31, 1996, Juniper Networks issued 10,717,299 and 14,522,652 shares under the Plan. No shares were issued under the Plan in the years ended December 31, 1999 and 1998. At December 31, 1999 and 1998, 9,158,052 and 14,055,312 shares were subject to repurchase rights under the Plan. At December 31, 1999 and 1998, 1,266,509 and 1,189,275 shares, respectively, had been repurchased under the Plan.

The following schedule summarizes information about stock options outstanding as of December 31, 1999:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
\$ 0.04 - \$ 0.56	4,648,857	8.22	\$ 0.29	1,177,599	\$ 0.24
\$ 0.64 - \$ 4.67	5,294,415	9.01	\$ 2.88	353,777	\$ 1.77
\$ 7.00 - \$ 9.33	4,715,349	9.39	\$ 7.61	4,125	\$ 7.00
\$21.44 - \$ 60.71	6,666,345	9.76	\$60.44	31,095	\$21.44
\$63.63 - \$112.57	1,144,199	9.89	\$89.60	--	\$ --
	-----			-----	
\$ 0.04 - \$112.57	22,469,165	9.19	\$25.11	1,566,596	\$ 1.03
	=====			=====	

As of December 31, 1998, 325,608 options are exercisable at an average exercise price of \$0.05, and as of December 31, 1997, 79,980 options are exercisable at an average price of \$0.01.

During the year ended December 31, 1998 and the three months ended March 31, 1999, in connection with the grant of certain stock options to employees, Juniper Networks recorded deferred stock compensation of \$6,388,000 and \$1,114,000 representing the difference between the exercise price and the deemed fair value of Juniper Networks' common stock on the date such stock options were granted. Such amount is included as a reduction of stockholders' equity and is being amortized by charges to operations on a graded vesting method. Juniper Networks recorded amortization of deferred stock compensation expense of \$3,266,000 and \$1,235,000 for the years ended December 31, 1999 and 1998. At December 31, 1999 and 1998, Juniper Networks had a total of \$3,001,000 and \$5,153,000 remaining to be amortized over the corresponding vesting period of each respective option, generally four years. The amortization expense relates to options awarded to employees in all operating expense categories. This amount has not been separately allocated to these categories.

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). A total of 1,500,000 shares of common stock have been reserved for issuance under the 1999 Purchase Plan, plus, commencing on January 1, 2000, annual increases equal to the lesser of 1,500,000 shares, or 1% of the outstanding common shares on such date or a lesser amount determined by the Board of Directors. The 1999 Purchase Plan permits eligible employees to acquire shares of Juniper Networks' common stock through periodic payroll deductions of up to 10% of base compensation. No more than 3,000 shares may be purchased by each employee 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 will be implemented in a series of offering periods, each six months in duration; provided, however, that the first offering period will be approximately thirteen months in duration, ending on the last trading day on or before July 31, 2000. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of Juniper Networks' common stock on the first day of the applicable offering period or on the last day of the respective offering period.

STOCK-BASED COMPENSATION

The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock-based compensation plans. Because the exercise price of Juniper Networks' employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense was recognized.

Pro forma information regarding net loss has been determined as if Juniper Networks had accounted for its employee stock options under the fair value method prescribed by FAS 123. The resulting effect on pro forma net loss disclosed is not likely to be representative of the effects on net income/(loss) on a pro forma basis in future years, due to subsequent years including additional grants and years of vesting.

The fair value of each option granted through December 31, 1999 was estimated on the date of grant using the minimum value (before the Company went public) or the Black-Scholes method. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes model requires the input of highly subjective assumptions including the expected stock price volatility. Because Juniper Networks' stock-based awards have characteristics significantly different from those in traded options, and because changes in the subjective input assumptions can materially affect the fair value

estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards. The fair value of Juniper Networks' stock-based awards was estimated using the following weighted-average assumptions:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Dividend yield.....	--	--	--
Volatility factor.....	80%	--	--
Risk-free interest rate.....	5.49%	5.23%	6.20%
Expected life.....	3.0 years	4.5 years	4.5 years
Weighted-average fair value of options granted in the period....	\$ 17.97	\$ 0.37	\$ 0.03

For purposes of pro forma disclosures, the estimated fair value of options is amortized to pro forma expense over the options' vesting period. Pro forma information follows (in thousands, except per share amounts):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Net loss:			
As reported	\$ (9,034)	\$ (30,971)	\$ (10,363)
Pro forma	(43,488)	(31,143)	(10,403)
Basic and diluted net loss per share:			
As reported	(0.10)	(0.80)	(0.40)
Pro forma	(0.46)	(0.80)	(0.40)

COMMON STOCK RESERVED FOR FUTURE ISSUANCE

The Company has reserved 25,865,521 shares of common stock for future issuance under its 1996 Stock Option Plan and 1999 Employee Stock Purchase Plan.

6. 401(k) PLAN

Juniper Networks maintains a savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. All employees are eligible to participate on their first day of employment with Juniper Networks. Under the plan, employees may contribute up to 20% of their pretax salaries per year but not more than the statutory limits. Juniper Networks does not contribute to the plan.

7. COMMITMENTS

Juniper Networks leases its facilities under operating leases that expire in 2012. Rental expense for the years ended December 31, 1999, 1998 and 1997, were approximately \$1,847,000, \$937,000 and \$529,000, respectively.

Future minimum payments under the noncancellable operating leases consist of the following (in thousands):

	DECEMBER 31, 1999
2000.....	\$ 3,892
2001.....	5,401
2002.....	4,660
2003.....	4,762
2004.....	4,898
Thereafter.....	42,072

Total minimum lease payments.....	\$65,685
	=====

Juniper Networks has outstanding purchase order commitments for production materials of approximately \$6,357,000 and \$2,442,000 at December 31, 1999 and 1998. Juniper Networks expects the purchase orders to be fulfilled in the first quarter of 2000.

8. INCOME TAXES

Due to operating losses and the inability to recognize the benefits therefrom, there is no tax provision for the year ended December 31, 1997. For the year ended December 31, 1999 the provision for income taxes consists of the following (in thousands):

Current Provision:	
Federal.....	\$ 700
State.....	800
Foreign.....	925

Total current provision.....	\$2,425
	=====

The difference between the provision for income taxes and the amount computed by applying the Federal statutory income tax rate (35 percent) to loss before taxes is explained below (in thousands):

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	-----	-----	-----
Tax provision (benefit) at federal statutory rate ..	\$ (2,313)	\$ (10,839)	\$ (3,627)
Federal alternative minimum tax	700	--	--
State taxes	800	2	--
Foreign taxes	925	--	--
Unbenefitted net operating losses, reserves and accruals	2,313	10,839	3,627
	-----	-----	-----
Total	\$ 2,425	\$ 2	\$ --
	=====	=====	=====

Significant components of Juniper Networks' deferred tax assets are as follows (in thousands):

	DECEMBER 31,	
	1999	1998
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards	\$ 14,000	\$ 13,470
Research credit carryforwards	2,830	1,490
Deferred revenue	6,200	2,700
Reserves and accruals not currently deductible ..	7,250	500
Other temporary differences	840	(110)
	-----	-----
Total deferred tax assets	31,120	18,050
Valuation allowance	(31,120)	(18,050)
	-----	-----
Net deferred tax assets	\$ --	\$ --
	=====	=====

FASB Statement No. 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes the Company's historical operating performance and the reported cumulative net losses in all prior years, Juniper Networks has provided a full valuation allowance against its net deferred tax assets.

The net valuation allowance increased by \$13,070,000 during the year ended December 31, 1999 and increased by \$12,850,000 during the year ended December 31, 1998, respectively. As of December 31, 1999 approximately \$14,500,000 of the valuation allowance reflected above relates to the tax benefits of stock option deductions which will be credited to equity when realized.

As of December 31, 1999, Juniper Networks had net operating loss carryforwards for federal and state tax purposes of approximately \$37,000,000 and \$32,000,000, respectively. Juniper Networks also had federal and state research and development tax credit carryforwards of approximately \$1,700,000 and \$1,700,000, respectively. The federal and state net operating loss carryforwards will expire at various dates beginning in year 2004, if not utilized.

Utilization of the net operating losses and tax credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and tax credits before utilization.

9. SUBSEQUENT EVENTS

The Company's registration statement on Form S-1 registering \$1.15 billion (including a \$150 million over-allotment option) principal amount of 4.75% convertible subordinated notes due 2007 (the convertible notes), was declared effective on March 2, 2000. The Company completed the public offering of \$1.0 billion and \$150 million of the convertible notes on March 8, 2000 and March 13, 2000, respectively.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Juniper Networks, Inc.

We have audited the accompanying consolidated balance sheets of Juniper Networks, Inc. as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Juniper Networks, Inc. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

*Palo Alto, California
January 17, 2000
Except for Note 9,
as to which the date
is March 14, 2000*

ITEM 8 SUPPLEMENTARY DATA

QUARTERLY RESULTS OF OPERATIONS
(UNAUDITED)

	QUARTER ENDED			
	DECEMBER 31, 1999	SEPTEMBER 30, 1999	JUNE 30, 1999	MARCH 31, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Net revenues	\$ 45,442	\$ 29,564	\$ 17,556	\$ 10,044
Cost of revenues	18,389	12,490	8,046	6,347
Gross profit	27,053	17,074	9,510	3,697
Operating expenses:				
Research and development	15,820	11,510	7,991	6,181
Sales and marketing	8,869	5,610	3,849	2,603
General and administrative	1,781	1,701	977	776
Amortization of goodwill and purchased intangibles and deferred stock compensation	1,689	802	891	904
Total operating expenses	28,159	19,623	13,708	10,464
Operating loss	(1,106)	(2,549)	(4,198)	(6,767)
Interest income and provision for income taxes, net	4,186	962	346	92
Net income (loss)	\$ 3,080	\$ (1,587)	\$ (3,852)	\$ (6,675)
Basic net income (loss) per share	\$ 0.02	\$ (0.01)	\$ (0.07)	\$ (0.15)
Diluted net income (loss) per share	\$ 0.02	\$ (0.01)	\$ (0.07)	\$ (0.15)

	QUARTER ENDED			
	DECEMBER 31, 1998	SEPTEMBER 30, 1998	JUNE 30, 1998	MARCH 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Net revenues	\$ 3,807	\$ --	\$ --	\$ --
Cost of revenues	3,815	382	180	39
Gross loss	(8)	(382)	(180)	(39)
Operating expenses:				
Research and development	6,145	8,284	6,061	3,497
Sales and marketing	1,718	1,215	764	519
General and administrative	882	562	444	335
Amortization of deferred stock Compensation	648	374	192	21
Total operating expenses	9,393	10,435	7,461	4,372
Operating loss	(9,401)	(10,817)	(7,641)	(4,411)
Interest income and provision for income taxes, net ..	117	238	438	506
Net loss	\$ (9,284)	\$ (10,579)	\$ (7,203)	\$ (3,905)
Basic and diluted loss per share	\$ (0.22)	\$ (0.27)	\$ (0.20)	\$ (0.12)

EXHIBIT 21.1

SUBSIDIARIES OF REGISTRANT

Name	Jurisdiction of Incorporation
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Juniper Networks K.K.	Japan
Juniper Networks B.V.	The Netherlands
Juniper Networks International Limited	Cayman
Juniper Networks FSC Inc.	Barbados
Juniper Networks U.K. Ltd.	United Kingdom
Juniper Networks GmbH	Germany
Juniper Networks France Sarl	France
Juniper Networks Australia Ltd.	Australia
Juniper Networks Hong Kong Ltd.	Hong Kong
Juniper Networks South Asia Ltd.	Hong Kong
Juniper Networks China Ltd.	Hong Kong
Juniper Networks Canada Inc.	Canada
Juniper Acquisition Corporation	Delaware
Juniper Networks International, Inc.	Delaware

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Juniper Networks, Inc. of our report dated January 17, 2000 except for Note 9, as to which the date is March 8, 2000, included in the 1999 Annual Report to Stockholders of Juniper Networks, Inc.

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-32412) pertaining to the Juniper Networks, Inc. Amended and Restated 1996 Stock Plan and the Layer 5 1999 Stock Incentive Plan of our report dated January 17, 2000 except for Note 9, as to which the date is March 8, 2000, with respect to the consolidated financial statements of Juniper Networks, Inc. incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 1999.

Our audits also included the financial statement schedule of Juniper Networks, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Palo Alto, California

March 28, 2000

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	158,043
SECURITIES	285,116
RECEIVABLES	24,582
ALLOWANCES	632
INVENTORY	0
CURRENT ASSETS	377,833
PP&E	20,588
DEPRECIATION	8,172
TOTAL ASSETS	513,378
CURRENT LIABILITIES	55,663
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	2
OTHER SE	457,713
TOTAL LIABILITY AND EQUITY	513,378
SALES	102,606
TOTAL REVENUES	102,606
CGS	45,272
TOTAL COSTS	45,272
OTHER EXPENSES	41,502
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	(6,609)
INCOME TAX	2,425
INCOME CONTINUING	(9,034)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(9,034)
EPS BASIC	(0.10)
EPS DILUTED	(0.10)

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