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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Juniper Networks first quarter 2008 conference call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. (OPERATOR INSTRUCTIONS)

It is now my pleasure to introduce Ms. Kathleen Bela, Vice President of Investor Relations. Please go ahead, ma’am.

Kathleen Bela - Juniper Networks - IR

Thank you, Shannon. Good afternoon, and thank you all for joining us today. Here today are Scott Kriens, Chairman and Chief Executive Officer, and Robyn Denholm, Chief Financial Officer.

Today’s call will be structured slightly differently than in the past. Scott will open with highlights of the business drivers during the quarter. Robyn will then provide a financial review before turning the call back over to Scott for closing comments.
As discussed previously, the Company is no longer reporting services as a separate segment. Services, revenues, and costs going forward are allocated to our IPD and SLT segments. In addition, we will be providing you revenue information broken out between the service provider and enterprise customer sets.

Before we get started, I would like to remind everyone that statements made during this call concerning Juniper's business outlook, future financial and operating results, and overall future prospects are forward-looking statements that involve a number of uncertainties and risks. Actual results could differ materially from those anticipated in those 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 production; litigation; and other factors listed in our most recent report on Form 10-K 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 subsequently change after the date of this call.

Also, 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 nonrecurring charges such as amortization of purchased intangibles, impairment charges, and expenses related to stock-based compensation.

Please note that today's call is schedule to last for one hour, and please limit your questions to one per firm. With that, I will turn the call over to Scott.

Scott Kriens - Juniper Networks - Chairman, CEO

Thank you, Kathleen. And good afternoon to everyone. As Kathleen just mentioned, we are making some changes to the format of these calls. So in a few minutes, I'll turn the call over to Robyn for a full review of the financials and the key metrics. And then I'll rejoin you to share some observations on our ongoing strategy and also our guidance for the second quarter. But first, let me frame today's discussion by highlighting some of the key drivers in the quarter and providing some context around our current view of the market.

The team and the entire company, Juniper, did a very good job this quarter. And we performed extremely well against many of our key metrics. We delivered top line growth, up 31% over last year; operating profits up 57% over last year; cash flow from operations up 68% over last year, as well as strong operating margins, all of which were goals we set for ourselves as the year began.

And our diverse product portfolio, our geographic distribution, coupled with our high-performance networking strategy drove the momentum we saw this quarter. And I'll comment more on that in just a moment.

As an overall market observation, we see clear evidence that our position in the high-performance networking segment of the market enables us to effectively support our customers' top two priorities -- to drive greater efficiency and productivity, and while at the same time, optimizing their business and network performance.

So let's get underway, and starting with the review of the geographies in the markets across both the service provider and enterprise businesses that delivered this quarter's results. On a geographic basis in the first quarter, we saw balanced performance across our markets around the world. The Americas represented 51% of total revenue in the first quarter, as compared to 48% in the fourth quarter of 2007, with particular strength in U.S. service providers and key emerging countries in Latin America.
Europe, Middle East and Africa, or EMEA, represented 29% of total revenue in the first quarter as compared to 33% in the fourth quarter, with strength among service providers in Eastern Europe and northern Africa. Asia-Pacific, or APAC, represented 20% of total revenue in the first quarter, slightly higher when compared to the fourth quarter of 2007 at 19%, and highlighted by strength in Japan and China.

On a year-over-year basis, we realized growth in all of our theaters, with expanding diversification of the business worldwide. We saw strength in service provider markets worldwide, consistent with our expectations for the quarter, and the same was true of our enterprise business in both APAC and EMEA.

While we saw some softness in our North American enterprise business, overall linearity worldwide was similar to what we have seen in previous years. And we saw typical seasonality in the enterprise, but again, nothing unusual compared with previous first quarters in a new calendar year.

So let’s now look at the service provider and enterprise businesses. And as a reminder, all of my comments pertain only to the high-performance markets where we are focused. I want to be sure not to imply that these perspectives include commodity markets or more tactical purchasing decisions that others may see.

So first on the service provider -- the service provider business continued to reflect healthy demand for our high-performance network infrastructure, both at the core and edge of the network. While there will always be individual networks and projects in one phase of growth or digestion, we saw no evidence of a weakening demand environment in the U.S. or any direct impact on planned or in-process network infrastructure buildouts around the world.

In good and bad times alike, more and more consumers are turning to the network as a source of critical information and commerce, with, for example, online retail sales in the U.S. alone expected to increase from $174 billion in 2007 to over $334 billion in 2012, according to Forrester Research. And obviously, growing trends such as social networking are making the network an increasingly popular destination.

In the first quarter, the edge represented more than half of our infrastructure business. As in previous quarters, we expect to see this mix fluctuate between core and edge quarter-to-quarter.

So starting with the core of the network, we realized robust demand for the T-series in the quarter. The new T1600 commenced initial shipments late last year, and I’m pleased to share with you that exiting our first full quarter of shipping the T1600, we have booked orders for 105 units, and shipped 77 units to customers for deployment in production networks around the world.

And surpassing this 100-unit milestone in little more than a quarter compares quite favorably to results touted by our competitor, which claimed the same 100-unit accomplishment of a new core router after quote, “only,” a full year of customer testing. By contrast, this kind of rapid Juniper adoption is proof-positive of the power of our JUNOS operating system portfolio strategy, as well as a clear indication of the urgency our customers have to maximize network performance.

Another key milestone worth noting is that since introducing the T-series core routers in 2002, we have now shipped more than 4,000 units worldwide, 1,000 of which were shipped in 2007 alone, representing deployments in more than 200 production networks around the world.

Again, as a point of comparison for those keeping score out there, this represents more than twice the number of 1,900 total units shipped by our largest competitor, and this according to their own announcement last month.

As an extension of the field work we have been engaged in with NTT in Japan since 2006, Juniper received orders in this quarter from NTT for the initial deployment of routing platforms for its next-generation network. Commercial deployment commenced at the end of March, and we will continue to work closely with NTT on this deployment as network demand grows.
And as a reminder, obviously, we're pleased with this business and the opportunity to share this news with you. But we also expect these deployments will occur in a manner consistent with other NGN implementations around the world, which means over a multi-year period, and with no significant impact in any particular quarter.

Other T-series customer deployments in the first quarter include Tiscali International Network, the wholesale carrier division of the Tiscali Group in Italy, who announced intention to scale their core infrastructure with the T1600; and HiNet, a wholly-owned subsidiary of Chunghwa Telecom in Taiwan, announcing their intention to expand the capacity of their GigaPOPs with multiple T640-core routers. And these are GigaPOPs are ultrahigh-performance points of presence that will support advanced IP traffic across the entire HiNet network.

Shifting to the edge of the network, initial shipments of the MX240 commenced in the quarter, as deployments of the MX960 and MX480 carrier ethernet services routers continued to gain momentum. PeterStar, a leading Russian telecommunications provider; SpectrumNet a leading Bulgarian provider; nLayer, a leading North American provider of Internet connectivity and wholesale bandwidth; and Car Phone Warehouse, one of the largest independent service providers in the UK; all announced their intentions to deploy the MX to scale their network infrastructures in line with escalating demand for services.

And capping our first year of selling the MX series, I'm pleased to share that the MX business grew by an additional 25% in this first quarter, even after surpassing a $200 million annual run rate in its first three quarters of shipments.

We realized strength across the E- and M-series in the quarter as well, securing a large number of new E320 service provider customers in emerging countries in EMEA, and a number of service provider and Fortune 500 enterprise companies in the U.S. for the M320 and M120, respectively.

In the quarter, we also announced a mobile IP MPLS solution portfolio that includes the VX7000 multi-access gateway router, new aggregation capability for the M-series, and a suite of software features intended to simplify the deployment, provisioning and management of mobile backhaul networks.

Our expanding presence in this mobile backhaul transport segment of the market provides us with an exceptional opportunity in an overall market estimated by a recent Infonetics Research report to grow from $4.5 billion in expenditures in 2007 to $8.2 billion in total in 2010, and within that, IP, MPLS, and ethernet packet equipment growing at a rate faster than other elements in that market segment.

And finally, from a market share perspective, Juniper continued to gain market share in every major product category. According to Synergy Research, for the latest quarter reported, which is Q4 of '07, Juniper fortified its number-two position in service provider routing and gained share in the core, edge, BRAS, ethernet services, and multiservice edge categories, providing further evidence of our ability to execute and deliver significant innovation to our service provider customers.

So now, shifting gears, I'd like to first comment on the market, and then some of the key achievements within the enterprise business. Overall, the demand for high-performance network infrastructure in the enterprise market was largely as we expected, with on-target results in both the EMEA and APAC regions, and typical seasonality and linearity worldwide.

The only softness that we saw was somewhat in the U.S., particular in the federal business. Otherwise, we saw strength across the enterprise business and continued to see encouraging activity levels and very strong acknowledgment of Juniper advantages relative to competitive offerings.

Again, to comment only on the market for high performance networking as opposed to the broader marketplace, we continue to see opportunity for Juniper, as evidenced by our worldwide enterprise business, which grew more than 20% from last year.

In the quarter, our obvious major milestone was introduction of the EX-series of ethernet switches, which alleviate cost, complexity and risk associated with managing legacy switch infrastructures. The EX-series delivers simplicity, carrier-class reliability, and
infrastructure consolidation to our enterprise customers, who more than ever tell us their networks are just as critical to them as are those we provide to our service provider customers, using the identical time-tested JUNOS software.

We are pleased to report that following those announcements, both the EX3200 and 4200 switches commenced shipping in the quarter, and are being met with an enthusiastic response from both our customers and our partners around the world. We expect to realize revenue as planned in this -- now, the second quarter, and we will report progress through the year as to the acceptance and momentum associated with Juniper’s entry into the ethernet switch market.

In the first quarter, we announced the integration of ScreenOS security services, including firewalls and VPNs, into JUNOS for implementation on the J-series services routers. We also recently introduced a family of 10-gigabit intrusion prevention system appliances, including the IDP8200; a series of next-generation SSL VPN appliances, including the Secure Access 2500, 4500 and 6500; and the Juniper Networks’ Security Threat Response Manager.

The simplest way to describe these products and services is as the realization of our strategy of innovation, integration, and performance, demonstrated in multiple examples across the portfolio.

And in a great example of Juniper leverage from our service provider customers in this enterprise market, and this in the form of managed services, Verizon business extended its managed wide-area network optimization service offerings with the introduction of managed routing and security services based on the Juniper Networks J-series services router. And this adds to services already in the market based on our WX platforms, and provides customers with greater choice and flexibility in advanced Verizon business offerings.

And finally, from a market-share perspective, Juniper gained share in every major product category. According to Synergy Research, for the latest quarter reported, which again is Q4 of '07, Juniper gained share in high-end enterprise routing; and according to Infonetics Research for the same fourth quarter, Juniper fortified its number two position in total network security, extended its number one position in SSL VPN, and gained share in the high-end firewall and secure routing categories. So these are the highlights across the markets and the geographies we serve worldwide.

In the quarter, we also bolstered the bench strength of our Juniper executive team with the appointment of Dr. David Yen to the position of Executive Vice President of Emerging Technologies, and the appointment of Michele Goins to the position of Chief Information Officer. David joins us from Sun, and Michele from HP, and both executives have proven track records in delivering innovation and execution at scale. These appointments highlight our ability to attract the best talent in the industry. And we welcome David and Michele to the team.

And with that, let me turn the call over to Robyn for a detailed financial review of the quarter. And then I will come back, for a change this time, with a few final comments on the outlook we see for the major markets going forward, and then our guidance for the second quarter. So with that, Robyn?

Robyn Denholm - Juniper Networks - CFO

Thank you, Scott, and good afternoon. I am pleased to report a strong start to 2008. Juniper met or exceeded all guidance metrics for the March quarter, demonstrating our focus on execution on every level.

Our June and the rest of the year remains strong, even factoring in the economic conditions that you've all heard lots about. Scott will speak directly to the guidance the in a few moments when I've completed the review of the quarter.

We left 2007 with good visibility into our demand metrics, which include product book-to-bill, deferred revenue, and the deal pipeline. All remain healthy, with book-to-bill above 1 and the third revenue increasing $52.7 million over the last quarter.
Our strong product portfolio, good geographic and market diversity and focus on execution in the high-performance networking market all combine to set a good time for the business fundamentals, as we exit the first quarter of 2008.

Now, onto the review of the results. I'll discuss revenue and earnings on a GAAP basis first, then shift to the non-GAAP discussion as we dive deeper into operating performance. Total revenue for Q1 of 2008 was $822.9 million, up 31% from the prior year and 2% above a very strong fourth quarter. Juniper earned net income of $110.4 million on a GAAP basis, or $0.20 per diluted share, up 79% from the $0.11 reported in the 2007 first quarter.

Scott reviewed the revenue performance by geography, so let me add some color with regard to the revenue on a segment basis. Total IPG revenue of $621.8 million was up 35% on a year-over-year basis. And total SLT revenue of $201.1 million was up 21% on a year-over-year basis. Within each of the segments, IPG product revenue was up 37%, and IPG services revenue was up 23%.

IPG results reflect the strong performance of our T-series products and continued good momentum with our edge products, in particular, the MX series. SLT product revenue was up 17%, and SLT services revenue was up 33%, demonstrating good performances by both SSL, VPN, and SSG products.

On a sequential basis, total IPG revenue was up 6%, and total SLT revenue was down 9%, which was slightly lower than anticipated due to some softness in the government sector business as Scott described, and with typical -- and what is typically a seasonally weaker quarter for enterprise sales in general.

Looking at the markets we address, service provider sales were 74% of total revenue, up 8% sequentially, and up 35% year-over-year, with good growth in the Americas, and APAC. Total sales into the enterprise market were 26%, down 13% sequentially due in part to coming off an exceptionally strong fourth quarter in 2007, and up 21% year-over-year driven by good growth from EMEA and APAC.

No single customer comprised more than 10% of total revenue during the quarter.

Turning to our non-GAAP results, total gross margins for the quarter were 68.4% of revenue, above our long-term model range of 66 to 68%. Product gross margins were 71.9%, up 1.9 points year-over-year, and up 0.5 points compared to Q4 of '07. This improvement was the result of a favorable mix towards higher-margin infrastructure products, particularly in our T-and M-series.

We also enjoyed a favorable ratio of feature-rich (inaudible) in our equipment mix. And as Scott indicated, Q1 is also a good quarter for us with our MX series, with several large deployments during the quarter.

Our performance at the edge in Q1 was solid, while the outstanding performance of several of our core products heavily influenced margins. We also continue to focus on cost improvements in our manufacturing and operations, and in the quarter, saw improvement in gross margins due to these ongoing efforts.

Services gross margins were 52.5% for the quarter, down 1.3 percentage points year-over-year, mainly due to the timing of the [part] purchases that are required to support the growth of the business, and up 0.4 points compared to Q4 of ’07 due to our ongoing operational efficiencies.

Operating expenses totaled $369.6 million, or 44.9% of revenue. This represents an improvement of 2.4 percentage points from Q1 of last year when expenses were 47.3% of revenue. Operating expenses were up only 3% from the fourth quarter, despite higher compensation expenses associated with FICA and other benefits that are seasonally weighted into the first quarter. In particular, we exhibited good controls in sales and marketing expense, which clearly did not limit our ability to drive revenues in the period.
R&D expenses totaled $160.3 million or 19.5% of revenue. And sales and marketing expenses totaled $178.5 million or 21.7% of revenue, all of which were in line with our Q4 expense levels.

Operating profit for the quarter was very strong, at $193 million, resulting in an operating margin of 23.5% of revenue. This is an improvement of 3.9 percentage points over Q1 of last year. The main drivers of this improvement are the gross margin growth and the leverage in our operating expenses that we are focused on building into the model, while we continue to invest in the R&D and sales and marketing areas of our business.

As we highlighted for you at our recent analyst day, our operational excellence program, what we call the four Ps, is designed to reengineer Juniper's revenue drivers and cost structure, and is fully underway, and yielding initial results in some key areas. Expect us to continue drilling down on this program over the next few quarters. And given the general economic condition, you can also anticipate that our cost focus will sharpen accordingly.

Looking at our segments, operating margins for IPG were strong at approximately 31% for the quarter. Good focus on the operations and growth in revenue and gross margins enabled a strong showing for the quarter.

For SLT, a slightly softer-than-normal seasonal pattern for our enterprise customer segment, resulted in slightly less revenue on a sequential basis than we were expecting. A good focus on our operations resulted in better-than-expected gross margins and lower operating expenses for the segment.

SLT operating margins were approximately 1.5% for the quarter. On a product-only basis, the operating loss for SLT in the March quarter would have been about $5 million.

Juniper posted non-GAAP net income of $149.5 million, down slightly with Q4, and 33% above year-ago results. These results are factoring in interest and other income of $17.6 million, lower both year-over-year and sequentially, due primarily to lower interest rates.

The non-GAAP tax rate for the quarter was 29%. Diluted earnings per share were $0.27, again, flat with Q4 and up substantially over the prior-year figure of $0.19.

Turning to the balance sheet, we ended the first quarter with over $2.2 billion in cash and cash equivalents, up from $2 billion at the end of 2007, and reflecting excellent cash flow from operations in the quarter of $255 million. CapEx totaled $33.4 million in the period, and depreciation and amortization was $55.4 million.

DSOs reduced to 40 days from 42 in the fourth quarter, well within our predicted ranges. Our deferred revenue was $565.9 million, up $52.7 million compared with the end of the fourth quarter, and aided by the deferral of an ongoing edge router buildout for one of our service provider customers.

At March 31, 2008, Juniper had 6,111 employees, up from 5,879 at the 2007 year-end. The majority of the additions were in R&D and sales and marketing.

During the quarter, we utilized approximately $53 million to repurchase shares of our stock. And our share count was approximately $560 million shares.

And with that, let me hand it back to Scott to go through the guidance for Q2 2008, and the 2008 full-year.
Scott Kriens - Juniper Networks - Chairman, CEO

Thank you, Robyn. As you can all see from Robyn’s review, Juniper’s business is in very good shape. Success in top-line growth, operating leverage, profitability and cash, all made possible by the quality of Juniper’s commitment to operational excellence and the focus of our high-performance networking strategy resulted in overall growth and continued market-share gains.

We are continuing to invest in and deliver the innovation necessary to capitalize on our opportunity, and we’re investing in the sale and support necessary to provide world-class responsiveness to the needs of our customers. We’re investing in our partners, at both a global level with key strategic relationships, and also at the regional level, helping valued resellers improve the performance of their businesses as well.

Our relentless commitment to improving companywide execution is unchanged, realizing the day-to-day improvements that are necessary for us to continue to improve the leverage in our business and to sustain the growth rates which we’re targeting in our plans.

Our networking industry leadership is also being recognized. In the quarter, Juniper ranked number three overall in the network communications category of Fortune Magazine’s Most Admired Companies in America annual survey, and number one in the innovation category and number two in quality of services and products, and quality management and people management categories, which serves as a testament to the ongoing commitments of now more than 6,100 Juniper employees around the world.

As we stated coming into the year, we are continuing to see evidence from customers around the world that the high-performance networking market is gaining traction and separating itself from the commodity network connectivity market. Coupled with this evolution of the high-performance market, all of us see concern in the overall economy in the U.S. and around the world.

The way that translates in our market is that in times of uncertainty, business leaders are making more carefully considered purchase decisions than ever before, because each dollar spent is studied.

We believe the effect of that caution is to direct spending only to the suppliers and the projects that have the greatest impact on the performance of the business. And when that depends on the performance of the network, a high-performance Juniper decision will continue to be made.

So now let’s turn to guidance for the second quarter. Guidance is provided on a non-GAAP basis. All guidance is forward-looking, and actual results may vary for a number of reasons, including those noted in our recent 10-K, as filed with the SEC. 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.

With customers relying on us more and more, we are proceeding with our plans to grow the business while at the same time being mindful of the economy around us. Our business is more diversified than it’s ever been in all categories, markets, geographies, customers, and products, which allows us to maintain the view that our financial performance will continue as planned in the second quarter.

For the second quarter, we expect revenues of between $845 million to $855 million, and earnings per share of between $0.26 and $0.27, assuming a tax rate of 29%.

We expect operating margins in the range of 22.5% to 23.5% of revenue for the quarter. This is a significant improvement over the second quarter of 2007 operating income margins, which were 20.4%, and reflects an ongoing commitment to the operational performance of the Company.
For the full year, we remain comfortable with our previous revenue outlook of $3.4 billion to $3.55 billion. And in addition, we are adjusting the range of our EPS guidance from $1.10 per share to $1.13 per share.

We expect lower interest rates to reduce interest income by $30 million to $40 million. And despite this reduction in interest earnings, which translates to approximately $0.04 to $0.05 per share, we feel comfortable in raising the lower end of our earnings per share guidance. This reflects our expectation of continuing operational improvements, as well as a slightly lower share count of 560 million to 570 million shares.

We continue to expect to exit the December 2008 quarter with operating margins of 25% or higher.

As we chart our course for 2008, our financial objective remains clear and concise -- accelerate top-line growth and market-share gains, and continue to demonstrate leverage in the business by growing the bottom line even faster. We believe that we have the visibility across the high-performance networking marketplace necessary to make this possible, and we have the commitment across Juniper to drive the intense execution necessary to capitalize on the opportunities in front of us.

All of this is possible only with the support of our employees, whose continued commitment and incredible efforts make these results possible, as well as our many partners, our customers, our suppliers, and our long-term stockholders. I'd like to thank you all for your continued support and confidence in Juniper.

And so with that, I will now turn the call over to Kathleen to initiate our question-and-answer session.

Kathleen Bela - Juniper Networks - IR

Thank you, Scott. Okay, Shannon, we are ready to begin the Q&A session of the call.

Q U E S T I O N S  A N D  A N S W E R S

Operator

(OPERATOR INSTRUCTIONS) Paul Silverstein, Credit Suisse.

Paul Silverstein - Credit Suisse - Analyst

I'm sorry, (technical difficulty) the pause you hear is me trying to think of which question to ask. I guess I'll limit it to a narrow question. Alcatel-Lucent had been an issue for you and Cisco in the past. Putting aside the market opportunity in front of you, in terms of Layer 3 on the carrier side, can you give us some insight in terms of what you're seeing there, both -- in particular, from Alcatel-Lucent, as well as more generally in terms of the competitive landscape?

Scott Kriens - Juniper Networks - Chairman, CEO

Sure, Paul. I don't know that I can add any more color, really, to Alcatel-Lucent. We just don't see enough of it, probably, to have any new insights there.

The TiMetra acquisition that they made some years ago is a product in the market that we see. But I think on other fronts, what we see them more in the capacity of is as a partner in some of the work that we do together in support of networks and system integration on that side of the business. So certainly, the competitive overlap exists in the particular area related to the acquisition, but no real new news there, nothing of significance to report on this side.
On the broader front, competitively, I think what is happening in the market today, and to the extent that others are struggling with some of the -- maybe there are economic challenges, I guess. But I think it's also the beginning of the separation in the marketplace here. And we're starting to see the strength of, in our case, it's partly -- I mean, some of it's product cycles, and some of it's diversity, because clearly we have markets around the world. And I think that's been the strength that has driven success in some of the other, larger companies that have delivered results on the technology side in the last couple weeks.

But also, and I think this is probably the most important element that we've seen, is this slice of the overall networking market that we focus on, this high-performance segment -- I can't tell you until we watch it happen for every quarter of the year, but thus far, it just doesn't seem to suffer the impact that some of the less strategic segments or more commodity-like decisions are feeling under some of the pressures that are out there.

How real or self-inflicted some of these concerns are -- I guess we'll all find that out over time in terms of the caution that's out there. But I think the strongest driver for us and where we see the greatest advantage relative to competitors is in the combination of size and speed.

We've got the size and the breadth of portfolio and coverage that gives people the comfort to do business with us when they are being more careful about how they spend. And we've got the speed and innovation and the technology to be able to give them an advantage in their market relative to their competitors.

So those are the strongest things we see as drivers. And where it isn't being seen to the benefit of others out there competitively, I think it's missing one or more of those elements in the alternative approaches.

Kathleen Bela - Juniper Networks - IR

Next question, please?

Operator

Simona Jankowski, Goldman Sachs.

Simona Jankowski - Goldman Sachs - Analyst

Thank you very much. I just wanted to see if we can get a little more detail on your deferred revenue balance. It looks like it was up nicely at about 12% quarter on quarter. Is there any way you can break that down a little further by how much of the NTT order is within that versus the MX versus some of the other things you're experiencing?

Robyn Denholm - Juniper Networks - CFO

Thanks, Simona, for that question. In terms of deferred revenue, we're happy with the growth in terms of what's the happening in that area. It's both product and services. And the color that I gave in terms of the script is there is one ongoing deal that we're continuing to defer. But otherwise, every quarter we have new adds to the deferred revenue, and things that actually get recognized each quarter. So that's how the deferred revenue works.

And for the quarter, there isn't any NTT in there. As Scott said, it actually is -- there were orders that we all -- deals that we won in the quarter as opposed to revenue or shipments.
Ehud Gelblum, JPMorgan.

Hi, thank you very much. I just want to confirm a couple of things. Scott, at the end when you gave the reiteration of the 25% operating margin guidance for the end of the year, you said "or higher." I've heard you say it multiple times in the past. I can't remember if you've said "or higher" before. I don't think you did, but I just want to make sure that I'm hearing correctly, that the "or higher" part is new, and should we kind of read into that?

Second of all when, when you look at your EPS guidance, if I go through the moving parts, you beat by $0.02 this quarter and you're raising the bottom end of your guidance for that $0.02. You're going to have --

Ehud's first question around whether the 25% or higher comment was that carefully selected -- it really for us represents no change in comments we've made in the past regarding our operating margins, which is that the 25% target that we've had exiting the year, is a target, as you know, that we put in place when the year began.

And one of the questions we got at the time was whether that was a stopping point, or whether there was some design decision of ours that that would be the high end of the possibility. And the clarification we offered at the time was, no, that was a target for the end of December.

Whether or not it would go higher actually depends on how the year unfolds on a number of fronts, really. Obviously, our performance will have something to do with that, but also the opportunities we see out there and the return on the investments that we might make.

So it clearly could go higher that. And there's nothing in our plans to prevent that in any way. But the decisions as to what we will do with the excess proceeds from our improving performance will be decisions we make as the year unfolds. Certainly, that...
target of 25% remains intact, and we're, I guess at a minimum, one quarter more confident in hitting that target than the goal that we set in the January time frame.

**Ehud Gelblum - JPMorgan - Analyst**

Can you hear me now?

**Scott Kriens - Juniper Networks - Chairman, CEO**

(multiple speakers) I won't guess at the second half of your question. Go ahead.

**Ehud Gelblum - JPMorgan - Analyst**

I actually started singing into the phone, so (multiple speakers)

**Scott Kriens - Juniper Networks - Chairman, CEO**

We're happy with the results, too.

**Ehud Gelblum - JPMorgan - Analyst**

Anyway, so what I was trying to do is work through the workup, Robyn, that you were talking about. I have no idea what you did hear or didn't hear, so I'll quickly (inaudible) -- $0.02 [beat]; you raised the $0.02 bottom. You're [easing] to a $0.04 to $0.05 headwind on interest income, and therefore, you're making up for that. Is the $0.04 to $0.05 of extra optimism you have now for that -- does that come in continued strength out of IPG, or is it from IPG going back to kind of what it should have been all along in the original model, and recovery and SLT to kind of a higher point -- which one of those?

I know this was asked on the last conference call as well, but it will be interesting to see if you have any other additions in terms of where you think your SLT margins can get to by the end of the year.

And then I didn't quite understand -- you said something after you mentioned the 1.5% operating margin for SLT -- I think that was a positive 1.5%, but you said something about a $5 million loss after that? I just wasn't -- if you can just clear that up. Thank you.

**Robyn Denholm - Juniper Networks - CFO**

I'll answer the last part of that question. So the operating margins for SLT as a segment, including services, was a positive 1.5% in the quarter. The $5 million loss represents the approximation of what it would have been on a products-only basis.

**Ehud Gelblum - JPMorgan - Analyst**

Now I understand. Thank you.

**Robyn Denholm - Juniper Networks - CFO**

That was the old disclosure. That was what we were talking about.
Scott Kriens - Juniper Networks - Chairman, CEO

And then, Ehud, on the guidance side of things, yes, you are correct in the disassembly of that guidance on earnings that we gave. It represents improving or raising the lower end of that range from the previous guidance in January of $1.08 to today's guidance on the low end of $1.10. And it also does represent the expectation of recovering approximately $0.04 to $0.05 of lost interest income which comes from our cash balances being negatively affected by lower interest rates relative to the beginning of the year. And our guidance here is in addition to lowering that -- to raising the low end of the range by $0.02, we are also raising our overall performance from the business itself in terms of operating results to offset the $0.04 to $0.05 negative impact of lower special rates.

So that comes, I would say, from two attributes primarily -- one, confidence in our operating abilities and in our execution, both the general execution as well as the four Ps, the operational excellence program that Robyn alluded to and that we've talked about in the past. That's one of the two.

And then second, it isn't particular to SLT or IPG or enterprise or service provider per se; it's the strength of the market segment. It's really the strength that we see in the high-performance segment. We saw greater than 20% growth in our enterprise business; higher growth than that, 30-plus percent growth in our service provider business.

So we see strong opportunity in both segments -- and I guess at this point, no ability to distinguish whether one or the other will be an even stronger forward relative to its counterpart going forward. But so it is really more, I would say, the result of what -- the feedback we're going from our focus on the market segment of high-performance networking.

And then finally, there is a slightly lower share count as a result of some of the share repurchase. But it's primarily -- the consequences is interest, lost interest income opportunity. And the recovery plan for that is a function of operational excellence and market strength.

Ehud Gelblum - JPMorgan - Analyst

But given your operating margin is unchanged, we should assume it's strength in the top line. And given that SLT was weaker this quarter, you wouldn't necessarily have any reason to believe SLT is stronger. So it sounds like it falls into stronger IPG revenue.

Scott Kriens - Juniper Networks - Chairman, CEO

No, I wouldn't say that. I'd say we expect to see continued strength in the enterprise business, which would be both SLT performance. And it was, again, over 20% this quarter. And that's been its average performance over the last four quarters. So we do see continued strength out of the SLT business and the enterprise marketplace.

And the -- it's not so much top-line growth, because we didn't really change our top-line guidance. It's realization at an earlier stage than we'd previously anticipated of operating margin improvements as a percentage of revenue that will create the $0.04 to $0.05. So it's really accelerating the benefit of our operational efficiencies.

Operator

Inder Singh, Lehman Brothers.
Inder Singh - Lehman Brothers - Analyst

Yes, thanks. I just wanted to get a little more color on the adoption that you're already seeing of the T1600, whether that's driving upgrades in your existing customer base, or are you selling it into some new customers as well?

And just on NTT, can you give us some color on the types of products you've started to ship there, whether the T-series -- maybe a breakdown of how the T-series plays into that versus the edge routers, please?

Scott Kriens - Juniper Networks - Chairman, CEO

Inder, the T1600 is primarily shipment into existing customers, but that's because we already have the top 65 customers worldwide, each one of them as a customer. So given the scale and performance of the T1600, the first -- the largest 65 customers, service providers in the world, all of whom are customers, are going to be the first consumers of it. So technically speaking, it will be into networks that we already have a presence in.

In some cases, it's new applications or new deployments of core infrastructure. And in some cases, it also enables further sales of the T640, because -- since it's seamlessly upgradeable, people's knowledge of the existence and the upgrade path of the T1600 and the ability to take all of the interfaces and all of the investment in the 640 and roll it into the 1600 without loss of any of that investment allows them to buy 640's with peace of mind that there's long life to that asset. So it has multiple benefits to us.

With regard to NTT, it's -- clearly, the NGN buildout at the early stages is driven by the core, meaning driven by T-series products. But we are not really, at this stage, at least, at liberty to detail the configurations or the breakdown of that.

Frankly, I'm pleased NTT has allowed us to make the comments that we are able to make today just to put the now year-old question to rest. But beyond that, we'll have to look to them to make comments on their network in particular. All I can say is that we're pleased to be able to -- frankly, I have to tell you, there's not that much celebration here, if any, on the subject itself, because it's not really new news. I'm just glad to be able to talk about it and let you know that it's happening.

So we're certainly pleased with the confidence NTT's displayed by their decision. So I don't mean to say anything else on that front or anything to the contrary. But the rollout, again, is one of those things that's going to happen over multiple quarter -- in fact, multiple years. And the early rollout of that will begin at the core, and with T-series.

Operator

Tal Liani, Merrill Lynch.

Tal Liani - Merrill Lynch - Analyst

I have one question with two parts, not related. Ericsson and other big resellers, if you can comment on revenue contribution? And then the bigger question of EX switches, what are your expectations, and what's in the numbers for this year, and what are your expectations for next year, and if you can relate to modular versus fixed configuration switches -- how do you see it growing?

Robyn Denholm - Juniper Networks - CFO

So on the first part of the question, in terms of revenue from any one of the partners -- Ericsson, Alcatel-Lucent, NSN -- none of them were above 10% this quarter. All of them were below 10%, by definition. And that's the breakout that we normally give you.
So on the second are part of the question, Scott, I think on the EX (multiple speakers)?

Scott Kriens - Juniper Networks - Chairman, CEO
Yes, on EXs, the milestone for this last quarter just completed was to hit the first revenue shipment goal of getting product through our test processes, and make it eligible in shipping for production use.

As we’ve said, and I think this will continue to be true, there’s a couple of phases of deployment here. One is for the sales cycle process of getting the product out there, and presenting the differentiation it holds and all of that.

And then that will put us into test and design-win exercises, where people will go to acceptance practices that they have to check the product out and integrate it within their designs. And then that will be followed by actual roll-outs.

So we don’t expect -- as we said in January with the announcement, we don’t expect to see material revenues from it until 2009, although I expect there will be some -- as we mentioned, there will be some revenue that does come in simply because a product is shipping for production use, and there will be some, I guess, probably pretty limited indications where we’ll see people buying and deploying it in simpler and more straightforward networks.

But I think the significant or material revenue that we will see is going to be a function of first, sales cycles, and then design and acceptance cycles. So we’d expect to see the material benefit of that contribute in ’09. And that’s really not changed from what we saw in January at the product launch.

Kathleen Bela - Juniper Networks - IR
Okay. Next question, please.

Operator
Scott Coleman, Morgan Stanley.

Scott Coleman - Morgan Stanley - Analyst
Sure, thanks. Just a clarification on the SLT margins. Scott, I think last quarter, you said you wouldn’t expect SLT product to go back to a loss in Q1. But on the old reporting scheme, it did.

So I’m just curious if that was mix-related or pricing, or if it was end-demand related in North America, because it would seem that it fell short of what your expectations were from a profitability standpoint.

Robyn Denholm - Juniper Networks - CFO
Scott, I’ll answer that. In my part of the script, what I talked about was -- we had a slightly softer start to the quarter, as -- [or the] start to the year in terms of enterprise. We normally see a seasonal decline in Q1. And Scott did talk about that last quarter.

It was slightly more than what we normally see in Q1. And again, referring back to the script today, it was due to some softness in the federal vertical that we saw this quarter.
Sanjiv Wadhwani, Stifel Nicolaus.

Sanjiv Wadhwani - Stifel Nicolaus - Analyst

Scott, I was wondering if on the guidance you could give us a little more granularity on geographies. What are you expecting in the U.S. versus Europe versus APAC?

And then just a quick follow-up on NTT, you mentioned that they're taking the T-series. Are they taking the T1600 or T640? Any granularity there would be helpful. Thanks.

Scott Kriens - Juniper Networks - Chairman, CEO

Sanjiv, in terms of the expectations we have with regard to geographic distribution, it's always a little hard to tell in terms of the relative contributions -- in other words, percent of total contributed by each because the strength of one can offset another.

There's some -- the beginning of the year is not the same all around the world. So we'll sometimes see Asia fluctuate a bit. We saw some strength in Asia in the first quarter, even though that isn't always the case. So I would expect to continue to see Asia do well.

EMEA business has been solid. The enterprise business in particular there has been very solid, so I'd certainly expect that to continue. And the U.S. was up a little bit in this quarter, it was over 50%. It's been in the high 40s. It could bounce around a few points one way or another, depending on how the others do.

But I don't think -- overall, my comment would be I don't have any macro or micro reason to expect any noteworthy adjustments in the contribution mix -- a couple of percentage points one way or the other. And frankly, that's the strength of the business. It's one of the reasons that we have the confidence that we do to reiterate our guidance for the year, and also to give you the improved guidance that we have on the bottom line.

With regard to NTT, I'm afraid I can't provide any more color there than what they've authorized to us comment on. It is T-series related.

The thing that is true, though, in general -- and I guess I'll just carefully not make this comment exactly particular to NTT -- but the beauty of the fact that you can buy T640 interfaces and put them in T1600s means that the chassis decision is painless, and the deployment decision is protected. So if you see somebody make a T1600 choice over a T640, what they're basically saying is they have a higher total capacity expectation, and they want to deploy the higher-capacity chassis on the first day. But if you see somebody make a T640 decision, they may simply be flowing their CapEx spend more cautiously into their network, and planning the upgrade to the higher speed chassis at a future date.

And what it really translates to, if you were a CFO of one of our major service provider customers, is you'd be being told by your operations organization that what Juniper can do is more exactly match your expense to the realized revenue, with less of the stair step that would be required competitively. In other words, you don't have to buy Juniper equipment ahead of its ability to generate revenue for you in the way that you do competitively relative to our offering.

So you'll see people, depending on how carefully they want to manage that line and how far out in front of their growth rates they want to go, in one case choose a T640 chassis, and in another case, a T1600. But the complete flexibility of the interfaces, which is really the highest cost element, allows people to make choices one way or the other.
And finally, from a Juniper point of view, we’re neutral, actually. We don’t really push or have a preference one way or the other. Margins aren’t noticeably different one side of the equation or the other. And the flexibility that the customers choose doesn’t benefit or harm our business in terms of its contributions.

Operator
Nikos Theodosopoulos, UBS.

Nikos Theodosopoulos - UBS - Analyst
Two quick ones, hopefully. On the EX ramp, I guess the question I have is, with the more caution and enterprise spending in the United States and perhaps some in Europe, do you think there’s going to be a longer sales cycle or testing cycle, or do you not see that?

And the second question would be, why is the Company not going to be or has not been more aggressive with the buybacks, given the low interest rates and the low stock price? Thank you.

Scott Kriens - Juniper Networks - Chairman, CEO
Nikos, on the EX ramp, I don’t know what to think of -- first of all, I guess, I’m not sure how much caution there actually is out there. I think we are seeing less of it in our segment than others. So we’re probably not as well suited to comment on what the mood or attitude actually is.

It’s possible that that caution that does exist could translate into people being more careful about changing horses, if you will. It’s also possible that they may put their foot down and stop spending on legacy, unstable equipment that doesn’t meet their needs anymore. So it could actually go either way.

And for us, it’s too early to tell. I think we may know a little more in the second half of the year. There is a great deal of -- I mean, I guess it depends on how you look at it -- on the one side of it, pent-up frustration; on the other side, urgency around application deployment and so forth.

So I don’t know, is the, I guess, not-so-short answer on that. But I don’t have any reason at this point to think it’s going to have a major influence. I could argue either side of it. And we just don’t have enough data yet.

Robyn Denholm - Juniper Networks - CFO
So on the stock repurchase program, Nikos, at the analyst conference, we announced the maintenance program, and the additional $1 billion in terms of ability to buy back.

The two are not directly linked. We can still go out and buy opportunistically, depending on the right circumstances, in terms of share price and other uses for the cash, etc. So that is something that we’ve talked about previously, but we can do at any time and invoke that.

Kathleen Bela - Juniper Networks - IR
Okay. Operator, we have time for one more question.
Mark Sue - RBC Capital Markets - Analyst

Robyn, your voice sounds like you were yelling at the fed salespeople all quarter. (multiple speakers) Maybe if you can help us understand why we shouldn’t extrapolate the SLT weakness as more challenges to come, have you recovered the fed sales that slipped? Are closure rates back where they should be? And is the SLT book-to-bill greater than 1?

Scott Kriens - Juniper Networks - Chairman, CEO

Mark, a couple of things, then Robyn can talk about some of the specifics. Frankly, I don’t know what we’ll see in fed this quarter. Some of it may depend; it’s sort of an – I guess, at best, given the latest activities of this week, it’s an uncertain time in our government this time of year. So we’ll see what happens there.

I think that the – at least we don’t see reason to extrapolate from what we saw in the first quarter in federal across the balance of the enterprise markets or certainly the world. There was, and there is going to be, I suspect, some continuing concern. Certainly, we’ve heard news -- you all are living in the segment where people have announced layoffs within financial services and things like that. So we’re going to obviously be careful on a vertical basis here within the financial services sector in particular.

But there’s as much -- in this high-performance segment, there’s as much reason for optimism as otherwise across both the markets in the U.S., and certainly others around the world.

Robyn Denholm - Juniper Networks - CFO

So on the book-to-bill, we don’t specifically break it out between SLT and IPG. But there’s no -- there’s not a huge difference between the two in terms of book-to-bill ratio. They’re about the same.

Mark Sue - RBC Capital Markets - Analyst

Got it. That’s helpful. Separately, Robyn, the status of the convert and the impact on interest expense?

Robyn Denholm - Juniper Networks - CFO

So that is due to convert in June as planned.

Mark Sue - RBC Capital Markets - Analyst

Got it. Thank you, and good luck.

Scott Kriens - Juniper Networks - Chairman, CEO

Thanks, Mark.
Kathleen Bela - Juniper Networks - IR

Okay. We’d like to thank everyone for joining us today to talk about our results for the first quarter, and we look forward to meeting with you again next quarter. Thank you.

Operator

Ladies and gentlemen, that does conclude today’s conference call. We thank you very much for your participation, and we ask that you please disconnect your lines. Have a wonderful, lovely afternoon, everyone.