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JNPR - Q1 2014 Juniper Networks Earnings Conference Call

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PRESENTATION

Operator

Greetings and welcome to the Juniper Networks first-quarter 2014 financial results conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to Ms. Kathleen Nemeth, Vice President of Investor Relations. Thank you, Ms. Nemeth, you may begin.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Thank you, operator. Good afternoon and thank you everyone for joining us today. Here on the call are Shaygan Kheradpir, Chief Executive Officer; Robyn Denholm, Chief Financial and Operations Officer; and Rami Rahim, Executive Vice President, Juniper Development and Innovation. Please remember when listening to today's call that statements concerning Junipers' business outlook, economic and market outlook, strategy, 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 within the networking industry; changes in overall technology spending and spending by communications service providers and major customers; 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; rapid technological and market change; litigation; the potential impact of activities related to the execution of Juniper's integrated operating plan; and other factors listed in our most recent 10-K and the press release furnished with our 8-K filed with the SEC today.

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 the call. For purposes of today's discussion, we will also review non-GAAP results.

For important commentary on why our Management team considers non-GAAP information a useful view of the Company's financial results, please consult the press release furnished with our 8-K filed with the SEC today. For the detailed reconciliation between GAAP and non-GAAP results, please see the Investor Relations section of our website. We've extended today's call to 1.5 hours in order to accommodate more questions. With that, I will turn the call over to Shaygan.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thank you, Kathleen, and welcome to all of you who are joining us on today's conference call and webcast. I joined this iconic Company because I saw a unique opportunity to optimize the [organizational's] phenomenal assets, deep customer relationships, great technology, and fantastic people to address our customers' most pressing needs -- high-performance, agile, secure, automated, context-aware networks all delivered in an open framework.

It is also my belief that we can deliver improved results for our shareholders by working in a more efficient structure with greater customer connectedness and accountability for performance. These are the areas I am going to cover with you today. First, a review of our quarterly results; and second, an update on our IOP and the steps we have taken to achieve our stated target of $160 million in annualized OpEx savings.

Our quarterly financial results demonstrate that we are on our way. On a year-over-year basis, we delivered 10% revenue growth and expanded our non-GAAP earnings per share by 21%. And we achieved this while creating our integrated operating plan and kickstarting an execution.

In addition, today AT&T announced that Juniper has been selected as a strategic vendor to help deliver their Domain 2.0 vision to deploy a user-defined network cloud. This is an honor for our Company and one I know we are all very proud of. I want to recognize our team that collaborated so well across the Company in support of AT&T.

Clearly, this is an exciting and important time for us as a Company and I am thrilled to be on this journey with my colleagues around the world. I am pleased with our Q1 2014 results, which reflect continued momentum in the business.

Importantly, our revenue was well-diversified. We saw continued demand from our service providers across web 2.0, cable, and carriers in all geographies, as well as from the Americas Enterprise customers, reflecting significant opportunity to capture share in the meaningful, high-growth segments of cloud builder and high IQ networking across the globe.

Robyn will give you more color on the quarter in a moment, but before she does so, let me share with you the progress we are making related to IOP. I am very impressed with the thoughtful and disciplined approach the team has taken to ensure the success of our IOP.

We have already demonstrated our ability to execute quickly as one unified Organization, or what we call One-Juniper. I want to thank all of my colleagues around the world who have been responsible for implementing this plan and delivering the astounding results this quarter.

So here is an update on our progress across the four dimensions of IOP. First, we have sharpened our strategic focus on the highest growth opportunities in the networking as customers migrate to best-in-class cloud environments and high IQ networks. The demand for highly scaled, sophisticated, secure, automated, context-aware networks and cloud environments requires the ensemble of [agent] core routing, switching, security, virtualization capabilities, and network intelligence and control, all working seamlessly together in an open framework. That is the value proposition that Juniper alone can offer.

This strategy is focused on the continued versification of our revenue with a deeper focus on a set of targeted customer segments that are in the build cycle for high IQ networks and cloud environments. We see four clear customer segments that fall into this category: carriers, cable, and content providers, where the network experience is fundamental to their business; web 2.0 companies who are also at the forefront of building advanced, secure, intelligent networks; a set of Enterprise customers, like financial services and national governments, who are building large-scale internal clouds; and other Enterprise customers who view the network as mission-critical to their business.

This strategy is clearly resonating with our customers. In addition to today's announcement with AT&T, we have secured a very important design win with a major global financial services company in transforming their network for best-in-class cloud builder and high IQ attributes.

Second, we have implemented a One-Juniper structure to create a more focused, connected, agile, and execution-oriented Company centered around the fastest-growing opportunities in the marketplace, where we see the market evolving to, and equally as important, where we excel as an innovation-driven Company. Let me tell you what we have done to execute towards the One-Juniper initiative.

On the go-to-market side, we have evolved our model to one that is focused on targeted industry verticals. This is the next stage in our evolution from a geography- and sector-based model. We have consolidated our advanced technologies teams with a focus on being true centers of excellence around cloud building and high IQ networks.

We are becoming more deliberately focused on a key set of partners who deliver these solutions and see them playing an important role in furthering our commercial business going forward. This structure allows us to be more connected to our customers than ever before, to ensure we anticipate and co-create with them to meet their ever-changing needs driven by their highly dynamic end markets. I think of this as an outside-in customer imperative fused with Junipers' inside-out approach to innovation.

On the R&D side of the house, you'll hear more from Rami shortly about the new consolidated Organization positioned to capitalize on Juniper's engineering expertise across routing, switching, and security, tightly linked with [our CT] organization. This new consolidated R&D structure will optimize our engineering resources across product lines and leverage our products in a more holistic and differentiated fashion.

Third, we are on schedule to eliminate $160 million in annualized structural costs from our operations with a clear glide path from second quarter 2014 to first quarter 2015. We have a detailed execution plan within each category of delayering, automation, and focused innovation that matters. These efficiencies will strengthen the Company by focusing our resources on high-growth areas of the markets.

Importantly, we have a governance model in place to ensure complete accountability. Our newly formed cost innovation board, reporting directly to me, meets regularly to ensure we stay on track with execution. We continue to work with an independent consultant to provide outside expertise as needed and our entire leadership team is unified and fully committed to appropriately managing our cost structure. Robyn will cover our cost actions in more detail during her remarks.

Fourth, in February, we introduced a new capital allocation program, which preserves flexibility for future growth while returning capital to our stockholders via buybacks and dividends. Robyn will review the progress we have made on this program during her remarks, as well.

In summary, I am very confident in our integrated operating plan. The granularity of the execution planned and the level of oversight give us the confidence to achieve the goals we committed to in our IOP. Our strategy is the right one, centered on meeting our customers' most pressing needs with innovation that truly matters to them. We are committed to executing on the goals set out in February, including reducing our cost base and significantly increasing our operating margin profile to deliver profitable growth and shareholder value.

In closing, this is my commitment. We will remain relentlessly focused on disciplined execution and we will continue to update you on a regular basis. Thank you for your time today. Now I will pass the call over to Rami.

Rami Rahim *- Juniper Networks Inc - EVP, Juniper Development & Innovation*

I'd like to first share details of new Juniper development and innovation Organization, or JDI, and then provide insight into the key drivers behind our first-quarter results. As Shaygan discussed, a key component of the IOP is to streamline our Organization and our product portfolio, combining our best-of-breed products with the world-class, cross-functional innovation and solutions, to solve the most challenging and most meaningful use cases for our customers.

In the first quarter, we made a series of related Organizational changes to ensure our R&D and go-to-market functions are focused on cross-functional execution and attainment of JDI's strategy and business plan. This included merging Juniper's three product marketing teams into a single integrated marketing function and creating an integrated business operations team, consolidating what was once two separate teams into a single team focused on driving JDI execution.

These changes are consistent with our One-Juniper approach to reduce unnecessary complexity, increase clarity [of] ownership, and improve efficiency. In addition, this new structure focuses our R&D resources on areas of innovation that matter most to our customers and partners -- high IQ networks and cloud.

In short, these changes will give us the opportunity to truly focus our resources and double down on value-creating technologies. For example, we have identified pre-revenue generating projects and are currently transitioning those resources and investing in technologies that matter most to our customers.

Juniper remains firmly committed to our existing security, switching, and routing businesses. As Shaygan mentioned, each plays a vital role in our high IQ network and cloud builder strategy and they are areas where we excel as a Company.

Let me shift gears and share with you some insight into the performance drivers behind the first-quarter results. Routing product revenue was up 7% year-over-year, driven by strong performance in MX. Our increasing focus on customers building smarter networks capable of generating faster return on their capital investment is paying off. Our MX Universal Edge continues to win in the market, and this quarter we enabled many new customers with these capabilities.

These customers include large carriers in North America, EMEA, APAC, and Latin America. This quarter, we will begin taking orders for the world's fastest rich IP line cards for the MX2020, clocking in at over a 0.5 terabyte per second.

Core was down this quarter, mostly as a result of the lumpiness of build-up by large operators, but I am pleased with the current pipeline for core routing. Also, industry trends continue where service provider investment in Edge and Metro are outpacing that in core. Clearly, the MX is benefiting from that.

We secured a number of new PTX [logo] wins in the past few weeks alone and that gives us confidence in the future. In Q1, we shipped the industry's highest-density packet optical solution, with new 100 Gig-E DWDM line cards for the PTX.

We had a very strong quarter in switching, with product revenue up 46% year-over-year following a 36% year-over-year growth in Q4 of 2013. We are helping some of the largest cloud infrastructure providers in the world and are targeting high-growth data center switching segments, including web services, financial services, and infrastructure-as-a service provider with differentiated solutions, focused execution, and high responsiveness to customers.

During the first quarter, we had wins at top-tier web services companies, large content providers, global banks, including a recent win with a major global financial services company and with high-growth public cloud service providers. We are encouraged by early interest and the sales ramp of the recently introduced QFX5100 top-of-rack switch in both enterprise and service provider applications.

We are making good progress in our security business. While total product security revenue was down 2% year-over-year, we are seeing continued strength in our high-end SRX business, with double-digit year-over-year growth, as data center consolidation and clouds drive the need for performance and scale. We remain fully committed to our security business, focusing on what matters most to our customers and where they are spending. It is important to note that security is a critical element of, and fully aligned with, our strategy in high IQ networks and cloud.

We are seeing good traction with our 100 Gig-E SRX I/O card, launched in the fourth quarter of last year. Juniper remains the only firewall on the market with 100 Gig-E connectivity, leading to wins in large cloud environments. For example, in the quarter, we had a win at a major Web 2.0 company where 100 Gig-E was a critical differentiator.

Q1 also saw the successful introduction of new innovation to embed security in the cloud with the Firefly product suite. We closed a key win in a top financial services firm on the strength of features like high availability and better operational efficiency through automation support.

With all that said, I summarize as follows. We are laser-focused on achieving our IOP goals and have taken concrete steps to do so. The results of these changes is an optimized One-Juniper structure, which is focused, connected, more agile, and execution-oriented, driven to deliver on our customers' imperatives. I am confident that we have got the talent and technology in place to deliver. At this point, I will turn it over to Robyn. Thank you.

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Thank you, Rami, and good afternoon everyone. I am pleased to report that our Q1 2014 results reflect good year-over-year revenue growth and significant continued earnings expansion. Revenue grew 10% year-over-year and non-GAAP earnings per share grew 21%. We also continue to see strong demand signals; this sets the stage for what we expect will be continued year-over-year earnings expansion.

I am very pleased with the diversity of our revenue. We saw year-over-year growth in all three geographies, with good revenue growth coming from our newer target areas within both the service provider and enterprise segments. We continue to see strong demand from our web 2.0 and cable customers; the trend that we saw in 2013 has continued in the first quarter. In the quarter, revenue growth was driven by strength in our switching and routing products and continued growth in our SRX-based security products.

Before I go into detail behind the results of the quarter, I would like to review the financial impacts related to our integrated operating plan. On April 2, we disclosed restructuring charges related to the cost-saving initiatives that we have begun under our IOP. In Q1, we booked $122 million of restructuring and other charges.

We announced a headcount reduction of approximately 6% and the vast majority of the affected employees have already been notified. In Q1, the headcount-related restructuring charges were $28 million. Non-cash asset write-downs of $94 million included $85 million related to the cancellation of the development of the application delivery controller technology and $8 million related to inventory.

As we have stated, we are committed to achieving an annualized operating expense run rate reduction of $160 million. We are making good progress towards this target. These changes are expected to be structural. We anticipate the mix of savings to be as follows: approximately 60% related to headcount savings; 20% related to program and project reductions; with the balance coming from facilities consolidation and other savings.

For FY15, we expect an expense-to-revenue ratio of approximately 39%. Please refer to our chart in our supplemental slide deck posted to our website of our expected quarterly operating expense path over the next four quarters.

In addition to our IOP cost-reduction activities, during the quarter, we announced a robust and comprehensive capital allocation strategy. I would like to walk you through the actions we have taken which highlight our strong balance sheet and cash flow potential.

As part of our commitment to return a minimum of $3 billion of capital to stockholders over the next three years, we initiated a $1.2 billion accelerated stock repurchase program, of which $900 million worth of shares were initially delivered in Q1. We also raised $350 million of debt, allowing us to fund the ASR in a way that is consistent with our liquidity policy.

Now I would like to move into a discussion of the Q1 results. Looking at our demand metrics, we begin the second quarter with a very healthy backlog. Our book-to-bill in Q1 was slightly below 1, which is typical of our Q1 trends. Product bookings were healthy with a year-over-year growth rate exceeding the revenue growth rate.

Total deferred revenue was up $174 million year-over-year and $85 million sequentially. Product deferred revenue was down $14 million sequentially, due primarily lower channel inventory. Total revenue was $1.170 billion, up 10% year-over-year and down 8% sequentially; the sequential decline is in line with our typical seasonal pattern.

Product revenue was up 12% year-over-year and down 10% sequentially. Services revenue was $294 million, up 6% year-over-year and down 2% sequentially. There were no 10% customers this quarter, reflecting the continued diversity of our business.

For the quarter, GAAP diluted earnings per share were $0.22. We recorded a GAAP restructuring charge of $122 million, which resulted in a $0.25 impact on GAAP earnings. This was offset by a $0.33 gain from the sale of minority equity investment.

Non-GAAP diluted earnings per share were $0.29, up $0.05 year-over-year and down $0.14 sequentially. The year-over-year growth was driven primarily by higher revenue and operating margins. In the quarter, we had a positive impact from the reduced share count of about $0.01.

Now let me provide color on revenue by region, market, and product area. All regions reflected year-over-year revenue growth. Overall, Americas revenue was up 15% year-over-year and declined 1% sequentially. Americas service provider was up 13% year-over-year and 7% sequentially.

As a reminder, our service provider revenue includes carrier, cable, and web 2.0 customers. Americas enterprise increased 22% year-over-year and declined 15% sequentially. The strong year-on-year growth was led by federal and financial services.

EMEA revenue was up 2% year-over-year and down 18% sequentially. Of note, we saw strong year-on-year performance in the German and UK markets. APAC increased 9% year-over-year and decreased 16% sequentially. These results reflect service provider growth year-over-year in both Korea and Australia.

Service provider revenue for the quarter was $783 million, down 5% sequentially and up 10% year-over-year, with growth across all three geographies. Enterprise revenue was $387 million, down 13% sequentially and up 12% year-over-year due to broad-based strength in the Americas and public sector, spending in EMEA and APAC.

Now let me review our revenue by product area. Routing product revenue was $550 million, down 11% sequentially and up 7% year-over-year. Revenue was driven by strong performance in MX, while the new MX2000 series and the MX104 continue to gain traction and experience solid growth sequentially. This growth was offset by decline in T-series revenue, both sequentially and year-over-year.

Total switching product revenue was $192 million, up 46% year-over-year and down 3% sequentially from a record Q4 2013. This was driven by strong sales of both EX and QFabric product families and we are pleased with demand for both areas.

Total security product revenue was $134 million, down 15% sequentially and 2% year-over-year. This is due to the continued decline of the oldest ScreenOS products. Our non-Junos-based products now represent less than 15% of our security revenue. The SRX products 13% year-over-year, led by good growth in the high-end SRX.

Moving on to gross margins and operating expenses. Non-GAAP gross margins for the quarter were 63.5% compared to 64.2% last quarter and 64.6% a year ago. The sequential decline was largely due to a decrease in services gross margins.

Non-GAAP product gross margins were 64.8%, down 0.1 point from last quarter and 0.7 point from a year ago. The sequential decrease reflects anticipated lower volume, whilst the year-over-year decrease is primarily due to the mix. While the pricing environment remains competitive, we remain focused on innovation and cost improvements in our supply chain.

Non-GAAP services gross margin was 59.7%, down 2.2 points sequentially and down 2.4 points year-over-year. The declines are related to high support costs and increased spares. Non-GAAP operating expenses were $542 million, above what we anticipated due to an increase in legal costs. Non-GAAP operating margin for the quarter was 17.2%, reflecting a year-over-year expansion of 1.5 points due to higher revenue, offset by lower gross margins.

The non-GAAP tax rate was 25.6%, compared to 18.8% last quarter. This change is primarily due to the expiration of the federal R&D tax credit and one-time items that were reflected in the prior quarter. The GAAP tax rate was 25.3% compared to 18% in Q4. The increase is primarily due to the net gain on the sale of minority equity investments and the expiration of the federal R&D tax credit; this is partially offset by the impact of restructuring and other charges.

Looking at the balance sheet, we made substantial progress on our commitment to return capital to our stockholders. During the quarter, 33.3 million shares under the ASR program were initially delivered and retired for an aggregate purchase price of $900 million. These actions reduced the average diluted share count to 497 million, down by 9 million shares sequentially.

We ended the quarter with $2.1 billion of net cash and investments. Net cash declined by approximately $1 billion sequentially, primarily due to the ASR. We continued to generate strong operating cash flows of $126 million, down sequentially due to the seasonally lower income and annual payments for incentive comp.

Onshore cash and investments represented 29% of total gross balance. In lines with recent trends, DSO was 46 days and capital expenditures were $57 million in the quarter. Depreciation and amortization expense was $46 million.

Now let's look at our outlook for Q2 of 2014. As a reminder, these metrics are provided on a non-GAAP basis except for revenue and share count. As demonstrated in our recent results, we are executing well and the efforts we are making to drive further execution improvements are taking hold; we see underlying demand in the markets we serve is healthy and we expect to continue the year-over-year expansion in earnings.

For the second quarter, we expect revenues to range from $1.200 billion to $1.230 billion. Gross margins are expected to be 64%, plus or minus 0.5%. Operating expenses are expected to be $520 million, plus or minus $5 million and we are well-positioned to deliver on our cost-reductions commitments.

Operating margins are expected to be a healthy 21%, plus or minus a 0.5%. This is expected to result in non-GAAP diluted EPS of between $0.36 and $0.39 per share, assuming a share count of approximately 480 million. We expect a flat tax rate versus the first quarter.

As a reminder, and as previously disclosed, in Q2 and throughout the rest of this year, we expect to book additional restructuring charges, the majority which will be related to facility and other asset write-downs. To summarize, we anticipate overall demand to remain healthy and our product portfolio continues to be strong. We are very focused on executing on our integrated operating plan and continuing to drive innovation. Now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brian Marshall, ISI Group.

Stephen Patel - *ISI Group - Analyst*

Hi, thanks. This is Stephen Patel calling in for Brian. Could you clarify, in your OpEx guidance, about 20% of the cost savings coming from actions taken to programs and projects. Have those actions already been announced and how should we think about any associated revenue growth impact from those cuts?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Yes, Stephen for Brian, thanks for the question. We have a very deterministic glide path that we shared with you and we track these -- our cost-saving cuts very rigorously almost on a weekly basis. We have taken a lot of the actions -- it's actually front-loaded -- but the savings of these will come -- the actions are taken, but the savings will come through the second quarter and the third quarter.

Most of the headcount-related cuts have been already taken and we've executed those. They will come -- some of them are already done, some will take longer because they are in regions which just takes longer to get off payroll. Let me see if Robyn -- do you want to say anything else on that?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

No, you answered the question well. Thanks, Shaygan.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question.

Operator

Ben Reitzes, Barclays.

Ben Reitzes - *Barclays Capital - Analyst*

Good afternoon. A few if I may. Can we just parse out that legal expense and what costs would have been in the quarter without it and how much is recurring? That will help lend visibility to your plan to -- and credibility behind that cadence you have on this slide.

Then also, Shaygan, if you could just talk about the sustainability of the switching momentum. What are you really seeing there and how sustainable is it because obviously 46% -- that beat everyone's model for the second quarter in a row. What are you seeing in the competitive dynamics there?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Sure, Ben. The first question I will ask also Robyn to chime in. Most of the upward pressure we saw in the first quarter was due to legal and G&A. I will ask her to parse that. Suffice it to say, before I pass the baton, and then I will come back on the switching, is that we are committed and we see our way clearly to the $160 million cost take-out as laid out in the charts that we have published between now and first quarter 2015, quarter by quarter.

So for example, we will be at $520 million in second quarter and $510 million in the third quarter and less than $500 million in the first quarter 2015. We see quite clearly to that. We have got most of the actions front loaded and executing. So you should not worry about the $160 million. In terms of the legal, I will pass it to Robyn and then I will come back on switching.

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Thanks, Shaygan. In terms of the legal expenses, as Shaygan mentioned, they were above what we were expecting for the quarter. If you look at the G&A increase quarter-over-quarter, it is substantial, it's $7 million to $8 million. The majority of that -- in fact, more than that increase is due to legal in the quarter, some of which was expected and some of which was not, as I mentioned in my prepared remarks.

If you look at year-over-year in terms of OpEx, we have been making progress and that is even pre- our recently announced actions that we have been taking. So if you look at OpEx as a total, as a percentage of revenue, it was about 46.3% of revenue in the first quarter of 2014 versus 48.9% for last year. So we have been making some progress even though the legal expenses did increase more than we were anticipating in the quarter.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

And if I can -- thanks Robyn -- I will take the switching. Obviously, we had a -- we were very pleased with our switching quarter. I can tell you and I have been engaged since I have been here with a lot of conversations with the customers of what they are doing, why they are doing, and especially in regard to switching.

It's actually quite fascinating. It's a lot around cloud builder and it is putting in play our switching with our routing and security as an ensemble and our controller and Contrail into many accounts. Every single one of them that I have been engaged in, there are actually sophisticated implementations and each company is doing something quite interesting. And so that also lends itself very well to Juniper's [DNA] on sitting with the customers and cranking.

They love features in cloud building, like in-service software upgrades; that is a fantastic feature they love. They love things like microbursting, which gives them a lot of telemetry and very fine-grained levels. They love the fact that they can write guest VMs our switches. And on and on and on.

They like the fact that they are open, hyper-scale, with no extra baggage and they can do a lot of things that each of them wants to do slightly differently and the fact that they work very well with MXs and SRXs. That is in cloud building, which is a sophisticated build.

The cloud, by the way, is both people serve it both private and public; obviously, you have got the web 2.0s, but on private, an undercarrier on the private we mentioned we just won, a large global bank around the same attributes, so the engineering transfers. It is not Barclays, by the way, just -- the bank -- it's somebody else that we be announced later.

In fact, as we were online, I just saw that AT&T issued a press release that they have selected Juniper for their Domain 2.0 user-defined network based on our cloud-based architecture and our modern attributes and latest technologies. So same engineering and performance is working for us in web 2.0s, cable, in content, in carriers, in large enterprises like financial services and the like. Rami, do you want to say anything on switching and expectation setting?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

You covered most of it. I would just say that the team has been working really hard over the last year or so, when we consolidated our switching organization. We have streamlined, simplified our portfolio and we have implemented a number of capabilities from fabric technologies, [ISQ], and a number of different things that Shaygan mentioned that have made our portfolio, including switching, routing, and security, really appealing to both enterprise and service providers.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

I would say one other thing. Rami hit the nail on the head, where the leveraged engineering between routing and switching is actually quite phenomenal and why customers buy -- in the switching, it's not your grandfather's switch and security is not your grandfather's. It's a new world and all the leverage engineering we're getting from Junos is really giving us a leg up enough for us to open this and [direct the] (inaudible).

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question please.

Operator

Ehud Gelblum, Citigroup.

Ehud Gelblum - *Citigroup - Analyst*

Hey, guys, thanks, I appreciate it. Couple things. Some expansive things and some more specific things. The expansive, you can go on it, but I am curious to hear, with AT&T win, you've been [talking] to AT&T for a very long time, a number of products and just understanding what is different about what you'll be doing with AT&T going forward than what you were doing before. You've sold both T-series to AT&T, as well as MXs. And so just understanding, how does this change?

Shaygan, you mentioned the number of pre-revenue projects that you are getting rid of, and of course, as you are trimming the cost structure, you are finding a number of these. Can you give us some samples, aside from the write-off for the Riverbed deal, where you can give us specific examples of things that you have gotten out of, so that we can understand and put a bread basket, box, whatever, tie a ribbon around to understand different areas that you're getting [routing] out of and identify any other areas that you can that you think you still might be looking towards?

And then finally, Robyn, on -- again, I hate to bring up the legal thing again, I brought it up last conference call and Ben just brought it up here, again -- but can we just be specific in terms of what was the actual legal amount this quarter, what were you expecting -- I know, there was some controversy last quarter on whether it was $15 million this quarter you were expecting for legal.

So we assumed that it was $15 million plus $7 million to $8 million, so you actually $23 million on legal, but you expected $15 million. If you can just give us the Q1 legal, where that goes in Q2 so we can compare what that looks like in Q2 and just to level-set us, a Q4 number as well. I know it's a lot, but that would really just set the bar as to what's the ups and downs in legal and how that is flowing through those three quarters? That would be great. Thanks.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Ehud, there was 18 questions right in there.

Ehud Gelblum - *Citigroup - Analyst*

It was three main topics broken down into categories (laughter) [card in kin]?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

I'm just kidding. I'm just kidding. On AT&T, as I am sure you are familiar, they have this program called Domain 2.0, which is called user-defined network cloud. Essentially, they are pushing their network into the next phase, which is around clouds and it's around a lot of attributes of the clouds. What are those attributes?

They are obviously -- there is a carrier class nature, which we are very good at; For Knox security, which is -- we are very good at; multi-tenancy. In terms of the high IQ piece of it, it is a lot around automation for efficiency and effectiveness in terms of virtualization and so forth and so on -- service chaining, traffic movements, a lot of SDN -- a lot of the attributes that you put together to create modern, cloud-based architectures.

They have been very clear; this is what they want. We are very fortunate to be selected for these attributes and we have, by the way, products in all of these categories, and they work and they work very well with each other. I believe -- I don't know this to be a fact but I believe that we're the first [rummy] routing and supplier announced -- I don't know, but we are very pleased with that. What was the other question?

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Some of the projects that we might be disinvesting from. And Rami had that [in his script].

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Right. I will pass that on to Romney so he can go more, but I would just say that with IOP, we've looked at our product lines very carefully through [parade] the [charts] in terms of return on investment, in terms of match to cloud builder and high IQ, our strategy. Suffice it to say, we are focusing on growth and we are focusing on accretive work that matters to our customers.

Based on that, we have -- you saw our decision on [ADC]. As far as normal course of business, we do continuous mark-to-market, to evaluate products and projects, and we are transitioning our portfolio to technologies that match our strategy and our workforce and where we can get leverage engineering. Rami, do you want to say a few words on that?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

I will add that, we, on an ongoing basis are always in the process of evaluating the ROI expectations, the market condition of all of our projects, and making decisions based on those analyses. The IOP was really no exception to that. We did take a look across the board of all of our products and we did identify a number of pre-revenue generating projects that we will transition resources off of, and to put them on projects that are more highly aligned, if you will, with our strategy -- things like SDN and NFV, like many of our forward-thinking customers are thinking about today.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

And on legal, Robyn?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Let me just also add on the project side, the projects we evaluated were not just R&D. Rami went through some of the R&D projects. We've also evaluated other projects that we have been doing on the infrastructure side within the Company as well and some of those have been targeted for completion or cessation, if you like, as well. It's an across-the-board review of our projects across all three of the areas.

Specific to legal, I am not to give you the dollar amount, but I will point you to the G&A line that you can see in the press release and on the various filings that we have done. What you can see that G&A is up significantly year-over-year. It's 39% year-over-year increase.

The legal expense increase is more or less the entire increase. You can see that it has been a large amount. Having said that, as Shaygan mentioned, we are committed to achieving the $160 million of cost reductions on an annualized basis exiting Q1 of next year.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thank you. And we're coalescing all our resources around [riding] profitable growth and [next week it works in growth].

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question, Manny?

Operator

Jess Lubert, Wells Fargo.

Jess Lubert - *Wells Fargo Securities, LLC - Analyst*

Hi guys. Two questions. Maybe just a follow-up on the earlier switching question, but given some of the cloud momentum and bin wins you mentioned on the call, do you think Q1 is a new base off of which we should see sustainable sequential growth moving forward or would you expect some lumpiness there?

And then I was hoping you could help us better understand some of the dynamics driving the uptick in support costs and spares that impacted service margin in the period. When you think about the likely range of service margin moving forward, should we be thinking about numbers getting back into the 61% to 63% range we have seen over the last few years or should we expect service margin to remain closer to current levels?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Sure. I will pass this question. The first one is about forward momentum on cloud building. I would just suffice it by saying that we are pleased with the momentum in the pipeline of what we see. Rami, do you want to give some more color to that?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

Yes, I would be happy to. Thanks, Jess. As you know, our switching business has an enterprise component where we are selling to enterprise IT, private clouds, and data center mission-critical campus combinations, as well as service provider applications, including things like cloud data centers, [interrupt pop] infrastructure connectivity, certain parts of access infrastructure.

I have said in the past that, especially the service provider component of that business, can be lumpy. In Q1, we actually saw strength in both enterprise and service provider. So can you expect this level of performance going forward? I'd say that is probably unrealistic. Our goal is to continue to take market share and I'm very confident in our ability to do so.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

And Robyn, do you want to take--?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

In terms of the services gross margin, Jess, the gross margin in the quarter was 59.7%. It has been quite some quarters since we have been below 60%. The reason for that, as I mentioned in my prepared remarks, was that the support costs were higher in the quarter and we also had increased sparing.

We normally get increased sparing when we have either new customers or new contracts or new product introductions. The timing of those dl vary from time to time, in terms of when we get those spares on board. So we do expect the services growth margin to improve from this low level of 59.7% in the quarter.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question please, Manny.

Operator

Jeff Kvaal, Northland Capital Markets.

Jeff Kvaal - *Northland Capital Markets - Analyst*

Thank you very much. I'm happy to be back in business. Could I ask a couple of questions. One is from a high-level. There has been some talk about a core routing refresh cycle and talk about some of the carriers running hot there. Seems as though, your commentary was more focused on growth at the edge than the core. If you could shed some light on that I would be delighted?

And then, Robyn, for you, could you clarify a little bit, the lower product deferred revenue outlook. Is the channel -- is that driven by seasonality, is that driven by a pull back from certain areas of business? What goes into that reduction in the channel? Thank you.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

On the first one, I will ask Rami to comment -- the edge dynamic versus the core dynamic, which is obviously different. And can you just focus on the core, please?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

Sure. Thanks, Jeff. You are right, the strength we saw in routing was primarily that in the edge and primarily driven by our MX product line. That is essentially a play out of the strategy that we have been developing on the MX product line around the Universal Edge. So as carriers and service providers are looking to consolidate their services on to fewer networks and to provide virtualization to enable business, residential, and video and mobile-type services, we really have a fantastic weapon to compete with in the form of the MX.

On the core, you're right, core was, in fact, down. The biggest thing that we saw in Q1 was primarily that of lumpiness in spending and in the build-outs. I say that because, if you take a look at Q4 of last year, the core investment was actually quite okay, and then if you look at our pipeline, if you will, there again what you see is somewhat encouraging.

There is, in fact, also an industry trend, which we have mentioned in the past, where the bulk of the investment in routing is still happening in the edge and in the metro and that, of course, is putting pressure on those parts of the network, the edge of the metro, which the MX benefits from. And to some extent, it can alleviate some of the pressure from the core.

So that might push out the need for investment in the core [of it]. The best thing that Juniper can do in a situation like this is to execute on a high leverage R&D strategy for products that satisfy both market segments -- edge and core -- and to be ready for the cycle, irrespective of where it actually starts to occur.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thank you, Rami. Robyn, do you want to talk about the deferred revenue question?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Jeff, in terms of the channel inventory, it is typically the case in Q1 that there is a seasonal reduction in the inventory. But I would also say that we had a strong channel quarter as well, so a strong finish all the way through to the end of the quarter, through the channel. And as Shaygan mentioned in his prepared remarks, we are doing a lot of business with our channel partners, in terms of -- particularly on the enterprise, but also on the service provider area, as well. So we have a strong focus on partnering and on the channel itself and the inventory volumes were lower as we exited the quarter.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question, please.

Operator

Sanjiv Wadhwani, Stifel.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Thanks so much. Two questions. Perhaps if we look at the router outlook right now versus a year ago, I was wondering if you guys could make a comment on how things stand now versus a year ago? As far as the cuts that were announced in early April, any color on where they happened and specifically what product areas were impacted the most in those cuts? Thanks.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Sure, Sanjiv. Again, I will start and I'll pass them to my colleagues here. On routing, what is going on -- I'll give you the top-level dynamic as I see them. First of all, you've got obviously what everybody knows, which is the bandwidth gross, which is driven really by mobile and content led by video. There is pressure there; that actually -- that pressure, people usually about it in the carrier networks, but it splashes also into data centers and clouds in also some interesting ways, so it's an end-to-end pressure, and routing is very much front and center on both ends of this.

Then you have got, Rami mentioned, the second one is convergence, and convergence is in two forms. One is on the access side, the things like BNG and then there is now finally a good move towards wireless and wireline convergence. When that happens, you've got the beautiful machine called MX, which is right at the front center and PTX.

Then, the C part of this is more and more every month that passes, we all are getting [stuff] as a service. That is an undeniable fact and that -- to do that you need to build these giant cloud systems and high IQ networks with a lot of the attributes we've been talking about and there it's much more a Layer 3 discussion.

As soon as you have a Layer 3 discussion, you land on routing; you land on routing, you land on MX, PTX, and T-series and all the rich -- both the rich functionality on the edge and there is so many, we can't even count, and then super-high-scale at the core. All of these three things, we do not see that these pressures are abating relative to last year. Rami, do you want to give your view on it?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

The only thing I will add, Shaygan, is that if I look at service provider again with that definition of web services and telco and cable, then the market in fact should be a healthy market for us in this year. So it really comes down to the competitiveness of our products and our ability to actually go and satisfy the pressures that they are seeing. That is where I would reiterate that I am quite confident in the products and the technologies that we have in the market and what is coming up in the road map.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Very good. As far as the second question was around cost cuts right? Yes. The cost cuts, I would say, all of them will make our Company stronger going forward because they are around taking bureaucracy out, delayering the Organization, deduplicating repetitive effort. In fact -- basically, all of those [things in] our employees love, our customer is like, it's great, I can go directly back to back with your best people, be it on go-to-market and engineering. It is going back to the way it was in a bigger fashion. That is good.

The biggest leverage is actually amongst all -- is now that we have put teams together -- for example, in engineering, there is all sorts of leverage work that we can get across the board in one R&D organization, as an example -- and sharpen the focus on things that matter, which is on cloud building and high IQ and things, frankly, that we are not going to focus on, either because it's not really our core competency or it's not where the market is going and we are going to focus on growth. But that is the focus. And the cost cuts, I am certain of it, they are going to make the Company stronger going forward for the following reasons.

There is a lot of work, it is not only in R&D, in go-to-market, how we focus on those verticals that are in the business of cloud building, high IQ networks, and where networks are mission-critical and really deepening relationship, putting our entire portfolio in play in interesting ways to share, more wallet share out of those accounts. And then, be really deliberate on partners, much more deliberately partner-dependant, and then the whole Organization is One-Juniper focused on this strategy. The cost cuts should really be viewed in that way, that they are going to actually make the Company stronger. Robyn, do you want to say anything?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

No, you've covered it a lot. Also earlier in the Q&A, Rami went through, that in R&D, we have cut some projects, like ADC, that were non-revenue generating and therefore -- and not aligned. So there was a thorough review done in terms of those projects that were not revenue generating and also not aligned with the cloud builder and high IQ strategy. The team has done a very good job on executing and ceasing those types of projects, as well.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

If is not accretive and it's not aligned to strategy and it's not leveraged engineering, it does not really survive.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question please, Manny.

Operator

Simona Jankowski, Goldman Sachs.

Simona Jankowski - *Goldman Sachs - Analyst*

I had a couple of questions on the cost side and on the revenue side as well. First, on the cost side, you talked about some cuts and consolidation you did in R&D operations and marketing. Were there any also cuts to sales?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Yes there were, Simona. They was cuts in sales and marketing, as well. In fact, if you look at our slide deck, we have put the glide path in there from our Q4 of 2013 quarterly OpEx. We have also put a chart that shows, by area, R&D sales and marketing and G&A, what we expect the profile of our go-forward OpEx to be, and again, the profile from where we are coming from, which is the Q4 2013 numbers versus the Q1 2015 estimates that we have in terms of the post-IOP post-$160 million reduction on an annualized basis. There are cuts across the board -- G&A, R&D, and sales and marketing.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Of course, in G&A, Simona, there is operations. Robyn said it exactly right. On the sales front, we really are focusing both on service provider and enterprise, those segments that we mentioned, we are gathering our forces around those segments so they can go deeper and more focused.

Frankly, all of those customer sets, they want the same things that, for example, an AT&T and Verizon want, which is depth, with a lot of technical hands-on skills and that is really sales motion. Getting that focus will also give us synergies, which is another way of what Rami is doing, Vin is doing on go-to market. Rami is doing it to get leverage on engineering and making sure we are focused on cloud building and high IQ network. You should think of it more as a focused on depth and leverage rather than cuts that weaken you.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Simona, did you have a follow-up question as well? Many can you open the line again for Simona in case -- I believe Simona had a follow up.

Simona Jankowski - *Goldman Sachs - Analyst*

Thank you very much. Yes, I did have a follow-up question on the revenue side. You talked about deemphasizing or cutting some of the resources for pre-revenue projects. Does that imply that you are still focusing on some early revenue projects like Junos Pulse, the wireless LAN business, and the access business?

And really the bigger picture question I'm trying to get to is, you have given us a lot of helpful detail on the cost-savings side, but as we try to think about what is the sustainable revenue growth profile for Juniper now, with these set of businesses in the next two to three years, how should we think about that? Part of the missing piece is that we don't really know if you are still pursuing some of the enterprise edge and access businesses that I just mentioned.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Yes Simona. This is Shaygan again. I would just summarize that we are not providing competitive information on this call. That is point number one. We are not drilling into that zone. On the cuts, the cuts are structural, they will remain with us. In fact, this is a muscle that the Organization is building, which is good; we can always get more efficient all the time; and we will leave it at that. When we have more news about anything in terms of products that, we will share with you, but right now, suffice it to say, we're focused on cloud builder and high IQ and, Rami, do you want to say anything else?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

No, that summarizes it. I just want to reiterate. We are 100% committed to our switching, our routing, and our security businesses. We have got a great team, great technology, fantastic road map, and now one that is very highly aligned with our forward-looking strategy of cloud builder and high IQ.

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

I just want to remind you, as well, that the integrated operating plan is about also focusing on the top-line revenue growth. It's not just about cost reductions. We're talking a lot about cost reduction today because it's the first time we have unveiled our glide path and the detail of the cost reductions, but what we are about is actually growing and expanding our operating margins and our earnings over time.

We know that to do that, we have to invest in the right innovation, in the right markets, that really our customers need and want. That will actually ultimately drive our revenues growth as well, which we have been doing very well over the last six quarters or so in terms of revenue growth.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Manny, next question.

Operator

Mark McKechnie, Evercore.

Mark McKechnie - *Evercore Partners - Analyst*

Thanks. I appreciate you getting me in here. A couple of questions. One, last quarter, your router orders were pretty strong, up 20% quarter-on-quarter, 30% year-on-year. Looking at the near term in the context of your guide, it looks like about 5% sequential at the midpoint and we heard a lot of comments on the switching business. Would you expect a little better growth next quarter, quarter-on-quarter, for routers and what type of margin impacts that might have on the mix?

And then the second question is on the AT&T award -- first off, congratulations on that -- but I wanted to know who you competed against there? It sounds like this is more for their public cloud business as opposed to some of the NFV, but I want to understand that. I am assuming this is QFabric and some of your Contrail controller, but on that front, are you going to work with someone else's controller -- VMware or someone else -- or is this a full QFabric and Contrail type solution? Thanks.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

First, thanks for congratulating us on the AT&T. We are all very excited about that. By the way on the AT&T question, you should reach out to them about the scope of it. Suffice it to say, it's material and it's really the Domain 2.0 work that they've been talking about.

As far as routing is concerned, the pipeline, the design wins, and the backlog, they are all -- we are pleased with those numbers for routing. As both Rami and Robyn have said, there is a different dynamic between edge and the core and the lumpiness of the core and all in the first quarter and

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all of the activity around edge that is happening on the first quarter, but the pipeline we are pleased, both with pipeline and design wins and the backlog on routing. Anything else, Rami, you want to add that?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

I will add for Rami, don't forget that last year in Q2, we had a sizable amount of enterprise routing with a government customer. Just bear in mind with that when you look at our results. Having said that, we are very pleased with the strength of routing, particularly in the service provider space, in terms of pipeline and design wins that we have, as Shaygan mentioned. We are actually expecting Q2, on the service provider side, to improve in terms of routing in the second quarter.

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

I would just agree with that. I would say, I'd expect continued strength in our edge portfolio and keep in mind that we are continually enhancing the product offering itself. So we are starting to take orders now for new line cards that is going to give us a real good performance increase, in addition to new software capabilities. Enterprise routing was actually good for us in Q1 and I see a good pipeline there.

Then finally, I provided some commentary on the core. The pipeline for the core, coupled with some wins that we have had recently in our PTX -- in fact, these are brand new logos for us -- are going to start to pay off. Is that going to happen this quarter or the next quarter? It is difficult to say; usually there is a certification cycle that takes a good couple of quarters, maybe even three quarters to play out, but based on all of that, all of the above, I would say I'd have pretty good confidence in Q2.

Mark McKechnie - *Evercore Partners - Analyst*

Got you. Thanks. And Shaygan, nothing on the competitive front for this AT&T win? We'll find out?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

You should really speak to AT&T. I don't have visibility like that. All I can say is the engagement with them has been fantastic and very forward-looking across the board, all the teams.

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

There was a question also about Contrail and I don't want to talk about any one specific customer, but I will say that network function virtualization is a very hot topic today, as many of you already know. We are engaging with a number of our customers on that topic and showing them proof of concepts of technology that we have, that essentially couple our high-performance services on the edge, on the MX, for example, along with Layer 4 to Layer 7 service that are virtualized on general purpose processors.

That solution has to be nicely coupled together and provided in a way that it provides seamless service experience across both physical and virtual, and Contrail plays a fundamental role in that. Contrail, now, in fact, over just the past short period of time, has gone into [line] deployments and we have gone to probably around two to three dozen engagements and live trials with some customers around the world.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question, please, Manny.

Operator

Amitabh Passi, UBS.

Amitabh Passi - *UBS - Analyst*

Thank you. I had a couple of quick questions on your security segment. This is a segment that has been quite volatile although we are seeing year-over-year trends improve. I was just wondering, is this is a segment that you actually believe can grow in 2014, particularly when we are hearing greater competitive pressure from companies like a F5, particularly, in the service provider community? I also wanted to understand, Shaygan, do you require incremental investments in this part of the business and can you support that, given all the OpEx rationalization that you are doing?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Thank you for the question. I will go through it. The quick version of the answer is that, yes, we expect our security to grow year-over-year. What I have to tell you with security is of paramount importance to our strategy, because you can't really, as I said, have a cloud, be a cloud builder, and not have security. In fact, it is much more important than before.

We are pleased with our performance and growth in our SRX firewall, both in enterprise, as well as on service provider. We have, as you know, declined in our ScreenOS. The declines -- we are -- take ScreenOS, last year, this time, it was about 20% of the base, now 15%, so that is diminishing. As you said, correctly, it is -- I would believe -- it is stabilizing; it used to be minus 18%, minus 7%, minus 2% year-over-year, and we expect it to return to growth by the end of this year.

Having said all of that, we are not satisfied of where we are and we need to execute better. We acknowledge that. Now that we have security in our common R&D team, we are going to get much better leveraged engineering and with everything else we have.

As you well know, security market is changing. Security is moving into the core -- cloud, read cloud -- security is virtualizing everywhere else. Security is in desperate need of high analytics because when you have a cloud and high IQ network, you have a lot of valuable assets in it.

So having analytics to defend especially against things like military-style attacks is very important and of course you have to -- need to have high efficacy. We have a lot of capability; now have to execute better. They're all under one R&D organization and that is our focus, is to return back to year-over-year growth. Rami, do you want to say anything else on that?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

I'll just add, we saw great growth in the high-end SRX, double-digit growth, and I don't think that is an accident. That is a result of a lot of really hard work that has gone into improving the session scale, the performance, the efficacy of that solution, something we are proud of. We've demonstrated what we can do when we focus on the rest of the portfolio and that is exactly what we are in the process of doing right now. It's going -- the only last thing I was going to say is that it will be a high-leveraged approach to doing so; the work that we have done in the high-end SRX is absolutely applicable to the rest of our portfolio.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question please, operator.

Operator

Rod Hall, JPMorgan.

Rod Hall - *JPMorgan Securities Inc. - Analyst*

Hi guys. Thanks for taking my question. I just had a follow-up question on an earlier question and then another one for Shaygan. I just wanted to see if Robyn or Rami, you guys, would give us the order volume growth rate for routers in Q1. And then related to that, you had that $471 million backlog exiting the year and I know you don't usually don't give that number, except for the Q4, but it sounds like your book-to-bill is, you said, just slightly less than 1, so is it right to think you were carrying pretty much a similar level of backlog on into Q2?

And then for Shaygan, I just -- Shaygan, could you comment -- you've made comments before about how you're reallocating technical resources to large accounts and trying to just get more effective the way you put together Juniper's product range when you talk to these big accounts that are looking at architectures. I just wondered if you could comment on how far through that you are and whether you have learned anything from those changed engagement levels with some of those accounts? Thanks.

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Rod, I will start on the order booking commentary. As I mentioned in my prepared remarks, the order booking overall for the Company was higher than our revenue growth. That is a very good thing for Q1, actually. As you know, typically, when we are going into the next quarter, a lot of the backlog is our routing products.

As Shaygan mentioned earlier, that is one of the reasons why we're confident in our routing pipeline, because we have visibility to that. We also have visibility to the design wins and we have a very good portfolio in terms of routing across the board, as Rami mentioned. I think that answers your question, but that -- our overall bookings rate was higher than our revenue growth rate in the quarter.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Rod, on your second question, yes, I have embedded deep personally with our teams in many of these accounts since I have been here, across all those segments that we mentioned. I have to tell you, once you are on the ground and you see the action and you see all the interesting workloads and very new and non-linear workloads that our customers are trying to handle and the problems they are trying to solve, be it on the innovation side on the quality side, revenue generation, automation, and the like, it is absolutely paramount that we have the best and brightest teams on go-to-market, on operations, on technical and engineering, shoulder-to-shoulder with them, and solve these.

Have you heard this -- people have heard me say this before. I've been through these cycles when we were going through non-linearity or inflection points in tech, we are absolutely going through one of these. Five years from now, if history if is any judge, we normalize and then we can go back to normal formations and everybody can do their little bits and bucket brigade can kick in of delivery. This is not one of those times.

If you sit in with the cloud providers, web 2.0, carriers and so forth and so on, cable, financial services, and the like, they are trying to solve stuff that, frankly, they have never seen before in terms of sophistication, complexity, scale. Why is that the case? Is because everything is more as a service delivered to the end markets continuously and that requires a different level of scale and sophistication and every company has a different starting point, every company has a different end-user market that they are trying to satisfy, every company is trying to get an edge in this new world that they all see.

So being in force and in depth in these companies to ensure you don't miss those nuances and we can execute on them and normalize those features in your product lines is absolutely crucial. The great news about Juniper is this is who Juniper is. They are a builder Company by DNA, so it is a fantastic opportunity for all of us in Juniper to engage and roll up our sleeves, and I have tell you, I am having a fantastic time being at the shop floor of all these accounts. It's phenomenal what's going on, on the ground.

I've been in this business almost 30 years in networking and this reminds me of the days when I first came out of college and I saw this stuff and it's very cool, it's very exciting, it's very sophisticated. The world out there is in desperate need of this information, that's -- we are and increasingly intend to deliver. To do that, you have to have depth and scale and know-how and be able to take customers from one side of the river to the other side and build a bridge for them. So yes, long answer, to your question, we are super excited here at Juniper about this opportunity.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question.

Operator

Brian Modoff, Deutsche Bank.

Brian Modoff - *Deutsche Bank - Analyst*

Hi, guys. I have got a couple of questions if I could. First, in terms of the cutbacks in R&D, do you worry about any of those cutbacks impacting some of your next-generation ASIC developments for your MX, PTX products coming out next year?

Second, can you talk about your -- in the SDN framework, what your least [fine] strategy is? Do you plan -- right now it's 110 Gig switches, top-rack switches that are driving your revenues? What's your strategy on 10/40? Can you talk a little bit about that, please?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

Sure. Let me assure you, we are not cutting any muscle out of R&D that matters to our strategy and to our customers. In fact, it is the opposite. We are focusing our forces around a set of things that we think truly matter and we are putting all of the force, rather than be distributed and distracted. You should view IOP as a focus on big things that matter, and obviously ASICs and all that, that you just mentioned is one of them.

On the switching side, I'm going to have Rami chime in. Obviously, we again, we cannot give competitive information of where we are going, but I can tell you what the customers tell me about their switching lines is that it already has a lot of capabilities, like I mentioned, in-surface software upgrade, microbursting, virtual chassis, which people love and so forth and so on. In terms the speeds and feeds, Rami, do you want to take that?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

Sure. First, I will just reiterate what Shaygan said about R&D, from the guy that's running R&D. Most of the cuts we made were structural in nature, were a result of decomplexifying, if you will, the Organization, streamlining things, so I am not concerned about our ability to compete. In fact, you mentioned [silicon] -- I'm very excited about the silicon road map that we have in the works right now at Juniper.

On the SDN framework, in fact, part of the reason why you are seeing the growth that we have right now in switching is precisely because of the fact that we are building a set of switching building blocks. These are building blocks that have a number of different applications -- the data center and cloud automation being a very important use [space]. We're building directly into our switches the kinds of automation, visibility, controllability, and very importantly, openness that our customers absolutely like.

That gives us the ability to work with great partners, like VMware, where we are going and addressing private cloud-like virtualization environments for many of our customers, but also with Contrail, where for example, in public cloud scenarios, or in network function virtualization, there is a really nice seamless, if you will, tie in between the controller and our switches. This is very much a 10-Gig story today, but the products we are offering are all 10 Gig/40 Gig and there, is in fact, going to be this migration over time to 40 Gig. So we are well set up to take advantage of that 10 Gig to 40 Gig migration that is happening in the market.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

We do have time for a couple of more questions. We are coming up on the hour. Operator, next question, please.

Operator

Jason Ader, William Blair.

Jason Ader - *William Blair & Company - Analyst*

Thank you. I just wanted to follow up on an earlier question around the identification of other SKUs or product lines that you might be exiting. I know you don't want to give competitive information, which I totally respect, but the question is, have you identified other SKUs and product lines, at this point, or are you still in that process? Then secondly, just for Robyn, can you give us the guidance for interest and other income, now that you have the new debt flowing through the balance sheet?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Rami, you will answer the project question.

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

Yes, sure, I will start. The question of did we actually take action already, the answer is yes. We have gone through the analysis, we have evaluated the projects that we were already undertaking; and we have, in fact, reallocated resources off of projects that are all pre-revenue. That has already given us an ability to start to focus on some of the really important strategic initiatives around cloud, high IQ network function virtualization, SDN, that's just very meaningful to our customers. I'm just going to leave it at that.

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

On the interest side, yes, clearly the interest rate, the borrowings that we made in the quarter will add to our interest expense in the quarter, next quarter. We expect that -- we had a reasonably low interest quarter for this quarter, it was just under $10 million. We expected to be in the $14 million to $16 million range for next quarter.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Next question, operator.

Operator

Kulbinder Garcha, Credit Suisse.

Kulbinder Garcha - *Credit Suisse - Analyst*

Most of my questions have been addressed. I just want a broad one for Rami on the routing side. We've seen, historically, just cycles in this business, driven partly by product refreshes, sometimes [by macro]. I am just thinking, as we've gone through this product refresh, can you speak about how it's different and how this wouldn't be a situation whereby a year from now we're difficult comps, looking at significant [detail of this] revenue line. What's different about it, would you say? What were the top two or three things that come to mind? That would help?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

Sure, Kulbinder. I'd say, look, again, you have to take a look at the market opportunity and the service providers spend in light of cable, in light of web services, and also telcos, of course. Each of these have a various different set of drivers.

In the cable space, for example, there is a huge amount of demand on the network because of video traffic. In the web services space, it's things like cloud, data center, interconnect, and peering technology. In telcos, it's things like consolidation of different network functions into fewer networks that are capable of providing a multitude of different services, network function virtualization and so forth.

These are trends that have been in the market for some time and they will continue. There might be ebbs and flows, if you will, of spending in different parts of the market, like in the core or on the edge, and different architectural approaches that our customers take, might in fact put more pressure in certain parts of the market or the network than in others.

Again, I will just go back to my statement that it's just really important for us to make sure that we have got the solutions and the products and that can satisfy those architectural trends irrespective of the way that they in fact play out or the timing of how they play out. If you look at all of that and you look again at the broader definition of the service provider that I talked about, the opportunity for us to have a good revenue is there. It's healthy growth in the TAM and a great product portfolio that helps us take advantage of it.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

Operator, we have time for one more question before we close today.

Operator

Paul Silverstein, Cowen and Company.

Paul Silverstein - *Cowen and Company - Analyst*

It's always great to be last. You can ask unlimited number of questions. I appreciate you taking the question. A couple of questions, if I may. First off, can you all talk about pricing trends in switching and core routing and edge routing? In switching, how much of the growth is new customers; how much is from existing customers? With respect to existing customers, how much of that growth is from a refresh or upgrade to the relatively new 9200 platform from the older EX platforms and how much is more organic?

Then on the security piece, can you shed some insight -- I know you've told us that the old [mid] ScreenOS products are now 15%, down from 20%. But with respect to the SRX, how much of the revenue is from the enterprise SRX which you have been struggling to get on track and how much is from the higher-end product that has been doing so well, as we try to understand, going forward?

One last question, which is, I know the legal expense question has been asked a lot, but my simple question is, if and when legal expense comes back to a normalized level, is that over and above the OpEx reductions that you've projected in the IOP or is that part of the IOP predictions?

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

We will go one at a time, quickly. We'll start with the IOP question. We have a very rigorous, disciplined execution path for $160 million. We are committed to $160 million. We leave it at that. That -- it's the moving parts. We are going to $160 million in the glide path that Robyn went through and we put on our slide deck. What was the other questions?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

Pricing.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

On pricing -- Robyn, do you want take (inaudible)?

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

Paul, as I mentioned in my prepared remarks, it is a competitive environment overall. What you could see in our gross margin -- our product gross margin -- we're actually doing quite well on that. Year-over-year we saw a slight degradation due to mix, but quarter-over-quarter, actually it was only 1/10 down.

As you can see, we are moving into different categories and that type of thing and our gross margins are doing very well. That is because we're focused on innovation and differentiation with the product set. It is also because we're focused on reducing our costs over time as well. As a Company, we have had a huge focus on that over the past four to six quarters. Rami, do you want to add anything in terms of competitiveness?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

No, that's it. We focus on the part of the market where the discussion with the customer, certainly it involves pricing, but it's not purely about pricing. It's about a multitude of things and capabilities, in addition to pricing. That is where we do quite well.

Shaygan Kheradpir - *Juniper Networks Inc - CEO*

That last one -- and I'll maybe I'll have Robyn and Rami chime in, as well -- is I coupled the last two questionnaires. This Company, the diversity of revenue now across those segments, it's just not one segment; it is multiple segments. Then when you overlay the dynamics of the segment with all the different types of workloads that they are trying to handle as they build their clouds and high IQ networks, it's, [as I said before],one size does not fit all.

We see that in switching, security, and routing -- like your questions on switching. It is mostly new customers but it's, frankly, when you look at the type of workloads, it is not commodity closet switches. It's actually quite interesting use cases that we handle. Rami, do you want to take the switching question and there was also a firewall question?

Rami Rahim - *Juniper Networks Inc - EVP, Juniper Development & Innovation*

I don't have an exact figure in my head of what the ratio is. It's both. We love selling to our customers chassis that are sparsely populated with line carts, whether they be in switching, in routing, or security because we're reserving shelf space that we can go and populate over a period of time. There is a lot of that going on, but as we also mentioned in the prepared remarks and earlier in the Q&A, we are winning global banks, we're winning web services companies, that are all leveraging our switching [RAM] security products and that just adds on to our business. It's a combination.

Robyn Denholm - *Juniper Networks Inc - Chief Financial & Operations Officer*

On the security side -- I can answer that for you, Paul. In terms of our [ScreenOS S2] Junos-based firewall security product, you were right, it was less than 20% a year ago and now it's less than 15% that is related to non-Junos-based products.

In terms of the SRX products, they grew 13% year-over-year and in terms of the contribution to that growth, the majority in this quarter was service provider, but we also had year-over-year growth in terms of enterprise, as well. As Rami mentioned before, some of the focus that we've had on the high-end SRX over this last four quarters, to actually improve the performance of that, is equally applicable in terms of the branch SRX and those types of products and that is what the team is focused on, as we move forward here.

Kathleen Nemeth - *Juniper Networks Inc - VP of IR*

That is all the time that we have this afternoon. We appreciate your participation and all of your great questions. We look forward to speaking with you again next quarter. Thank you so much, everyone.

Operator

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