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PRESENTATION

Operator

Greetings, and welcome to the Juniper Network's second quarter 2010 earnings results conference call.

(Operator Instructions).

It is now my pleasure to introduce your host, Kathleen Bela, Vice President, Investor Relations for Juniper Networks. Thank you, you may begin.

Kathleen Bela - *Juniper Networks - VP, IR*

Thank you, Joe. Good afternoon, and thank you for joining us today. Here today are Kevin Johnson, Chief Executive Officer and Robyn Denholm, Chief Financial Officer. A couple of housekeeping items before we begin. First, as a reminder, there is a slide deck that accompanies today's conference call. To access the slides, please go to the IR section of our website at Juniper.net. This call will also be available to download as a podcast. For details, visit our website. If you're having any trouble accessing the slides, please try logging out and logging back into the call, and that should bring you back to the section on slides.

With that, I would like to remind everyone that statements made during this call concerning Juniper's business outlook, economic and market outlook, future financial operating results, and overall future prospects are forward-looking statements that involve a number of risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements, as a result of certain factors including economic conditions, generally, or in the networking industry, changes in overall technology spending, the network capacity requirements of Service Providers, the timing of orders and shipments, manufacturing and supply chain constraints, variation in the mix of products sold, customer perception and acceptance of our products, litigation, and other factors listed in our most recent report filed on Form 10-K with the SEC. All statements made during this call are made only as of today. Juniper undertakes no obligation to update the information in this conference call, in the event facts or circumstances subsequently change after the date of this call.

In discussing the financial results today, Robyn will first present results on a GAAP basis, and for purposes of today's discussion, we will also review non-GAAP results. For important commentary on why the management team considers non-GAAP information a useful view of the Company's financial results, please consult our 8K filed with the SEC today. For the detailed reconciliation between GAAP and non-GAAP results, please see today's press release. In general, non-GAAP results exclude certain non-recurring charges, amortization of purchased intangibles, other acquisition related charges, and expenses related to stock-based compensation.

In today's call, Robyn will also be providing forward-looking guidance. As a reminder, guidance is provided on a non-GAAP basis. All guidance is forward-looking, and actual results may vary for the reasons I noted earlier. GAAP guidance measures are not available on a forward-looking basis, due to the high variability and low visibility with respect to the charges, which are excluded from the non-GAAP guidance estimates. Please note that today's call is scheduled to last for one hour, and please limit your questions to one per firm. With that, I will turn the call over to Kevin.

Kevin Johnson - *Juniper Networks - CEO*

Thanks, Kathleen, and welcome, everyone. Juniper had a strong second quarter, including record revenue and operating margin expansion. We're executing well against the 2010 operating principles we outlined at the beginning of the year. As we look toward the second half of the year, we intend to drive our growth agenda, and build momentum going into 2011. I will comment briefly on the current business climate, and some progress against our strategic agenda.

I will then hand off to Robyn for more details on our results, and guidance for Q3. The global economy continues to recover, yet the pace and trajectory of that recovery varies by geography. A number of economists now expect global GDP to grow in the low mid to single-digits this year. In this economic climate, we have seen growing demand for our products and services, and we have delivered growth in all three theaters, EMEA, the Americas, and Asia Pacific. Economic recovery in Europe continues to lag, and the sovereign debt situation in southern Europe added to concerns about the pace of recovery across Europe. The

US continues to show modest GDP growth, though experts continue to debate the pace of the recovery. Asia continues to grow, yet economic recovery in Japan continues to lag.

Global demand for networking is increasing, as more traffic is being carried over the internet, computing is being centralized in massive data centers, and more people in businesses rely on digital devices connected to the network. Our investment in R&D and expanded routes to market support our growth agenda, and position us well for spending cycles in some key scenarios including mobility, video, security, and cloud computing. We continue to win deals globally, as customers embrace our vision for the new network. Our business grew 24% year-on-year, with Service Provider growing 21%, and Enterprise growing 31%.

We are expanding our footprint with Service Providers, and we are pleased with the growing demand for our MX 3D Edge Routers, and SRX Security Platforms. We had a number of key design wins this quarter, including a significant win at Verizon with the MX 3D and SRX. We saw increased growth in our Mobile Secure Solution, based on the SRX platform, and we released Traffic Direct, a mobility solution on the MX 3D. We are on track for early trial with the second offering from the Falcon Project, the Evolved Packet Core at the end of this year. We completed the acquisition of Ankeena, and we are now securing design wins, and generating revenue from both Traffic Direct and the Media Flow Solutions.

We've made good progress globally in the Service Provider segment, and I'm particularly pleased with our growing relationship with large US-based carriers and cable operators. For example, Comcast continues to expand it's relationship with Juniper Networks, deploying Juniper's MX technology and T1600 Core Routers to support network expansion, including commercial and metro services. Comcast is also utilizing Juniper's EX ethernet switches for scaling new services. Relative to the Enterprise, we continue to make headway in the segment with an expanded portfolio of offerings. Our comprehensive portfolio of routing, switching and security, all running Junos, and our architectural approach for the data center is resonating with customers.

During the quarter we launched our next generation data center architecture called 3-2-1, that enables customers to connect large numbers of data centers servers and storage devices, in a way that improve the economics and the performance of these massive data centers. This is enabling growth in our EX business, and positions us to expand momentum with our Stratus Project. Our Stratus Project is on track. Earlier this year, we successfully completed first power on. We have fully verified the features in silicon, and we are now moving into the system test phase of the first wave of products coming from the Stratus Project.

We expanded routes to market in the Enterprise, with partners including IBM, large Service Providers, and now Dell. Dell begins shipping their OEM version of Juniper products, all running Junos later this month. We are also seeing growing Enterprise opportunity with Service Providers who are delivering managed services and on-premise solutions. Both Verizon and AT&T are strong partners, with Verizon recently recognized by us as Partner of the Year at our annual Partner Summit. In the Asia-Pacific region, NEC is proving to be a great partner in the Enterprise segment. These are a few examples of the growing set of partners that are participating in our Enterprise growth agenda. We are fueling innovation with investment in organic R&D, complimented by an increased focus on M&A that creates customer and shareholder value. Our combination with Ankeena is representative of the type of acquisitions we expect to do more of. These will be combinations that are complimentary to Junos, and accelerate our vision for the new network.

Looking ahead to the future, we maintain a positive outlook. Revenue momentum is expected to continue in the second half of the year, and we're positioned to take share in both the Enterprise and Service Provider markets. The foundation is in place, yet we are not taking anything for granted. We have to be focused, we have to execute, and we have to stay true to our operating principles. We have very good competitors, and the macroeconomic recovery continues to have some twists and turns. We are focused on those investments that deliver long-term customer and shareholder value, while at the same time managing our expenses diligently, maintaining a strong balance sheet, and generating healthy cash flows. I look forward to keeping you posted on our progress. And now I'm going to turn it over to Robyn to dive into the financial results, as well as our outlook for the next quarter. Robyn?

Robyn Denholm - *Juniper Networks - CFO, EVP*

Thank you, Kevin, and good afternoon, everyone. I am pleased to report that as a result of strong execution across our business, and continued focus on our operating principles, we delivered record revenue, and near record operating profits in the quarter. All of our underlying demand metric was strong. Book-to-bill was well in excess of one, our products deferred revenue balance is healthy, and pipelines exiting the quarter are robust. We also expanded operating margins, while continuing to invest in R&D, customer support, and sales and marketing. We are well on track to delivering profitable growth in 2010, and making progress against our long-term revenue growth objectives, while expanding operating margins. I will provide more commentary on our outlook in a few moments, but first, as a reminder, all numbers include the Ankeena acquisition which closed on April 19, 2010. We have seen increase customer demand for this technology, and we are very pleased with the way the integration has taken place.

Now a review of the numbers. On a GAAP basis, total revenue for the second quarter was $978 million, up 7% sequentially, and up 24% year-over-year. GAAP diluted earnings per share were $0.24 for the second quarter, compared to $0.30 per share in the first quarter of 2010, and $0.03 per share in the prior year second quarter. Non-GAAP earnings per diluted share was $0.30, an increase of $0.03 sequentially, and up $0.11 compared to the prior year's second quarter. Let me now provide you with some color on revenue by region, business segment, and markets. One of our operating principles for the year, was that we expect the macroeconomic environment to continue to strengthen throughout the year. And that the pace of recovery of spending by our customers will vary by geography. This is proving to be the case thus far, and for the quarter we saw improved levels of spending in both EMEA and APAC, with strong demand indicators in all three regions, in both the Enterprise and Service Provider markets.

Looking at our revenue by region, for the quarter, Americas was approximately 50% of total revenue, EMEA was 30%, and APAC was 20%. Americas revenue increased 1% sequentially, and 26% year-over-year. We saw strength in regional Service Providers, content and cable service providers in the US. And in Latin America and Canada, we saw strong sequential and year-over-year growth. EMEA revenue was up 10% sequentially, and 25% year-over-year due to strength in Western Europe, Russia and the Middle East. APAC revenue increased 22% sequentially and 19% on a year-over-year basis, with sequential growth driven by Japan, Southeast Asia and Greater China.

From a pipeline perspective, we had significant design wins in Edge and Security with both wireline and wireless carriers in all three geographies. And in addition, we had core design wins in Japan and Southeast Asia. On a segment basis, total IPG revenue was $720 million, up 6% sequentially, and 23% year-over-year. Total EX revenue was $92 million, up 20% sequentially. This includes product revenue of $88 million, and was another strong proof point of our focused execution. MX had another strong quarter, with product revenue of $149 million, up 7% sequentially. Included in this result, is our first full quarter of revenue for the MX 3D at $24 million. This new product has generated increased customer interest, and showcases our innovation agenda.

SLT delivered record total revenue of $258 million, which represents an increase of 10% sequentially, and 27% year-over-year. SRX product revenue grew 23% sequentially, to almost $75 million. We had good Mobile Security wins in many wireless carriers in the US, EMEA, and APAC. Our strategy of investing in R&D, and our effectiveness in execution on our innovation road map has translated into significant revenue growth over the past year. Our most recent product lines, EX, MX and SRX have generated impressive combined revenues of just over $1 billion in the last four quarters, and 89% growth since Q2 of 2009. This is another proof point that our R&D growth agenda is hitting the mark with our customers.

Looking more closely at the markets we address, Service Provider revenue is up 5% sequentially, and up 21% year-over-year. This is due to strong momentum in EX, MX and SRX, and solid growth in key products. We now have 35 customers that will provide Juniper-powered managed services, more than double a year ago. This quarter we saw good customer response with Traffic Direct, our first offering from Project Falcon, reporting our first revenue, and a design win with a large mobile carrier in the Middle East. Enterprise revenue was up 12% sequentially, and up 31% year-over-year. This strong performance reflects our continued market penetration with our switching, routing, and security portfolio. We expanded our switching and routing footprint in the financial services and government verticals.

For the quarter, Service Provider revenue was 63%, and Enterprise revenue was 37% of total revenue. On a non-GAAP basis total gross margins for the quarter were 67.9% of revenue, which is at the high end of our long-term target model range of 66% to 68%. Product gross margins were 70.2% of revenue, up from 69.3% in the first quarter of 2010. And this was due to better product mix, and a decrease in manufacturing costs. Service gross margins were 59.3% of revenue, compared to 61% in the first quarter of 2010. This change was due to service mix and (inaudible) investments in our customer support organization.

Moving on to our operating expenses, for Q2 non-GAAP operating expenses totaled $431 million, or 44% of revenue. Relative to the first quarter, operating expenses increased $26 million, but decreased slightly as a percentage of revenue. Year-over-year operating expenses were up $62 million, or $0.17 due to an increase in variable compensation, and investments in new product development and expanding routes to market. R&D expenses were $206 million or 21% of revenue, up $16 million compared to the first quarter. This was due to ramping up head count and prototype expenses to support key projects including Falcon and Stratus, which are in advanced stages of development, as well as R&D expense from the Ankeena acquisition.

Sales and marketing expenses totalled $187 million or 19.1% of revenue, a $7 million increase sequentially, as we continue to invest in sales and marketing programs to support our go-to-market plan. G&A expenses totalled $38 million, or 3.9% of revenue. Non-GAAP operating margin for the quarter was 23.9%, an increase of 70 basis points sequentially. This reflects continued execution against our operating principle of managing expenses, while strategically utilizing resources in key growth areas. I am pleased with our progress towards our long-term operating margin goal of 25% or higher.

Looking at operating margins by segment, IPG operating margin was 25.2%, compared to 26% in the first quarter. As a reminder, our investments in both EX and Project Stratus, as well as Falcon, are included within the IPG segment. SOT operating margin was a record 20.4%, compared to 15% in the first quarter. This is the first time we have broken through the 20% level, and reflects a fabulous effort by the team. This is a result of an efficient R&D execution on the product road map, and aligning the sales and marketing resources to drive revenue growth.

Turning to the bottom line, Juniper posted non-GAAP net income of $164 million for the quarter, up 12% sequentially, and up 58% from year-over-year. The GAAP tax rate for the quarter was 31.1%, and the non-GAAP income tax rate for the quarter was 30.2%. Looking at the balance sheet, we ended the second quarter with approximately $2.7 billion in total cash and investments, which was down slightly quarter-over-quarter. We are pleased with our continued strength in cash generation. For the second quarter of 2010, Juniper generated cash from operations of $221 million. During the quarter, we also repurchased 6.5 million shares at an average price of $27.33 per share, or approximately $177 million. Our cash flow also reflects $64 million of net cash out in connection with the Ankeena Networks acquisition.

On a housekeeping note, we want to make investors aware that we intend to file a new universal shelf registration of $1.5 billion with the SEC in the next couple of weeks. This filing replaces our prior shelf which has expired. The filing is consistent with our desire to maintain financial flexibility. Our weighted average shares outstanding for the second quarter were 539 million shares on a diluted non-GAAP basis, up 2 million shares from the prior quarter. CapEx consistent with prior quarters totaled $45 million, and depreciation and amortization was $37 million. DSO improved to 36 days, compared to 40 days in the first quarter, and well within our normal historical range.

Total deferred revenue was a healthy $768 million, sequentially product deferred revenue was down 5%, or approximately $13 million. As a reminder, product deferred revenue is generally made up of two major elements, channel revenue deferrals including other sell-through revenues, and future features or projects. For Q2, the future feature balance of deferred revenue was roughly flat with the first quarter. Services deferred revenue decreased by 2% or approximately $9 million, which is typical for the fiscal second quarter. We ended the quarter with head count of 7,732, an increase of 279 from the first quarter. This increase was due to investment in R&D, sales and marketing, and customer service head count. We also added approximately 65 new employees from the Ankeena acquisition.

Now let's turn to our guidance. As a reminder, guidance is provided on a non-GAAP basis, except for revenue and share count. As we outlined at our financial Analysts Day in February, we are on a multi-year growth agenda. Our investments in R&D, our

M&A strategy, and our go-to-market plans, are all aimed at delivering against our long-term model of 20% or higher revenue growth, and 25% or higher operating margin. As we continue to execute on our operating principles for 2010, we are confident that for 2010, our top line growth will be consistent with our long-term model.

For the September quarter, we are expecting revenue of $1.02 billion, plus or minus $20 million. Gross margins for the third quarter are expected to range between 66% and 68%. We expect operating expenses to remain roughly flat as a percent of revenue, and increase on an actual basis. We will focus our investments in sales and marketing and R&D to support projects that are coming to market soon, and to capture the market opportunities ahead. These investments are consistent with the plans we outlined at our financial Analysts meeting earlier this year.

Operating margins for the third quarter is expected to be approximately 23.5%, plus or minus 50 basis points. For the full-year, we remain committed to growing our revenue faster than our operating expenses, resulting in profitable growth for the Company. This would result in the third quarter non-GAAP EPS of between $0.30 and $0.32, and assumes a flat share count and tax rate of approximately 31%. In summary, I'm very pleased with our results this quarter. We continue to make good progress on our long-term model objectives, including revenue growth, improved operating margin, and operational excellence. I want to thank our employees for their continued dedication to innovation and our growth agenda. We are confident of capturing the market opportunity ahead of us, and delivering profitable growth in 2010. Now with that, I will hand it over to operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Our first question is from Ehud Gelblum with Morgan Stanley. Please go ahead with your question.

Ehud Gelblum - *Morgan Stanley - Analyst*

Hi, thank you, guys very much. Robyn, in looking at the guidance, top line of 1020 and correlating that with your operating margin and EPS guidance, should we be assuming that, sequentially the operating margin clearly is sort of is down sort of from where it is here, to get into that call it $0.31 at the midpoint on that 1020? Or should we be looking -- if the mix ends up being basically roughly how you think it is, similar to this quarter, I'm wondering how do we get it into that range. I would have ended up with a little higher of a range given the revenue.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Yes, the way we're calibrating the operating margin, at the high end we should be roughly flat in terms of operating margin. So at the 1040 level, 23.9%, 24% operating margins, what we're expecting at that level. And, clearly, we were quite high in our long-term model range for gross margins this quarter. So if you calibrate, in terms of 66% to 68%, which is our sort of targeted model for next quarter, then that will help with the model in terms of operating margin.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. Can you give us a hint as to how large Akeena was this quarter, and how much that will be contributing to Q3 and Q4? Was that negligible, or something we can actually count on two hands?

Robyn Denholm - *Juniper Networks - CFO, EVP*

Yes, in terms of overall integration of Ankeena, we're very pleased with the way how that has gone. In terms of revenue, it is actually very, very nominal for the quarter. We're very pleased with the customer dialog that we have been having, and in terms of the increased importance of video to customer conversations, and content distribution, et cetera, so it helps with all of those conversations. But in terms of pure revenue, it is very small for the quarter.

Ehud Gelblum - *Morgan Stanley - Analyst*

Very small, meaning $5 million or less?

Robyn Denholm - *Juniper Networks - CFO, EVP*

Very small.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay, and finally, and then you said, I want to make sure I understood you correctly, you said 2010 on a revenue model, you said 2010 would be consistent with your long term model of 20% growth. Given now you've given guidance for Q4 -- I'm sorry, for Q3, which comes out to -- at your midpoint of 1020, comes out to about 23ish, 23.5 growth, how should we read Q4, that it should flow in such that the full-year ends up being consistent with 20%? That would be deceleration from the last two quarters? Or that we should look at Q4 as sort of being continuation off of what we've seen in the last couple of quarters?

Robyn Denholm - *Juniper Networks - CFO, EVP*

Yes, I think in terms of the long-term operating model, our target is 20% or higher. And so for this year we believe we'll be in that range, 20% or higher.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. I appreciate it. I'll get off the phone now. Thanks.

Operator

The next question is from Troy Jenson with Piper Jaffray. Please go ahead with your question.

Troy Jenson - *Piper Jaffray - Analyst*

Hey, congrats on a nice quarter. Quick question, maybe for Robyn. Your gross margin has gone up four consecutive quarters now, having been at 67.9%. It seems like the low end of the range is really unachievable. What would it take for it to get down to that level, assuming product mix, and is there a time in the future where you may reassess your (inaudible) gross margin targets.

Robyn Denholm - *Juniper Networks - CFO, EVP*

In terms of the model range it has been a good range for us over the last couple of years. I think that is the right range for us. There are very many factors, in terms of what goes into the gross margin composition, as you know. And I went through a number of those at the financial Analysts meeting. I'm pleased with the execution, both in terms of the sales sides, and in terms of the operations group in terms of delivering quarter-over-quarter cost reductions. I'm also pleased with the investments that we're making on the services side. As that business grows, positioning architecture services, and also the (inaudible) to ensure we have the right resources, closest to the customer to ensure that we've got the right customer environment I think is key.

Troy Jenson - *Piper Jaffray - Analyst*

And just a follow-up, then, was there any 10% customers in the quarter, and would you expect to have any in either of the second -- in any of the remaining two quarters of the year?

Robyn Denholm - *Juniper Networks - CFO, EVP*

There were no 10% customers in the quarter, and we'll see how Q3 and Q4 pan out in terms of who will be a 10% customer in those periods.

Troy Jenson - *Piper Jaffray - Analyst*

All right. Keep up the good work.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Thank you.

Operator

The next question is from Mark Sue with RBC Capital Markets. Please go ahead.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you. Can you help us understand the moving dynamics with the North American telcos, notably AT&T and Verizon, maybe the trends in business there? Should we factor in sequential growth in the near term with these key customers, and then a sharp bounce in the fourth quarter? And also, Robyn, when we factor in your healthy pipeline, are you assuming a similar deal closure rate in 3Q, as you did in 2Q? And as linearity become more a factor in the third quarter?

Kevin Johnson - *Juniper Networks - CEO*

Thanks for your questions, Mark, I'll take the first question, and I'll hand off to Robyn for the second question. Clearly we're pleased with our relationship with large Tier 1 carriers in North America and in the US. And certainly when you look at some of the historical patterns of capital spending, in fact I looked just at the -- certainly the top two Service Providers in the US, the spending of capital in 2009 ranged from 53% to 57% of their capital spend in the second half of the year. And so we are -- we do anticipate that there would be, perhaps, some uptick in spending in the second half of the year, but we haven't quantified that. Certainly our guidance for Q3 reflects the view of what we think will happen, and we are planning for a bigger second half than we had in the first half with the large Tier 1 Service Providers.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Yes, and I think in terms of healthy pipeline, the thing I was pleased about is, is that it is both wireless, wire line, content cable Service Providers, so it is pretty universal, and it is also pretty good across all of the geographies, as well. So we conduct our quarterly business reviews, Kevin and I, and it was very good in terms of the health of the pipeline.

Mark Sue - *RBC Capital Markets - Analyst*

And closure rate, Robyn?

Robyn Denholm - *Juniper Networks - CFO, EVP*

So our closure rate varies by geography in the size of the deal, but consistent with our -- our recent past in terms of closure rates I think it is fair enough.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you.

Operator

The next question is from Nikos Theodosopoulos from UBS, please go ahead with your question.

Nikos Theodosopoulos - *UBS - Analyst*

Yes, thank you. I wanted to ask a -- one question on the deferred revenue. I think you made a comment that -- Robyn, you made a comment that deferred -- services deferred was down in the second quarter. I don't get a sense that that's a seasonal trend, so maybe if you can just elaborate on that? And then the second question I have is, there's been some concern in general about public sector spending. Do you have any comment on whether you're seeing any change in the outlook for that portion of the business, and if you can quantify it? Thank you.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Thank you, Nikos, I'll cover the first part of the question, and I'll hand over to Kevin for the second. So in terms of deferred revenue, it was down quarter-over-quarter, but it is still a very healthy balance overall. So on the part (inaudible), I commented in my prepared remarks that there are basically two parts to the product deferred revenue. The channel and other sell-through revenue, which was actually the piece that was down in the quarter. And the future features, which was roughly flat with the first quarter. In terms of services, the timing of bookings of multi-year deals influences that. And so when I look at that, and I look at the sequential patterns of bookings in the first quarter, then that is a normal sort of pattern for us in terms of the second quarter.

Kevin Johnson - *Juniper Networks - CEO*

Nikos, thanks for your questions. On the second question about concern in public sector, I think the concern is limited to the US public sector. And it's really focused on the fact that US federal budget approvals and Congress working through getting final approval for that in this quarter. In Q3, it is the fiscal fourth quarter of the US Federal government. And so depending on how Congress and budgeting decisions unfold in the US public sector, that could have implications on Enterprise revenue in the US, of which public sector is a part of. We think in terms of in the range of guidance we have provided, we have enough range to reflect the fact that, if there is some down side there, we're going to work hard and do what we can. But it is a noted risk.

Nikos Theodosopoulos - *UBS - Analyst*

Great. Thank you.

Operator

The next question is from Jess Lubert with Wells Fargo. Please go ahead with your question.

Jess Lubert - *Wells Fargo Securities - Analyst*

Thank you for taking my question. Two questions, first, are you seeing anything from a gross margin perspective that would suggest gross margins would be down during Q3, and maybe you can elaborate on whether or not you may use current strength to offer some additional discounts to drive share? And then from an operating perspective, infrastructure operating margins pre-recession typically stood at 28% to 30%. Is this the right level to be thinking about once revenue for EX Switch and Project Falcon reach scale? And with SLT can you help us understand what you think -- or how you think -- what do you think about, as far as sustainable operating margin goal for this business? Can you reach 25%, or should we be thinking about current levels as a more sustainable range?

Robyn Denholm - *Juniper Networks - CFO, EVP*

Okay. Jeff, I think I can remember most of the parts of the question, but let me go back to the first one, which was on gross margins. So the gross margin ranged 66% to 68%. That is the range that we have been operating in for some time now. There are various influences on that. I do not see anything at this point, that would lead us to believe that we're going to be outside of that range. It will be in that range. That's what we typically see at the beginning of the quarter. So I'm comfortable with that as the Q3 guidance. What was the second part?

Kevin Johnson - *Juniper Networks - CEO*

The second question, let me take a shot at that. The second question, Jeff, was -- paraphrase it, is do we believe the 25% operating margin is a sustainable margin to achieve? And the answer is we do. As we outlined in the financial Analysts meeting, we actually gave a range of R&D as a percent of revenue, sales and marketing as a percent of revenue, and G&A as a percent of revenue. And that 25% operating margin was kind of in the center of those ranges. If you look at this quarter, R&D as a percentage of revenues is up about 21%, which is probably about two points higher than the high end, that we outlined at the analysts meeting.

And I think that's because we're in the core of some significant R&D on projects, Stratus and Falcon project, which are significant elements of our growth agenda going forward. So we believe that the investments we are making in R&D are clearly linked to our multi-year growth agenda. Yet getting the margin expansion, and sustaining it at the 25% or higher, really is a function of us continuing to break through, and get the scale economics, which you see us starting to get in the Enterprise. And so, look, as we outlined at the analysts meeting, we still have strong conviction that that is the multi-year plan that we're pursuing. And we think 25% or higher operating margins are certainly achievable and sustainable.

Jess Lubert - *Wells Fargo Securities - Analyst*

Thank you.

Operator

The next question is from Tal Liani with Bank of America. Please go ahead with your question.

Tal Liani - *BofA Merrill Lynch - Analyst*

Hello, I have three quick questions. The first is about the impact of the Euro. There was over 10% change versus the dollar, and can you discuss pricing pressure or discounting? The second question is about the impact of the accounting change on deferred revenues. Last quarter you changed the accounting. I don't know whether it does or doesn't have an impact on deferred revenues. The third question is just Europe, can you discuss the environment in Europe. Overall, you made some comments about the economy, maybe you can make some kind of comments about what you're seeing with your customers. Thanks.

Robyn Denholm - *Juniper Networks - CFO, EVP*

I'll take the first two parts of the question and I'll hand over to Kevin for the last. So in terms of the impact of the Euro, as a reminder we bill, because we're working through distributors and other partners throughout the world, we actually bill in US dollars in Europe, by and large. So at the moment there is obviously no direct impact from the effect of the Euro. Clearly over time, if the Euro stays where it is, we're watching very closely, in terms of competitive pressures or anything else in terms of Euro. Or also whether there are any of the not credit crisis with sovereign debt actually has an impact on the business. In Enterprise we saw a little bit in terms of demand, pausing, if you like, in some parts of southern Europe. But in the rest of Europe, the business was very strong, as you saw. And so I was pleased with that.

In terms of the accounting change, so as we expected for the second quarter, the absolute dollar amount was up, compared to the first quarter. We were expecting that in terms of what we recognized under the new accounting rules. But the comment that I made in terms of deferred revenue, the only piece that it affects in terms of deferred revenue on the product side is the future feature area. And that was flat with the first quarter. So really that piece on the balance sheet is solid. The piece that actually declined was the channelling of the sell-through revenue, which is what you would expect to happen as the business environment improves.

Kevin Johnson - *Juniper Networks - CEO*

Yes, thanks for the question, Tal. And on the third element of it, is a little bit more color on Europe. I was in Europe a few weeks ago with the team, calling on customers, and visited several countries. And consistent with my comments, I think generally the economic recovery in Europe is lagging, and it's -- it certainly is -- is visible. That said, I think in the quarter we demonstrated still some strong growth both in Service Provider and in Enterprise segments. Southern Europe, when you look at the sovereign debt situation in southern Europe, we did have evidence that showed some Enterprise customers in southern Europe were maybe being somewhat thoughtful or deferring some of their projects, which slowed our Enterprise growth in southern Europe.

Our Service Provider growth, though, in southern Europe, maintained some strength and with some good relationships with customers and new design wins there. So it's a little bit of mixed bag in southern Europe. Certainly the question is, if I think today, probably there are less concerns about what Europe is going to do about the sovereign debt crisis, than they were a couple of months ago. So there is more certainty there. And hopefully that translates to continued confidence, and leads to more signs of economic recovery. That said, we continue to feel like we have good relationships and good pipeline on the

Service Provider business. We continue to build our Enterprise business in Europe. Yet, I think, the European economic situation, that, too, should be flagged as a risk.

Tal Liani - *BofA Merrill Lynch - Analyst*

Maybe just a quick follow-up on the deferred revenue question that I had. The short-term deferred revenues went down by $75 million, but the long-term deferred revenues went up, and recovered about two-thirds of the decline. Can you discuss the differences between short-term and long-term trends?

Robyn Denholm - *Juniper Networks - CFO, EVP*

So short-term and loth-term is purely a mathematically driven date exercise. So those we expect to recognize within 12 months from the printed date of the quarter are short term. And those over the 12 months are the long term. It is purely a date-driven exercise.

Tal Liani - *BofA Merrill Lynch - Analyst*

Okay.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Okay?

Tal Liani - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

The next question is from Simon Leopold with Morgan Keegan. Please go ahead with your question.

Simon Leopold - *Morgan Keegan & Co., Inc. - Analyst*

Thank you very much. I wanted to first ask about, the little bit about the segment detail, because you've given us enough disclosures that the process of elimination tells us about the E series and M series, and T products, which look like they were relatively flat sequentially. So I just want to check on what you see going on within those product groups, in terms of shift and mix? I presume that the E series is trending down, given the links to Verizon and FiOS, and the M series is probably getting a little bit cannibalized by the MX, but I want to see if those assumptions are correct?

Robyn Denholm - *Juniper Networks - CFO, EVP*

So in terms of the sequential growth, which I think was your question, Simon, so EX and MX and SRX, obviously, you got those numbers. T was also up, as I mentioned in the commentary. Service was also up. And then other, if you net everything else that's in the product categories, they were also up. And so basically, they were all up as a total portfolio. So we think that that's actually good, the fact that our new products or newer platform are actually generating a $1 billion dollars of revenue in the last four quarters. And they're actually growing very nicely year-over-year, they're up nearly 90%, as I mentioned in the prepared remarks. So and that's a real testament to the value of the R&D that we're doing as we go forward.

Simon Leopold - *Morgan Keegan & Co., Inc. - Analyst*

Okay. And to follow up, you mentioned in the prepared remarks your expectation that you gained market share in both Enterprise and Service Provider. I think the Enterprise bar is set pretty low, given that you're relatively new to that market. Service Provider seems a little bit more challenging. So if you could give us more thoughts on how you are going to take that market share, what strategy you're using, and which products and applications you expect to help you in that?

Kevin Johnson - *Juniper Networks - CEO*

Yes, thanks for the question, Simon. I think that in the Service Provider segment certainly the big trends in things we see are related to mobility and video. And we have seen very strong up-take on Mobile Secure, our security platform in major wireless carriers globally. And that's -- that's been a big solution, and a big value proposition to them. That combined with the progress that we're making with MX 3D as a unified edge router for both fixed and mobile. And the fact that many Service Providers architecturally are looking to converge those networks, to where they're carrying that internet traffic on a single network. That combined with the fact that MX 3D is programmable, and the deliverables that we have for the Falcon Project is something that I think is generating significant interest and dialogue with our customers. So consistent with what we outlined at the Analysts meeting, it really is the Junos, as a single operating system, programmable operating system, running on our platform of technologies, is helping customers not only change the economics, through reducing the cost per bit but also enabling new business models, and it's delivering a better user experience. And so we continue to focus on that value proposition.

Simon Leopold - *Morgan Keegan & Co., Inc. - Analyst*

Great. Thank you. That's all I had.

Operator

And the next question is from Jeff Kvaal with Barclays Capital. Please state your question.

Jeff Kvaal - *Barclays Capital - Analyst*

Yes, thanks very much. I was wondering if we can delve back into the deferred revenue question for a minute, specifically the channel and sell-through. Could you, Robyn, perhaps clarify for us exactly how that process works? And I guess, superficially, one could read the lower channel deferred revenue as better sell-through. But on the other hand maybe we worry the channel is taking less inventory, because they're worried about a recession.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Yes, I wouldn't take it as the latter. It is actually because of the fact that there is more demand out there, and we're all -- that category of revenue is what we do take on a sell-through-basis.

Jeff Kvaal - *Barclays Capital - Analyst*

Okay. Great. And then, Kevin, for you , I was wondering if you would talk about what you were seeing in the mobile space. Obviously that has heated up, and the Evolved Packet Core carriers are making decisions there. If you could give us a little bit of color on how the -- where carriers are in the decision-making process, and how your relationship with Ericsson is fairing, that would be

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Kevin Johnson - *Juniper Networks - CEO*

I guess the first comment I would make is that every wireless provider on a global basis is perhaps in a different stage of the migration from 2G to 3G to LTE, and has their own set of business plans in terms of how they're doing that. What is consistent, though, is that mobile internet is growing. And it is growing because of the growth in SmartPhones, and certainly led by the work Apple has done with the iPhone, and Google has done with Android and iPad. There are just more of these digital devices driving demand for mobile internet. That is a very consistent perspective on a global basis. And so, number one, we're working with these wireless providers to really help understand their road map, in terms of how they're enabling solutions, and ability to carry that traffic economically and provide a great experience for their customer base. And that's number one. Second of all, when you look at Ericsson GGFN that runs on Junos, it continues to do well in the market. So we're pleased with our partnership in that regard with Ericsson.

(No audio).

Robyn Denholm - *Juniper Networks - CFO, EVP*

Next question, please.

Operator

The next question is from Jeff Evenson from Sanford Bernstein. Please go ahead with your question.

Jeff Evenson - *Sanford C. Bernstein & Company, Inc. - Analyst*

I was wondering if you could give us some color on a couple of your growth initiatives. First around the managed services, you talked about the number of customers going up to 35. I would be curious as to what percentage of these, or percentage of your financial relationships in these areas are around security. And for customers who already sold it -- who you sold to, how they're coming back and reordering product. The second area I'd like to hear about, is just a little bit of an update on the investment you made in ADVA and where that might go?

Kevin Johnson - *Juniper Networks - CEO*

Okay, thanks for your questions, Jeff. I'll take -- You want me to take both, Robyn? Okay. On the questions about managed services, several -- a number of large Service Providers see this as a growth opportunity for their business, to build out data centers, and provide a managed service capability to Enterprise customers. It aligns not only with the network infrastructure they have in place, but their operational expertise in terms of running large infrastructure-related businesses. And so, in our partnership with large Service Providers we have a very specific team, and set of resources that are building those relationships with those Service Providers who are building a managed services business. And that relationship involves us sharing our architecture with them, around data center, collapsing layers in the data center, going from three to two, and to one with Stratus. It involves our technology across, routing, switching and security, all running Junos.

It involves us helping them find efficient ways to manage the operating expenses using Junos Space. And it certainly also provides them capability to provide users secure SSL VPN with Junos Pulse. And so the relationship is very broad, in terms of product set, and, and on a consistent basis these Service Providers see this as a growth opportunity for them. Your specific question, is how many of these relate to security. Well, to have a successful managed services business, you have to have a secure environment, or Enterprise customers will not turn over their processing and data and connections to run in your managed services. So security is at the heart of being able to be in that business.

Regarding the relationship with ADVA and the investment piece, it's -- at the Analysts meeting, I think Stephan and Pradeep conducted a session where they sort of took you through a view of the role that we saw optical playing in package switch, what we were looking at with our routing technology. And I think there are many, many players in optical out there, and ADVA is one of them. And we're pleased t have a relationship with them. But it relates to the partnerships that we're building in optical, as it shapes our routing technology and where that is going in the future.

Jeff Evenson - *Sanford C. Bernstein & Company, Inc. - Analyst*

Thanks.

Operator

The next question is from Brent Bracelin with Pacific Crest Securities. Please go ahead.

Brent Bracelin - *Pacific Crest Securities - Analyst*

Thank you. Two questions, if I could. First really is a follow-up on the Service Provider demand trends. If I look at your segment for the last five quarters, Enterprise has grown faster than the Service Provider business. And if I guess my question here is, as you look at the Q3 pipeline, how would you characterize this Service Provider activity, is it trending in line in with the historical trends you've saw in the past in Q3, given the slow kind of sluggish start to the year? Do you see the (inaudible) pace of orders starting to pick up to maybe above seasonal trends in Q3? Any sort of additional color there would be helpful.

Robyn Denholm - *Juniper Networks - CFO, EVP*

So I think, Brent, in terms of the Service Provider trends, obviously we saw good growth this quarter, especially out in EMEA and in APAC. And we think that that was a good trend with our Service Provider and our Enterprise customers actually increasing their demand in those geographies. So in terms of going forward, Kevin talked about what we see, specifically with our US Service Provider customers, where their CapEx has trended to be or tended to be more back-end loaded historically. So we don't expect that to be different this year. We anticipating that in the second half. And our guidance for Q3 reflects, in terms of the range, the difference in what their pattern could be in Q3 or in Q4.

Kevin Johnson - *Juniper Networks - CEO*

Yes. Just to -- just to add to Robyn's comments, Brent, I think when we look at the second half of 2010, I think the pipeline and opportunities we see in the Service Provider are very good. The real question, when you look at Q3 is, how much of that pipeline will land in Q3 versus Q4? In 2009, obviously, we had a very big Q4 driven by Service Providers. And there is a question of whether that will start to smooth out, to see a stronger Q3, and still a strong, but not as strong as Q4. Can some of that revenue be blended across Q3 and Q4. We have to see how that unfolds later in the quarter.

Robyn Denholm - *Juniper Networks - CFO, EVP*

One other thing I would add was in this quarter, particularly in the US, we saw continued spending by the regional carriers and the content and cable sector, which I called out specifically, because it is important from a diversification perspective overall, in terms of the Service Provider business longer term.

Brent Bracelin - *Pacific Crest Securities - Analyst*

Great. And just one clarification, Kevin, at the beginning of the conference call here, you did talk about kind of an increased focus on M&A, given the backdrop of kind of a renewed shelf offering. Could you just remind us kind of what type of acquisition would be ideal that you're looking at, and potentially would you consider a large acquisition?

Kevin Johnson - *Juniper Networks - CEO*

Yes, first of all, I would say that we will -- we will consider a range of things. But the ones that are preferred, the ones that are really sort of on the radar screen, I would characterize as very similar to Ankeena. They are things that are based on intellectual property and talent , that is complementary to Junos, that helps us accelerate our vision for new network, things that we believe we can do a good job of integrating and managing the integration, and things that will translate to revenue and revenue growth fairly quickly. So, that said, I think the best way to characterize it, is to just point to Ankeena as one example of what I think is probably the more likely scenarios

Brent Bracelin - *Pacific Crest Securities - Analyst*

Thank you.

Operator

And the next question is from Paul Mansky with Canaccord Adams. Please go ahead with your question.

Paul Mansky - *Canaccord Adams - Analyst*

Yes, thank you. I wanted to talk a little bit about EX, specifically, kind of expectations as you go into the back years, you have the second of your two major OEMs looking like they're prepared to launch.

Kevin Johnson - *Juniper Networks - CEO*

Yes, and so the question is in the second half of this year or longer term, Paul?

Paul Mansky - *Canaccord Adams - Analyst*

It's second half of this year, specifically, I just want to get the sense, vis-a-vis cadence around that ramp of those OEM relationships.

Kevin Johnson - *Juniper Networks - CEO*

Yes, I think certainly -- what we achieved some revenue on the EX through the OEM relationships, but we still -- I wouldn't discount all of the relationships that we have with partners that are reselling EX. So let me just talk about EX as a total product offering, whether it comes through OEM or through resale. Number one, I think the portfolio that we've assembled, routing, switching, security, running Junos, the role of Junos Space, and the role of Junos Pulse, the data center architecture of 3-2-1, that value proposition is one that we're communicating more broadly to Enterprise customers, and it is one that is resonating. Our job is to help to make sure that we've done the right job on the R&D to create the right solution set, and that we create demand in the market. And that's what we have been very focused on doing. And in doing that, that creates more important are opportunity for our partners to sell into that demand that we're creating. And as they do, that creates more demand and more awareness. And so I think we are executing against our plan to continue to do that.

I think that we continue to make good -- good progress relative to that plan. My expectation is, as we do that, we continue to reach a point where we hit a tipping point where then awareness hits a certain, -- a certain point, and that demand creation part has taken place, and then there is just a lot of partners fulfilling opportunity. I don't think we've hit that tipping point, yet, but I do think we're a step closer. I look at the design wins, I look at the level of dialogue we're having, I look at the energy behind our partners. I participated in the Americas Region Partner Summit this last quarter. And there is just a lot of energy from our partners, Dell, IBM, Verizon and many, many other partners on a global basis. So, look, our long-term growth agenda, we've got to grow the Enterprise. I think at the Analysts meeting -- we've got to grow our Enterprise segment 25% plus CAGR over this period to drive that. Certainly the EX plays a big part of that. And so it is core to the growth agenda.

Paul Mansky - *Canaccord Adams - Analyst*

Great. Thank you very much.

Operator

The next question is from Sanjiv Wadhwani with Stifel Nicolaus. Please go ahead with your question.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Thanks so much. Two questions. Robyn, in terms of when you gave guidance for Q2, you had mentioned that the swing factor over there was going to be timing of Service Provider orders. Given that you came in at the high end of your guidance, can you talk about whether this was one or two carriers coming in, or was it multiple carriers? And then the second question, on the head count, you had a pretty steep ramp, even if you X out Ankeena, 215 odd people, will they skew it on the R&D side or sales and marketing? Any color there would be helpful. Thanks.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Okay, on the carrier spending, when we gave the guidance for Q2, we were expecting that range to be variable with Service Provider spending. So in terms of how the quarter unfolded. It did unfold as we expected. Obviously, we over achieved relative relative to our guidance. But in terms of Service Provider, it was -- it was within the range that we gave you on the Q1 call. So in terms of head count, yes, the head count was up. The main areas, as I said before, there are about 65 head count adds as a result of Ankeena, approximately 65. And then the rest were primarily R&D for the projects that we've talked about in terms of R&D, plus customer service and support. So those are the three categories. There was a little bit in sales and marketing, but it was mainly the other categories.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Got it. All right. Thanks so much.

Robyn Denholm - *Juniper Networks - CFO, EVP*

Thank you .

Operator

Next question is from Simona Jankowski with Goldman Sachs. Please go ahead with your question.

Simona Jankowski - *Goldman Sachs - Analyst*

Hi, thank you very much. Just a question on margins. Your product growth margins are now at the highest level in the last two years, and at the same time you've seen fiscal margins decline the last couple of quarters. I'm just curious if you can walk us through reasons for that expansion. How much of that has been cyclical versus structural? And in particular, are some of newer products like SRX, or the MX 3D higher margin? And is that also the case for things like Falcon and Media Flow, and is that contributing to the expansion?

Robyn Denholm - *Juniper Networks - CFO, EVP*

So in terms of the overall product margin, we were very pleased with the rate of gross margin on products. In terms of product mix, the security products have very good margins relative to the range of margins that we have. So obviously that helps. You've seen how SLT has become profitable, and now has broken through the 20% level. Their gross margin margin structure is very healthy. So in terms of other areas, yes, the MX 3D is a higher gross margin for us, it is our silicon, our IP. So obviously, that contributes to favorable gross margin in terms of mix. In terms of structural areas, the operations came -- have been doing a very good job, in terms of continuing just grinding away at the costs. As I mentioned at the financial Analysts meeting, there are two sides to the equation on the gross margin side, and cost is definitely an area that the team is very focused on driving.

Kevin Johnson - *Juniper Networks - CEO*

Yes, let me just add one other -- two other comments to Robyn said. Certainly our investment in silicon, I think is significant in terms of the value it creates for customers, and for shareholders. And that the value for customers is being able to solve these kinds of networking customers at scale, that we think is unique, and that we have a differentiated position in the market, which allows us to have higher gross margins in some of those areas. The second piece is we're building out software businesses. You asked the question of Media Flow and Falcon. If I look at Media Flow, that is a software business. If I look at Falcon, that is a software business. If I look at Junos Space, it is a software business. If I look at Junos Pulse, it is a software business. These software businesses have much higher gross margins, certainly than our systems business. And we love our systems business, but we're going to complement our systems business with the software business. Certainly the revenue from Media Flow was immaterial this quarter, but over time as we're successful building these software businesses, that should also be something that provides us some lift, or ability to improve product gross margins as that mix shifts.

Simona Jankowski - *Goldman Sachs - Analyst*

Thank you, Kevin, and just one more question I guess, Robyn for you on deferred revenue. I want you to zero in on product deferred revenue that is related to the future features and projects, and that was flat in the quarter. Why would that be flat when you're continuing to grow on sequential basis going forward? And in particular, how should we think about that when your book-to-bill is well over one.

Robyn Denholm - *Juniper Networks - CFO, EVP*

That is a good question Simona. So in terms of future features, in terms of the stuff that has been on the balance sheet under the old rules, over the next four to six quarters we expect that to actually come, be recognized. So that is just normal flow of future feature activity. In terms of the stuff that is being put on the balance sheet, that is the change. So under the new rules ,the deferrals still happens. The amount of the deferrals are 100% of the activity, it is the amount that's represented by the features that we have yet to bring to market. So but net-net in the quarter, I want to be very clear that part was flat. So there was no reduction in the deferred revenue associated with future features, even though the rate at which we were putting it on, was at a lower percentage of the total deal. So that does actually explain, in terms of the increased activity you are seeing that, because the amount was flat in the quarter. And we expect that to be the case over the next four quarters.

Simona Jankowski - *Goldman Sachs - Analyst*

Okay. That's very helpful. And actually is there a way to quantify it? I think last quarter was about $25 million that would have been part of the deferred, under the old rules. Should we think of it as a similar amount this quarter?

Robyn Denholm - *Juniper Networks - CFO, EVP*

No, I did say in the prepared remarks that it was actually higher this quarter. When we published the Q, we are going to give you quite a bit of data in terms of the various components, and that type of thing. But the amount in absolute dollars was actually higher than the last quarter, which is what we were expecting.

Simona Jankowski - *Goldman Sachs - Analyst*

Okay. Thanks.

Robyn Denholm - *Juniper Networks - CFO, EVP*

And, operator we have time for one, possibly two more questions.

Operator

Our next question is from Rod Hall with JPMorgan. Please go ahead with your question.

Rod Hall - *JPMorgan Securities Inc. - Analyst*

Yes, thanks for taking my question. Just a couple. Most of mine have been answered. But just quickly, can you guys comment on component shortages whether that's is expected to affect your ability to deliver in the next couple of quarters, real quickly, since a lot of people are talking about that. And then just big picture on the 20% growth target, can you give us some ideas what the plus or minus range is on that in your own mind? And also just clarify if whether that's is an organic growth target?

Robyn Denholm - *Juniper Networks - CFO, EVP*

So, I'll handle the component question. So in any quarter you always have various components that might be in higher or lower demand situations. There's no question our operations team are doing a phenomenal job in an environment where (inaudible) -- they have actually been able to meet that demand. So we are very pleased with what we've been doing in that area.

Kevin Johnson - *Juniper Networks - CEO*

Yes, let me just add on the components piece, it's also fair to say that in the industry in 2009, a lot of these suppliers had reduced inventories and reduced manufacturing capability. And now as demand is returning, we do think that the industry is seeing, you know, some pressure on suppliers for those components. We work very hard to ensure that the component shortages don't affect our ability. But we acknowledge, in our discussion with suppliers, and in doing that work, clearly there are some pressures in the industry overall, on components.

Robyn Denholm - *Juniper Networks - CFO, EVP*

And that is all the time we have today. We would like to thank you all for joining our conference call, and we look forward to updating you next quarter. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines. Thank you for your participation.
