FINAL TRANSCRIPT

Thomson StreetEvents℠

JNPR - Q1 2009 Juniper Networks Earnings Conference Call

Event Date/Time: Apr. 23. 2009 / 8:45PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Kathleen Bela
Juniper Networks - IR

Kevin Johnson
Juniper Networks - Chairman, CEO

Robyn Denholm
Juniper Networks - CFO

CONFERENCE CALL PARTICIPANTS

Simona Jankowski
Goldman Sachs - Analyst

Nikos Theodosopoulos
UBS - Analyst

Ehud Gelblum
J.P. Morgan - Analyst

Tal Liani
Bank of America - Analyst

Sanjiv Wadhwani
Stifel Nicolaus - Analyst

Jeff Kvaal
Barclays - Analyst

Ittai Kidron
Oppenheimer - Analyst

Jeff Evenson
Sanford Bernstein - Analyst

Mark Sue
RBC Capital Markets - Analyst

Erik Suppiger
Signal Hill - Analyst

Ken Muth
Robert W. Baird - Analyst

Mark McKechnie
Broadpoint - Analyst

Paul Silverstein
Credit Suisse - Analyst

Jeff Lovrit
Brean Murray - Analyst

Jason Ader
William Blair and Company - Analyst

Greg Mesniaeff
Needham & Company - Analyst

Bill Choi
Jefferies & Company - Analyst

PRESENTATION

Operator

Greetings, and welcome to the Juniper Networks first quarter 2009 earnings results conference call. (Operator Instructions). As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Miss Kathleen Bela, Vice President of Investor Relations for Juniper Networks. Thank you. Ms. Bela, you may begin.

Kathleen Bela - *Juniper Networks - IR*

Thank you, Manny. 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, 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. Second, this call will be available to down load as a pod cast. For details, you may also visit the IR section of our website.

With that, I would like to remind everyone that statements made during this call concerning Juniper's business 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 perceptions and acceptance of our products, litigation and other factors listed in our most recent report on form 10-Q filed 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 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 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 filings with the SEC. For the detailed reconciliation between GAAP and non-GAAP, 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.

A GAAP EPS target is not accessible 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 EPS estimates today. 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 - Chairman, CEO*

Good afternoon, everyone. Thanks for joining us today. At the financial analyst meeting held in February, we outlined our approach to navigate this global macroeconomic downturn. We are balancing the economic realities of the near term with a focus on long-term shareholder value creation. Now, although many customers establish budget processes in Q1 and businesses experienced another quarter to assess the impact of the recession, visibility still remains low. Therefore, we will be continuing to maintain agility as we work through the economic situation quarter by quarter.

We are being disciplined on cost reduction while at the same time ensuring we fund strategic priorities in R&D and customer service. As we have worked to reduce operating expenses in the quarter, you will see that we have managed to flow resources

to R&D in support of the investments that we believe continue to strengthen our competitive position in the market. We also remain committed to preserving a strong balance sheet.

I'll take a little time to share a brief perspective on current marketplace conditions, our approach to the cost structure and some progress in R&D and partnerships before handing off to Robyn. Clearly, the global macro economic challenges impacted our Q1 performance. Consistent with Q4 of 2008, this was a very back end loaded quarter. Many customers worked through much of January finalizing their annual budgets and implementing new processes to guide their capital purchase decisions. Based on many discussions I have had with customers, they continue to monitor their quarterly financial performance as one factor to guide both their OpEx and CapEx expenditures.

In the service provider segment, we continue to see customers assessing their network capacity on a weekly versus a quarterly basis. With many budgets in place and management processes for decision making on CapEx and OpEx, the environment seems to be more stable than it was in early Q1. From a long-term demand perspective, IP traffic drivers continue to increase. More internet users with increased usage and more bits driven by video reinforces the view of several industry analysts and many customers that IP traffic is growing at rates between 40% to 60% in 2009. Visibility of customer purchases on the service provider side are still very limited, yet in Q1 we saw some of our largest service provider customers moving ahead with capital expenditures while others seemed more cautious. As a result, we did experience a year-over-year decline of 14% in our service provider segment which included declines in the Americas and EMEA while Asia-Pacific delivered modest year-over-year growth.

Enterprise customers also paused a bit going into 2009 as they, too, assessed the impact of the economic recession on their businesses and as they reworked their annual budgets. That said, our enterprise revenue grew by 13% year-over-year, supported by an expanded product portfolio and increased contribution from our partners. The Americas, EMEA and Asia-Pacific all showed year-over-year growth in the enterprise. Enterprise customers are focused on finding more efficient ways to operate their businesses and the network infrastructure is a key enabler of productivity. Our expanded portfolio is enabling us to deliver solutions with lower CapEx requirements through better scale and integration and lower OpEx through efficiencies of a single network operating system, JUNOS.

In this economic period, our lower total cost of ownership value proposition is especially relevant to customer needs. Consistent with our operating principles in this macroeconomic downturn, we have been agile in taking costs out of the business. As we discussed at the financial analysts' meeting, in a scenario where 2009 revenue declines, we will manage OpEx to be flat to down year-over-year.

We are being surgical in our approach. We started our cost reduction actions back in Q4, we implemented a second wave of these actions in Q1 and, as a result, we reduced non-GAAP operating expenses by 5% quarter on quarter. By being surgical in our approach, we've been able to reduce OpEx quarter on quarter while still funding the R&D agenda that we outlined at the financial analysts meeting. R&D OpEx in Q1 was up year-over-year and quarter on quarter and we believe these R&D investments are enabling us to strengthen our product portfolio and capture share of a large addressable market. Strategically, this approach should serve us well when macroeconomic conditions improve.

These R&D investments led to a number of exciting new products delivered in the quarter. We further demonstrated our industry thought leadership with the announcement of core network virtualization in the TX Matrix Plus. This is our next generation multi chassis core router platform which brings a new dimension of flexibility and scalability to the network infrastructure. The intelligent services edge, which was announced in Q4 of last year, enables programmability on our M and MX series routers. In Q1, we announced a new video monitoring and analysis solution called Stream Scope. Stream Scope was developed to run on JUNOS by Triveni Digital, a subsidiary of LG Electronics. The solution enables customers to extend the capabilities of the M and MX series routers to ensure quality of video services over cable, wireless and IP TV networks.

In addition, we shipped the EX 8208 ethernet switch and although it's early, the introduction has been well received. We added over 150 new EX customers in the quarter with over 50% of those customers purchasing a portfolio of products from Juniper, including a mix of switches, routers and security products. Our EX switch portfolio is enabling increased functionality and lower

overall total cost of ownership. Our next product in the EX family, the EX 8216 is in the pipeline and will be released in the next few weeks.

Juniper also introduced the industry's first open, adaptive threat management solution to help customers better prevent and respond to security threats and risks. We extended the reach of the SRX family of products with the SRX 3000 which delivers high performance networking and security. This solution reduced power consumption by up to 80% and lowers the customer's total cost of ownership by up to 65%. Our investments in R&D are delivering these unique and compelling products to the market.

I'll comment, partners are also key to our strategy. On the service provider side, we strengthened our partnership with Nokia Siemens networks with an announcement in the quarter of work we're doing for a fully interoperable carrier ethernet solution. We're working together to combine Juniper's strength with the MX Series metro aggregation applications, with NSN's leadership in metro access and network management. Our goal is to enable customers to better monetize their networks while at the same time reducing transport costs.

Our partnership with IBM also continues to grow. In Q1, IBM announced their cloud computing initiative and data center network portfolio which includes Juniper switching, routing and security technology. In February, Juniper participated in IBM's CIO leadership exchange held in Shanghai and simultaneously held a joint cloud day event at IBM's lab in Silicon Valley where we demonstrated for the first time how work loads can be moved across data centers located around the world to better utilize computing resources. IMB and Juniper are now working together to install this network capability into IBM's nine worldwide cloud labs for customer engagements. On the go to market side of the relationship, our sales teams have established a set of shared goals for 2009 and we continue to strengthen the field connection. We will continue to focus on expanding the breadth and depth of our partnerships as we look to the future.

In summary, we continue to operate in a challenging economic climate. Q1 was a period where many customers reset budgets and worked to assess the impact of the economic recession on their business. With those budgets now in place, decision processes implemented and another quarter where customers had an opportunity to assess the impact of the economic recession, I think things are beginning to become more stable. Even with that improvement in stability, visibility on revenue streams remains low. From an operating perspective, we will continue to drive a disciplined approach to manage our cost structure while at the same time ensuring that we resource strategic areas including our R&D agenda and customer service. Let me now hand over to Robyn for a more detailed commentary on the financial results and some guidance for Q2. Thank you.

Robyn Denholm - *Juniper Networks - CFO*

Thanks, Kevin, and good afternoon, everyone. March was a challenging quarter from a revenue perspective as some of our customers limited investments in new network build outs and purchases of additional network capacity. This primarily affected our US and EMEA service provider business.

On a positive note, we saw growth across all theaters in enterprise year-over-year as our broader product portfolio continues to gain traction. We also saw total product book to bill of greater than one for the quarter. Despite the short fall in total revenue, our rapid implementation of cost reduction initiatives enabled us to deliver a 16.4% non-GAAP operating margin, above our guidance and non-GAAP EPS at the high end of our original guidance range. Another highlight for the quarter was that operating cash flow of approximately $164 million.

Now on to the numbers. I'm taking a slightly different approach this quarter. I'll address GAAP results first followed by non-GAAP results, including a review of OpEx, a deep dive on revenue, balance sheet highlights and I'll close with our guidance for the June quarter. On a GAAP basis, total revenue for the first quarter was $764 million, down 7% from the prior year and down 17% sequentially for the fourth quarter -- from the fourth quarter. Juniper reported a $0.01 GAAP loss for the first quarter due to a nonrecurring, noncash tax charge of $62 million or $0.12 per diluted share. This charge relates to a change in the California

state tax law enacted in Q1 which resulted in an impairment of certain tax deferred assets. We also incurred a $4.2 million restructuring charge related to a targeted work force reduction which I'll comment on in a few moments.

Turning to our non-GAAP results, I'd like to focus my discussion on gross margins and OpEx. Total gross margins for the quarter were 65.6% of revenue, within our guidance range of 65% to 67%. Overall, the sequential reduction in gross margins reflected lower overhead absorption, a higher mix of service versus product revenue and, to a lesser extent, product and geographic mix. Product gross margins were 67.6% of revenue, down from 69.4% in the fourth quarter, reflecting lower overhead absorption and product and geographic mix. Pricing did not have a material impact on product gross margins in the quarter.

Service gross margins were 58.8% of revenue for the quarter, down 1 percentage point from the fourth quarter. This was primarily due to slightly higher service costs in the period. During the quarter, we took several actions to reduce our operating expenses and I'm pleased with the team's commitment and discipline in managing expenses thoughtfully during this period of economic uncertainty. Our intent is to deliver on the commitment we made at the financial analyst meeting in late February, specifically that in an environment where revenue is down year over year, we will manage our full year operating expenses flat to down while maintaining our investment in our innovation road map.

As I mentioned earlier, we recorded a restructuring charge of $4.2 million in the fourth quarter in association with a targeted work force reduction of approximately 140 positions which is roughly half of our planned work force reductions in 2009. Consistent with our plans to invest in R&D and customer service, we've added resources in these areas and will continue to do so. As a result, at the company level, we saw a net reduction of 39 positions in the quarter. As we go forward, we expect to incur additional charges related to the planned head count reductions. These planned reductions will provide us the flexibility to ensure that we deliver on our operating expense goals.

In addition, we are reducing our real estate portfolio and anticipate a restructuring charge of approximately $5 million in the June quarter. Non-GAAP operating expenses totaled $376 million or 49.2% of revenue. Overall, relative to the fourth quarter, operating expenses decreased $22 million as a result of a reduction in variable compensation expenses, travel restrictions and other discretionary expense controls. These reductions were net of an increase of $10 million in employee related benefits expenses including FICA as is typically seen in the first quarter of the year. We will continue to focus on costs and expect to see additional cost reduction activities in the quarters ahead.

R&D expenses totaled just under $171 million or 22% of revenue. We increased our investment by 6% year-over-year and 2% sequentially. Sales and marketing expenses totaled $171 million or 22.4% of revenue, a $25 million decrease sequentially. This decrease was due to reductions in variable compensation, lower travel expenses and reductions in head count.

General and administrative expenses totaled $34 million or 4.5% of revenue, roughly flat with the fourth quarter. Non-GAAP operating profit for the quarter was $125 million, resulting in an operating margin of 16.4% of revenue, lower year-over-year and sequentially, but better than we guided in January as a result of our expense reduction initiatives. Looking at operating margins for the segments, IPG operating margin was at 19.7% and SLT operating margins were at 6.6% for the quarter.

Turning to the bottom line, Juniper posted non-GAAP net income of $92 million for the quarter, a decrease of 39% from the year ago results. Non-GAAP net other income and expenses were $2 million for the quarter, down significantly year over year due primarily to lower interest rates. The sequential decline reflects both the interest rate environment and lower gains in other income. The non-GAAP tax rate for the quarter was 27.9%. Non-GAAP diluted earnings per share was $0.17 in the first quarter, down $0.15 compared to the prior quarter and down $0.10 over the prior year figure of $0.27.

I'll now turn to a discussion of revenue which we look at in three dimensions, geographic, business segment and customer set. Regionally, revenue declined on both a year-over-year and sequential basis in both the Americas and EMEA. These declines were partially offset by growth in APAC on both a year-over-year and sequential basis. This growth was led by Japan which represented 10% of total company revenues in the first quarter. As a result, compared to the fourth quarter, the geographic

mix of total revenue reflects a 6 percentage point increase in APAC and decreases of 5 points in the Americas and 1 point in EMEA.

On a segment basis, total IPG revenue of $567 million was down 9% on a year-over-year basis and total SLT revenue of $197 million was down sequentially at 2% on a year-over-year basis. IPG revenues include almost $30 million of EX switch revenue. Within each of the segments, IPG product revenue was down 14% year-over-year and IPG services revenue was up 21% year-over-year. On a year-over-year basis, the IPG product revenue decline was primarily due to the T and a lesser extent M series product family which was partially offset by increases in EX, MX and E series products. Excluding the EX revenues, IPG product revenues declined 20% on a year-over-year basis, reflecting the softness in the -- sorry, service provider market.

On a sequential basis, total IPG revenue was down 19%. In SLT, product revenue was down 8% year-over-year and SLT services revenue was up 14% year-over-year. The SLT product revenue decline was attributed to branch firewall, high end firewall and WAN products partially offset by growth in the high end SRX and J series products. On a sequential basis, SLT revenue was down 11%. Overall, we're pleased to see the relatively strong contributions of product lines like the EX and SRX which demonstrate that the investments we are making in R&D are generating returns for us in both the enterprise and service provider markets.

Looking more closely at the markets we address, service provider styles were 68% of total revenue, down 14% year-over-year and down 18% sequentially. As outlined earlier, service provider styles were challenging as a result of limited investments in new network build outs and purchases of additional network capacity in the US and in EMEA. Total sales into the enterprise market were 32% of total revenue, an increase of 13% year-over-year with growth across all theaters and strength in the Americas and EMEA. The continued year-over-year growth this quarter in our enterprise business demonstrates that our increased focus of selling more infrastructure into the enterprise market is having an impact. As anticipated, enterprise sales were down 16% sequentially with the largest reductions in the Americas and EMEA. Verizon was our only customer at 10% of revenue for the quarter.

Looking at the balance sheet, at March 31 we ended the quarter with over $2.3 billion in cash, cash equivalents and short and long-term investments. This figure was up $14 million from the prior quarter. We generated cash flow from operations in the quarter of approximately $164 million, down from the $215 million in the fourth quarter. During the quarter, we repurchased approximately 7.5 million shares at an average price of $16.01 per share or approximately $120 million worth. Our weighted average shares outstanding for the quarter were approximately 531 million shares on a diluted non-GAAP basis.

CapEx for the quarter totaled $34 million and depreciation and amortization was $38 million. DSOs increased to 43 days from 42 reported in the fourth quarter but were within our range of 35 to 45 days. The third revenue increase to $612 million, up from the $590 million reported at the end of the fourth quarter. Sequentially, product deferred revenue was down 7% or approximately $12 million and services deferred revenue increased by 8% or approximately $34 million. Year-over-year, our deferred revenue balance increased by $46 million or 8%. At March 31, 2009, Juniper had 6,975 employees, a net decrease of 39 from the prior quarter as I explained a moment ago.

Now, let's turn to our guidance. As a reminder, guidance is provided on a non-GAAP basis except for revenue and share count. For Q2, we are planning for and expect revenue to be roughly flat with Q1. However, given the visibility remains low, we could see revenue range from $740 million to $780 million. Kevin noted that we are beginning to see some signs of increased stability from our customers; however, current conditions remain challenging. Therefore, we will continue to manage OpEx on a quarter by quarter basis. Gross margins for Q2 are expected to be flat with the March quarter. Our range of 65% to 67% of revenue is unchanged.

With our continued focus on operating expenses, assuming flat revenue, total OpEx for the quarter will be slightly lower with some increase in R&D and customer service. Again, assuming flat revenue, we would expect Q2 to have slightly higher operating margins compared to Q1. With a revenue range of between $740 million and $780 million, we expect Q2 non-GAAP EPS to range between $0.16 to $0.18, this is assuming a tax rate of 28% and a share count of approximately 533 million shares. In

summary, we will continue to manage our cost structure thoughtfully while ensuring we are investing adequately in our new product initiatives to prepare for a resumption of growth. Manny, can you go ahead and open up the call for the Q&A session?

QUESTIONS AND ANSWERS

Operator

Certainly. (Operator Instructions). Our first question is from a line of Simona Jankowski with Goldman Sachs. Please go ahead.

Simona Jankowski - *Goldman Sachs - Analyst*

Yes. Hi. Thank you very much. You mentioned a couple of times that you have seen some signs of stabilization even though visibility remains pretty limited. Can you just give us more color on where the signs of stabilization are coming from and also conversely which are the areas where you're still not seeing any such signs?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Yes, thanks for your question, Simona. I think as compared to Q1, many customers both on the service provider side and on the enterprise side that invested a lot of time in January just redoing budgets, revisiting their budgets and being thoughtful about how they're going to approach this new calendar year and what -- now that those budgets have been put in place and the new management processes that they're using to either assess the economic impact on their business or look at network traffic patterns, those are the things I think that have stabilized. So where maybe there was a lot more confusion or question marks in early Q1, at least now there's some business processes and some thinking on the customer side around budgets and how they're playing in this economic environment and that's what's led to the stability, or led to improved stability. And I think that improved stability is a positive sign, yet visibility on revenue still remains low and we'll have to see how things unfold in the quarter.

Simona Jankowski - *Goldman Sachs - Analyst*

So just to make sure I understand the comments correctly, it sounded like that improved stability is mostly on the service provider side; is that correct?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Yes, that he is probably accurate. It's a little bit on enterprise, too, but it's primarily a set of observations on the service provider side.

Simona Jankowski - *Goldman Sachs - Analyst*

And that's why the quarter was back end loaded or was that more just the normal seasonality of the March quarter?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Well, I think that consistent with what we've seen in the last two quarters, Q4 of 2008 and Q1 of 2009, customers are watching their financial results and using that as at least one factor to make decisions based on CapEx and I think that's part of the reason we've seen now the last two quarters be fairly back end loaded.

Simona Jankowski - *Goldman Sachs - Analyst*

Got it. Thanks very much.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thank you.

Operator

Thank you. Our next question is from the line of Nikos Theodosopoulos with UBS. Please go ahead.

Nikos Theodosopoulos - *UBS - Analyst*

Thank you. I guess I had two quick questions. One, you mentioned on the enterprise year-over-year growth, part of it was due to partner performance. Can you give some update on some of the metrics there? How is the flow of business going through IBM? Is that something that's hitting the quotas that you've identified? And on the carrier side, I know at the end of the fourth quarter you had mentioned that customers were giving you bookings for shipments later than -- more further out, so kind of like 2Q, 3Q. Are these carriers that gave you those bookings that were kind of six to nine months out asking you to keep those dates or are they asking you to keep pushing them out? Thank you.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks, Nikos. I'll take the first question, I'll hand over to Robyn for the second one. On your question about partners, I mentioned that partnerships are key to our strategy. I characterize us as a pure play and high performance networking that embraces partnerships and certainly we have a lot of partners. I talked a little bit about Nokia Siemens networks and IBM and those partnerships continue to evolve, but we have a broad set of partners as well and a key data point we look at in this quarter, for example, we added over 800 new -- net new partners into our channel and we continue to grow the channel and the capabilities in the broad base of partnerships while we continue to deepen the partnerships with larger partners such as IBM and NSN and so there's just a couple of data elements there. I'll hand over to Robyn on the questions about bookings.

Robyn Denholm - *Juniper Networks - CFO*

Yes, Nikos, in terms of the bookings that we saw at the end of Q1 that were requested outside of -- sorry, the end of Q4 that were requested outside of the next quarter, they are scheduled in the Q2 time frame and Q3 and they're actually still there. In terms of what we saw at the end of the Q1 period of time, we also saw some that requested outside of the Q2 time frame, not dissimilar to the pattern that we saw at the end of Q4.

Nikos Theodosopoulos - *UBS - Analyst*

Okay. So just to be clear, the bookings that were scheduled to ship in 2Q that you got at the end of fourth quarter, you haven't seen push outs on those, carriers are wanting to see that those products ship?

Robyn Denholm - *Juniper Networks - CFO*

Yes, that's correct.

Nikos Theodosopoulos - *UBS - Analyst*

All right. Great. Thank you.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks, Nikos.

Operator

Thank you. Our next question is from the line of Ehud Gelblum, from J.P. Morgan. Please go ahead.

Ehud Gelblum - *J.P. Morgan - Analyst*

Thank you. Also a couple of quick questions. Robyn, you mentioned that there were 140 head count reductions this quarter and then you said the head count, I believe, fell by 39. Does that mean that there -- on a net basis you hired 101, just don't -- maybe I got those numbers wrong, but just wanted to understand how that works? And then you said that's half of the reductions that you're planning for the year. Does that mean that there are another 140 million that you have planned -- million, I'm sorry, 140 people that you have planned and does that go into effect in Q2 or do you hold on to those to kind of see how the year plays out and possibly do that in Q3 or Q4? And then a quick follow-up on the OpEx this quarter.

Robyn Denholm - *Juniper Networks - CFO*

Okay. Yes, thanks, Ehud. In terms of the 140 positions that we actually reduced in Q1, you were right. 140 was the gross number of reductions. We did add back in the two key areas of R&D and customer service approximately 100 heads for a net of 39. So you've got that math right. And, yes, I did say that we were halfway through our planned reductions for the year and that will -- those will happen over the balance of the year. We're being very surgical in terms of where we look at opportunities for reductions in terms of what productivity and those sorts of things, but they are scheduled for the rest of the year.

Ehud Gelblum - *J.P. Morgan - Analyst*

Okay. Are they scheduled already or are they -- you have them and you know and you'll use them when and if you need them?

Robyn Denholm - *Juniper Networks - CFO*

Yes. We have plans so that we, as I said before, it gives us the added flexibility to meet our commitment in terms of OpEx being down -- flat to down if revenue is down for the full fiscal year.

Ehud Gelblum - *J.P. Morgan - Analyst*

Okay. And then finally, your guidance, your original guidance for Q1 talked about the $10 million extra payroll taxes you'd have to pay, so we came out somewhere around $408. Your actual OpEx in your guidance now is about $30 million lower in round numbers, $30 million, $32 million. How much of that $30 million less than OpEx that you actually did in Q1 versus what you thought you were going to do when you were going to do north of 800 in revenue, how much of that $30 million less in OpEx came from the lower revenue just directly from lower commissions, lower bonus accruals and things like that and how much of it came from direct cost reductions?

Robyn Denholm - *Juniper Networks - CFO*

So in terms of that question, Ehud, you're right, we actually -- our gross amount of expenses that were reduced in the quarter were around $30 million because we did see the increase of 10 in terms of the employee benefits around FICA, etc. And so our factors as we called them out, variable comp, both commission and bonus, were a factor. That's how we designed the bonus program in terms of aligning the shareholder value and if we don't grow revenue, that actually -- that portion of the bonus doesn't pay out. So there was a component of commission and there was a component of variable comparable bonus. There were also head count reductions and a lot of discretionary expenses like travel. I call them discretionary, but travel is down quarter over quarter and other factors as well. The broad population based across Juniper has been very proactive in cutting costs across the board. So I'm very pleased with the results for the quarter.

Ehud Gelblum - *J.P. Morgan - Analyst*

But can you quantify how much of the $30 million came from the -- automatically from the drop in revenue? I guess it would be the variable comp and the bonus?

Robyn Denholm - *Juniper Networks - CFO*

It's fine to say that the way in which I called them out in the script is the order of magnitude.

Ehud Gelblum - *J.P. Morgan - Analyst*

Okay. Appreciate it.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks, Ehud.

Operator

Thank you. Our next question comes from the line of Tal Liani of Bank of America. Please go ahead.

Tal Liani - *Bank of America - Analyst*

Hi. Thank you. Question about service revenues, they were relatively flattish on a sequential basis versus declines in product revenues. Can you discuss about the correlation between the two trends? Thanks.

Robyn Denholm - *Juniper Networks - CFO*

So services revenue is, as you know, Tal, are actually ratably recognized over the life of the contract. So you wouldn't expect quarter to quarter variation because just like you saw in the deferred revenue for this quarter, any time you book a services contract, the booking is for the life of the contract, so it could be 12 months, it could be three or five years and then you bring them to account and the revenue ratably over that term. So you wouldn't expect a large variation quarter to quarter.

Tal Liani - *Bank of America - Analyst*

Now, you -- if I connect the dots between a few comments you said on the conference call, you said that environment now is more stable than before. Also, you said that the year started very low and orders ran throughout the year, which we don't have it now, we don't have the beginning of the year phenomenon. Why are you cautious with your guidance that much in the sense that why are you guiding for flat if April is substantially better than January?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Well, even with improved stability that we're seeing now versus early in Q1, visibility remains low. So you've inferred something that we didn't say, but the fact is visibility continues to remain low and I think as we see how this quarter plays out, we'll see if that improved stability leads to revenue upticks.

Tal Liani - *Bank of America - Analyst*

Great, thank you.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks.

Operator

Thank you. Our next question is from the line of Sanjiv Wadhwani with Stifel Nicolaus. Please go ahead.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Thank you. Just a couple of quick questions. Wanted to follow up on an earlier question, Kevin, about IBM. Just curious to see if the partnership is sort of hitting the targets you outlined. Any color there would be helpful. And then for Robyn, on the head count reduction, can you sort of tell us by area both the majority in the sales side or the G&A side, any color would be helpful there, also? Thanks.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks for your question. The first comment I would make is IBM is not only a very, very important partner for us, they're a very good partner and we look at this as a long-term relationship and each quarter we continue to build on that relationship, and in this last quarter with the cloud computing initiative, the event that we held at the San Jose lab, the work that we're doing with them in sinking quotas in the field and sales targets in the field, all of those things are very, very positive and so I have a very positive perspective on not only the partnership with IBM, but long term the importance of that for Juniper Networks. The second part of the question, do you want to handle that, Robyn?

Robyn Denholm - *Juniper Networks - CFO*

Sanjiv, on the head count, the head count reductions, we're pretty broad in terms of how it impacted quite a number of the groups across the company. Very surgical in terms of how we went about those. What I would say is that net reductions -- because the only place that we added head count back was in R&D or customer service. So it's fair to say that the reductions were primarily in the sales, marketing and G&A areas.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Got it. Thanks so much.

Operator

Thank you. Our next question comes from the line of Jeff Kvaal with Barclays, please go ahead.

Jeff Kvaal - *Barclays - Analyst*

Yes. Thanks very much. Kevin, I was wondering, or Robyn perhaps, services backlog seems to be up. I would imagine that we would expect to see the revenue up over the next couple of quarters and then commensurately would that suggest that the product revenue might be flattish or down over the next quarter? Is that the way we should think of it?

Robyn Denholm - *Juniper Networks - CFO*

So, Jeff, in terms of the services revenue, we had a good bookings quarter. You can see that come through in terms of the deferred revenue. It's ratable recognition, so I wouldn't expect a significant spike up. It does trend up over time, so I think that's how I would look at it.

Jeff Kvaal - *Barclays - Analyst*

Okay. So then how would we then translate that into thinking about your gross margin trajectory over the next quarter or next couple of quarters?

Robyn Denholm - *Juniper Networks - CFO*

Yes. So in terms of our guidance in terms of gross margin, what we talked about was it being flat with the March quarter given a services and product split that's roughly flat, so -- and the total range that we're talking about is unchanged from last quarter, which is 65% to 67% of revenue.

Jeff Kvaal - *Barclays - Analyst*

Do you think it's -- we're approaching a spot where the product revenues will start to drift up again as a percentage of the mix?

Robyn Denholm - *Juniper Networks - CFO*

So product gross margins are definitely affected by product mix and geographic mix. They're also -- in the first quarter were impacted negatively by the overhead absorption due to the lower volume. So obviously if volume picks up, that goes away as well. So any of those three factors could swing it slightly more positively than this quarter.

Jeff Kvaal - *Barclays - Analyst*

Okay. But it's too soon to say if that's happening or not?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Yes. Visibility remains low and we've -- that's why we've guided flat revenue for the quarter, $740 million to $780 million.

Jeff Kvaal - *Barclays - Analyst*

Okay. Thank you both very much.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thank you.

Robyn Denholm - *Juniper Networks - CFO*

Thank you.

Operator

Thank you. Our next question comes from the line of Ittai Kidron with Oppenheimer. Please go ahead.

Ittai Kidron - *Oppenheimer - Analyst*

Thank you. Robyn, I had a couple of questions for you. First, following up on Jeff's question on the gross margin on the products side. You've managed up until this last couple of quarters to keep your gross margins pretty consistently above 70% even on much lower revenues than you have right now, so can you be a little bit more specific sort of what is the overhead absorption that you have, how quickly can you get rid of it if the revenue levels don't grow from here, how can you get product gross margin back to 70%? And then I have a follow-up on that.

Robyn Denholm - *Juniper Networks - CFO*

Yes, so in terms of the Q1, given that we missed the revenue guidance that we gave, there was definitely some overhead absorption that resulted from that. So the manufacturing guys are very good, they've been delivering cost savings quarter over quarter, so they will work through that absorption as well. So I think that's one factor. The other thing that we talked about was that mix is a significant factor on gross margin in any quarter. So that is another thing that I'd look through.

Ittai Kidron - *Oppenheimer - Analyst*

Okay. And following up on the deferred revenue, had a nice growth there. How much of that was true growth in deferred versus projects being delayed and things are being pushed out and because of that the balances have been increasing?

Robyn Denholm - *Juniper Networks - CFO*

No, the deferred revenue, as I said in the script, most of it was due to services, bookings of deferred revenue in the quarter. We had a good bookings quarter for services contracts. And, therefore, that's ratable recognition as we move forward. As I mentioned before, the total deferred revenue was up and services was the main contributing factor.

Ittai Kidron - *Oppenheimer - Analyst*

Very good. Good luck.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thank you.

Operator

Thank you. Our next question is from the line of Paul Silverstein with Credit Suisse. Please go ahead.

Kathleen Bela - *Juniper Networks - IR*

Paul, are you there? Okay. Operator, let's go to the next question and then we'll circle back with Paul.

Operator

Certainly. Our next question is from the line of Jeff Evenson with Sanford Bernstein. Please go ahead.

Jeff Evenson - *Sanford Bernstein - Analyst*

I was wondering if you could give us a bit more details on how you're changing your real estate portfolio and the $5 million charge that you expect in the second quarter?

Robyn Denholm - *Juniper Networks - CFO*

Yes, Jeff, I can do that. So we obviously lease property around the world and what we've done is we've gone through that property portfolio and we're going to abandon or trim down that portfolio over the next period of time. There's a piece of it in the US and a piece of it outside the US. So that's what we're doing. And we've actually -- it's not a future tense, we've actually already identified the properties and we're implementing it as we speak so that in Q2 we'll take that charge.

Jeff Evenson - *Sanford Bernstein - Analyst*

And when would the cost savings start to impact your balance -- your income statement?

Robyn Denholm - *Juniper Networks - CFO*

They will immediately after we've restructured.

Jeff Evenson - *Sanford Bernstein - Analyst*

Thanks.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Yes, I'll just add to that, Jeff. This is one of the approaches that we've taken to help restructure the cost base, especially in the field where we can have our sales people that instead of having a full office, we have a hoteling concept, it's just a lot more efficient and so this charge is something that helps us get that efficiency and then maintain that efficiency in the cost base.

Robyn Denholm - *Juniper Networks - CFO*

Yes.

Jeff Evenson - *Sanford Bernstein - Analyst*

Great.

Operator

Thank you. Our next question is from the line of Mark Sue with RBC Capital Markets. Please go ahead.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you. Kevin, the sequence of the recovery is stabilization followed by growth. Does that mean you're collecting tangible proof points that $740 million is the bottom and should we see ongoing sequential revenue growth for the balance of the year? And, Robyn, likewise, since things are stabilizing, does it mean you can plan better and get operating margins back to 25%?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks for the question, Mark. I think the comments I made about observing improved stability in the budgeting, in the decision processes that customers are using on capital and operating expenses is a positive sign but yet it's not the complete set of things that need to give confidence that we're back in a growth mode and that's the limited visibility that we have is just reinforcing that fact. I think as we see Q2 unfold, number one, we grew in Q1 in the enterprise and so I think we're on a growth trajectory there. Much of that is driven by taking market share and we've introduced the EX 8208, we've got the EX 8216 in the pipeline right around the corner, we're expanding the partner base, we're going after that opportunity, so I see that as a growth driver. The real question becomes on the service provider product side. How does that unfold over the next quarter or two? So I think we'll have to watch that through Q2 and see how that does.

Robyn Denholm - *Juniper Networks - CFO*

And, Mark, in terms of the planning better, I think from a company perspective, we've been at the whole planning process improvement, operational efficiencies, all of that type of activity for quite some time now. I think the fact that we were able to react as quickly as we have over the last two quarters to the current environment is testament to that and I think that as I said in the script, that visibility is still low from a revenue perspective, so we are absolutely focused on costs and I think that will do us really well as the market recovers and the macroeconomic environment changes. In terms of the 25%, we are absolutely committed to our long-term business model, 20% plus growth and 25% plus operating margin. We just have to get through this economic period.

Mark Sue - *RBC Capital Markets - Analyst*

Got it. That's helpful. Thank you and good luck.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks, Mark.

Operator

Thank you. Our next question comes from the line of Erik Suppiger with Signal Hill. Please go ahead.

Kathleen Bela - *Juniper Networks - IR*

Erik, are you there?

Erik Suppiger - *Signal Hill - Analyst*

My question has been asked. Thank you.

Kathleen Bela - *Juniper Networks - IR*

Thank you. Next question, please.

Operator

The next question comes from the line of Ken Muth with Robert W. Baird. Please go ahead.

Ken Muth - *Robert W. Baird - Analyst*

Hi, thanks. On the service provider segment, can you give us any insights of where you saw a little more slowdown, was it more on the core routers or more on the edge and what would you say is kind of changing carrier's attitudes about those two segments?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Well, thanks for the question, Ken. A couple of comments. When you look at network utilization, typically there's less excess capacity in the core. The core is just -- if it's not distributed, it's more centralized, it's a more manageable resource and tends to run at a more consistent utilization that service providers have visibility to. Therefore, the question is how hot are the edge routers running in these networks. And so I think consistent with that in the quarter we saw more variability on the edge side than we did in the core, yet it also varies by customer and by geography. Asia-Pacific grew in the service provider segment where US service providers and EMEA was weak. So that -- I don't know, that gives you a little bit of flavor of where the opportunities may be.

Ken Muth - *Robert W. Baird - Analyst*

And last question, when you look to invest in about the future and you mentioned your partnership with Nokia Siemens Networks, how do you look at the kind of opportunities in global wireless, you look at the 3G networks and all the data and video going there and then approaching the 4G and how is Juniper positioned for that?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

I think clearly it's reflective of the fact that more and more traffic is moving to IP packet switch networking which plays to our strengths and the partnerships that we have with our customers continue to expand and so I would expect that they continue to expand in new areas, in new services that are relevant and important to our customers.

Ken Muth - *Robert W. Baird - Analyst*

Okay. Thanks.

Operator

Thank you. Our next question comes from the line of Mark McKechnie with Broadpoint. Please go ahead.

Mark McKechnie - *Broadpoint - Analyst*

Yes. Thanks for taking the question and good management on the OpEx control. Hey, wanted to dig in on this visibility question a little bit more. Back in February you talked about a weaker visibility, am I right, is that visibility unchanged or has it actually gotten a little bit better or do you -- are you seeing more on the forecast side? And then kind of associated with that, your second quarter plan, I wanted to get a sense if that guidance range is -- how the linearity of this compares. You might have said it already but I missed, how back end loaded or how linear do you see your second quarter plan on a monthly basis? Thanks.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks for the question, Mark. I think the comments we made about limited visibility in Q1, I think those -- the -- even with improved stability, as I mentioned, we still have limited visibility into what will unfold in Q2. I think the fact that customers -- they are a little bit more stable in their budgeting and their decision making given the fact that they've put these budgets in place and their management processes in place, they've had another quarter of economic recession to evaluate the implications on their business, that's an encouraging sign, yet that doesn't necessarily translate to us having improved visibility. The thing that will give me more confidence that visibility has improved is actual results at the end of this quarter. That will confirm, did we have better line of sight to what we've got in our forecast or not and so it is premature for me to declare that we've seen any change in visibility at this point in time. I'm a guy that wants to look at the facts after they've happened and then go back and say, okay, that does confirm that visibility is improving. So I guess that's a little bit of my thinking and a little perspective on that.

Second part of your question was do we anticipate that we'll see some consistent -- or consistency of what we've seen in the last two quarters where there's a portion of revenue that seems very back end loaded. I don't have anything to tell me that this quarter is going to be significantly different, yet the improved stability probably does help earlier in the quarter, but I still think there's going to be an element of back end loading in the quarter.

Mark McKechnie - *Broadpoint - Analyst*

Got you. I mean on that line, I mean, you're almost done with April, the month of April, is that better than February or March and -- anything you can tell us about the monthly performance would be helpful and where you stand now and I guess you're probably seeing what, halfway into May by now, yes?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Well, it's -- we've given our guidance for the quarter and I think the flat with some down side and some up side, the $740 million to $780 million is probably the best that we're giving and trying to offer monthly guidance or monthly suggestions is just probably not a helpful thing. But I think the key points we've made is that there are some signs of improvement in stability, that's a positive thing, yet visibility remains limited and we're going to continue to drive very hard with a strong product portfolio and what I think is a good value proposition in the marketplace while we continue to reduce our operating expenses and we think that that's the right formula as we work through the economic downturn. Thanks for the question.

Operator

Thank you. Our next question comes from Paul Silverstein with Credit Suisse. Please go ahead.

Paul Silverstein - *Credit Suisse - Analyst*

Robyn, can you hear me?

Robyn Denholm - *Juniper Networks - CFO*

Yes, Paul.

Paul Silverstein - *Credit Suisse - Analyst*

Two questions if I might. First off, can you talk about if revenues come up short, notwithstanding what you're currently projecting, in terms of your variable composition --

---

Robyn Denholm - *Juniper Networks - CFO*

Paul, we've lost you.

Paul Silverstein - *Credit Suisse - Analyst*

Robyn, can you hear me?

Robyn Denholm - *Juniper Networks - CFO*

Now we can.

Paul Silverstein - *Credit Suisse - Analyst*

My apologies. On the variable compensation piece, if revenues come up short notwithstanding the comps you're looking at --

---

Robyn Denholm - *Juniper Networks - CFO*

Okay. We've lost you again. You want to try getting a better connection and --

---

Paul Silverstein - *Credit Suisse - Analyst*

Robyn, can you hear me?

Robyn Denholm - *Juniper Networks - CFO*

Now we can, yes.

Paul Silverstein - *Credit Suisse - Analyst*

One more time, my apologies.

Robyn Denholm - *Juniper Networks - CFO*

We got the revenue variable something.

Paul Silverstein - *Credit Suisse - Analyst*

Right. So if revenues come up short, similar to what happened this quarter, notwithstanding what you're currently looking at, would the variable compensation piece kick in again, how much does that track revenues on an ongoing basis?

Robyn Denholm - *Juniper Networks - CFO*

Yes, so in terms of the variable compensation, there are two parts. Obviously sales commissions are variable, right, with revenue. If they're making their quotas or they're selling stuff, they get commission. In terms of the bonus, we did talk about at FAN, our financial analysts day, that 35% of the bonus is tied to revenue growth and that's revenue growth year over year. And so that's why we saw an improvement in OpEx this quarter because we didn't see year-over-year revenue growth.

Paul Silverstein - *Credit Suisse - Analyst*

Well, so I guess that's my question, Robyn, I guess I'm trying to understand if this quarter, if in the second quarter revenues were to go down on a year-over-year basis, would it be down from the first quarter, would the OpEx piece that's tracking, the bonus piece of the variable comp, would that go -- if you're flat, does that go up on -- if you're flat on a sequential basis, does that go up?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

No, the bonus piece is based on annual year-over-year growth. So you have to get to a year-over-year growth scenario.

Paul Silverstein - *Credit Suisse - Analyst*

Okay. And that's on a quarter over quarter basis throughout the year?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Annual, year-over-year.

Robyn Denholm - *Juniper Networks - CFO*

Year-over-year.

Paul Silverstein - *Credit Suisse - Analyst*

All right. Secondly, Japan, I know you haven't broken it out in a long time, but can you give us some sense -- you said Japan was over 10%, I trust NTT was a good part of that. Can you some sense of what the sequential increase was?

Robyn Denholm - *Juniper Networks - CFO*

So Japan increased as a result of -- there were a number of factors in Japan that are actually growing, but we are continuing with the large service provider build out in Japan, actually, and that's been going on for several quarters there. The rest of the business in Japan is doing well as well.

Paul Silverstein - *Credit Suisse - Analyst*

Kevin, any visibility as to how much further that build out has to go?

Robyn Denholm - *Juniper Networks - CFO*

So, again, going back to Kevin's comment earlier, visibility is low, it's not different by geography.

Paul Silverstein - *Credit Suisse - Analyst*

Okay. I was asking with that specific build, but --

Kevin Johnson - *Juniper Networks - Chairman, CEO*

There's many opportunities for us, not only in Japan, but throughout Asia-Pacific and I think the -- commenting on a specific customer project is probably not helpful, but you look at the broad marketplace opportunities, there's many customers for us in Japan to continue to expand and grow into and I think the team in Asia-Pacific is demonstrating our ability to grow even with one region that I think did very well on the service provider side and the enterprise side even in this last tough economic period.

Robyn Denholm - *Juniper Networks - CFO*

And we called out Japan because they were at 10% of total revenue this quarter, but we did have growth in other parts of APAC as well. China was good growth and so was (inaudible) led by Singapore.

Paul Silverstein - *Credit Suisse - Analyst*

One last question on pricing, Robyn, you called it out it last quarter, you said it wasn't material this quarter. I think last quarter you contributed it to breaking into enterprise as well as trying to offset or offsetting the depreciation of the dollar in certain foreign locations vis-a-vi [LU] and other local players. Has that just stopped, there's no need to do that anymore or can you give us insight into what's going on now?

Robyn Denholm - *Juniper Networks - CFO*

Yes, last quarter we did cull out FX change, dramatic FX change between the beginning and the end of the quarter basically and then -- and that did cause us to discount in a couple of regions. So we obviously do competitive promotions and things like that. That was also a factor last quarter as you just alluded to and we'll continue to do that on a case-by-case basis, but it wasn't a significant factor in the quarter for the gross margin.

Paul Silverstein - *Credit Suisse - Analyst*

Okay. Thank you.

Kathleen Bela - *Juniper Networks - IR*

Next question, please.

Operator

Our next question comes from the line of [Jeff Lovrit] with Brean Murray, please go ahead.

Jeff Lovrit - *Brean Murray - Analyst*

Good afternoon. On the EX switch line, can you tell us how much revenue came from the 8208 in the quarter and should we expect to see a similar impact with the 8216, and then I was curious if you have a share target and time line for the ethernet switching market that you could share with us?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks for the question, Jeff. We -- on the -- we're pleased with our continued progress on the EX switch lineup. The EX 8208 was a significant step forward with a higher end switch and so I think that's what generated a lot of the early interest and adoption in that particular product set. We don't have specific breakouts of individual products and so I can't comment on what percent was the EX 8208, but we now have -- we have with the EX 3200, the 4200, the 8208, we have the 8216 coming in the pipeline, coming around the corner, we've got the new top -- 10 gig (inaudible) switch and I think what's important is this concept of the portfolio play. It's not just about the switch lineup, the fact that over 50% of tour customers who bought an EX switch are buying a portfolio of products and solutions from Juniper including switching, routing and security and I think the more relevant thing to look is are we growing the enterprise and how do we continue to drive on a path in strengthening the

product portfolio and value proposition while at the same time expanding partnerships, and I think from my perspective there's evidence that Q1 we did expand partnerships and we also continued to expand and strengthen the product portfolio.

Jeff Lovrit - *Brean Murray - Analyst*

And just to follow up there, with the EX switch line and the broader enterprise product portfolio, where do you see yourself taking the greatest amount of share? Is it from smaller point product companies or are you seeing the relationship with IBM and others, pull you into companies that are enabling you to win business versus Cisco, HP, Pro Curve and other larger platform plays?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

I think from a value proposition standpoint there's probably three factors that resonate well with customers. Certainly number one is total cost of ownership and there was a recent Forester study that was done on total cost of ownership that showed that using JUNOS and the Juniper network family of products, we can deliver a significant, 40 plus percent lower toss of total ownership to our customers, that resonates very well and that's across routing, switching and security. The second element is the fact that the solutions we have address high performance networking needs, scale, security, the performance reliability needs, and we're in a unique position delivering that into the enterprise and many of these large enterprise customers, whether it's in financial services or government, they have many of the same networking needs and requirements as large service providers. And so that's number two, an area that we're differentiated and we've got a value proposition. And the third element of our value proposition is choice and flexibility. The fact that we can interoperate with existing networks and we can help put the customer in control of their IT agenda and what they're trying to do and give them additional choice, not only in the network platform but in the partners that we have that have applications that run op top of that network platform. So that combination of lower total cost of ownership, demonstrable high performance networking value and enabling choice and flexibility really is what's creating the pull for our product set to succeed in the marketplace. Now, taking that value proposition and working closely with partners to help fulfill -- continue to generate demand and fulfill that demand over time is what will help boot strap and help us really break through in a bigger way in the enterprise and that's where we're focused.

Jeff Lovrit - *Brean Murray - Analyst*

So building on that, it took you about three years to gain 5% share in the enterprise routing market. Do you think you can match that performance in ethernet switching?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

I don't know. I don't know. I think clearly we have big aspirations to be a significant player in the enterprise. I don't know how long it's going to take us to get there, but I do believe we're doing the right things as evidenced by the progress we're making.

Jeff Lovrit - *Brean Murray - Analyst*

Thank you.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks for the question, Jeff.

Operator

Thank you. Our next question is from the line of Jason Ader with William Blair and Company. Please go ahead.

Jason Ader - *William Blair and Company - Analyst*

Yes, thanks for taking my question. Kevin, I know we've been beating the dead horse of the stability versus the visibility, but one of the questions I had for you is just when you talk about stability, are you including in that the conversations that you're having with the service provider customers right now? There is, I guess, a deeper level of engagement today than there was early in the year when it was kind of like call me in six weeks or can you give us some color on the conversations you're having and the engagement levels? Is that contributing to your comments on stability which obviously doesn't necessarily mean they're going to place the order, but it certainly means that the level of engagement is higher.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Yes, thanks for the question, Jason. I think from my interaction with customers or interactions in early January or in January, a lot of what I was getting feedback from them is, hey, we're in a process formulating budgets and figuring out the management process of how we're monitoring network traffic and how we're going to prioritize capital expenditures and look at OpEx and so same -- we've had -- we have a deep engagement with customers and have had a deep engagement with customers throughout this entire period. So it's not about the level of engagement, it's more about the signals of how they're focusing and how -- do they have their budgets in place, their business processes in place, the priorities for decision making and so my comments about stability really relate to that, the fact that there was a lot of questions and business processes and budgeting activity taking place early in Q1 and today I think they're beyond that, they're executing on the decisions they've made and the budgets they've put in place and so that starts to change the dynamic a bit.

Jason Ader - *William Blair and Company - Analyst*

Okay. Great. And then just one for Robyn, quickly, on the cash flow, you have something called net proceeds from distributor financing arrangement, what exactly is that?

Robyn Denholm - *Juniper Networks - CFO*

So we have had distributor financing program through one of our partners for quite some time and so that's what that item is.

Jason Ader - *William Blair and Company - Analyst*

Could you tell us who that is?

Robyn Denholm - *Juniper Networks - CFO*

Well, I think we have previously, it's IBM, actually.

Jason Ader - *William Blair and Company - Analyst*

Okay, great, thank you.

Kathleen Bela - *Juniper Networks - IR*

Okay. Operator, we have time for two more questions.

Operator

Certainly. Our next question is from the line of Greg Mesniaeff with Needham & Company. Please go ahead.

Greg Mesniaeff - *Needham & Company - Analyst*

Yes, thank you. Can you comment on the pricing you're seeing in your core carrier market vis-a-vis the enterprise market, if any? Any changes, any differences?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Well, no. They're not differences from what we've seen in the past. I think clearly in an economic downturn customers are always very focused on cost and yet we maintain -- we're maintaining our pricing strategy and the way that we're executing. As Robyn mentioned, we do have, on occasion, different promotions for different things, but there's not some strategic shift in pricing.

Greg Mesniaeff - *Needham & Company - Analyst*

And also as you continue to pursue the enterprise space, do you have a set of priorities in terms of adjacent markets, whether it be wireless mobility or storage as you broaden your influence in that area?

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Well, we've been clear that we're a pure play and high performance networking that embraces partnerships, so when you throw things out there like storage and things like that, that is not something that we are looking at or considering. When you look at our priorities, our priorities are building out the offerings that round out the solution set for high performance networking. So you see us releasing higher end switches, you see the work we did on 10 gig top of rack, you highlighted enterprise wireless networking, that would fall probably within the range of high performance networking, but we're building out a new set of solutions with the SRX family and integrated set of products that include routing, switching and security. There's just a lot of opportunity for us to innovate within the product sets that we have and deliver unique value in the enterprise.

Greg Mesniaeff - *Needham & Company - Analyst*

Thank you.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Thanks, Greg.

Kathleen Bela - *Juniper Networks - IR*

Okay. We have time for one more question.

Operator

Yes. Our final question comes from the line of Bill Choi with Jefferies & Company. Please go ahead.

Bill Choi - *Jefferies & Company - Analyst*

Great, thanks. I'm curious just given the comment around variability on edge if, Robyn, you could give -- you had prepared comments about how each individual product did on a year-over-year basis if you could do that on a sequential basis, particularly for edge versus core routing, and then just one final thought on stability versus visibility here. Yes, how much of the visibility is limited due to ongoing project versus timing of new projects and the fact that competition has actually quite a bit increased on the edge over the past year? Thanks.

Robyn Denholm - *Juniper Networks - CFO*

In terms of the first question, Bill, clearly we had a large sequential decline in revenue and a lot of it was felt in the service provider world and in the IPG world, so we did have declines across most of the products there. In terms of tying it back to what Kevin was saying earlier, the T series being the core of the networking obviously doesn't have as much variability quarter to quarter and we saw good strength in that year over year.

Kevin Johnson - *Juniper Networks - Chairman, CEO*

Yes, and your question related to visibility, it's not lack of visibility to the projects. It has more to do with timing of capital expenditures that customers are making related to those projects and the fact that we've seen two quarters that are very back end loaded, one of the observations is that as customers are looking at their revenue flow and their financial statements and timing their CapEx purchases, that's part of what creates the limited visibility.

Kathleen Bela - *Juniper Networks - IR*

Okay. That is all the time we have for today's call. We'd like to thank all of you again for joining us today. For information on our upcoming investor relations events, please visit the IR section on our website. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
