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PRESENTATION

Operator

Greetings and welcome to the Juniper Networks' fourth-quarter 2011 earnings results conference call. At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation.

(Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Kathleen Nemeth, Vice-President of Investor Relations for Juniper Networks. Thank you, Ms. Nemeth. You may begin.

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

Thank you, operator. Good afternoon and thank you everyone for joining us. Here on the call today are Kevin Johnson, Chief Executive Officer and Robyn Denholm, Chief Financial Officer. Kevin is joining us from Davos where he is participating in the World Economic Forum. Before we continue, I would like to highlight the reporting change that we are preparing to implement. As we discussed early last year, we are aligning our resources with our platforms and software strategy. In 2012 we will conform our financial reporting to these business segments.

Under the new segment structure we expect certain product families to be reported under new segments. We will provide you two years recast quarterly history and will continue to provide key product category data. Please remember when listening to today's call that statements concerning Juniper's business outlook, economic and market outlook, future financial operating results and overall future prospects are forward-looking statements that involve a number of risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including economic conditions generally or in a networking industry, changes in overall technology spending, the network capacity requirements of service providers, the timing of orders and shipments, manufacturing and supply chain constraints, variation in the mix of products sold, customer perception and acceptance of our products, litigation and other factors listed in our most recent reports filed with the SEC.

All statements made during this call are made only as of today. Juniper undertakes no obligation to update the information in this conference call in the event facts or circumstances change after the date of this call. In discussing the financial results, Robyn will first present a 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 8K filed with the SEC today.

For the detailed reconciliation between GAAP and non-GAAP results, please see today's press release. In general, non-GAAP results exclude certain nonreturn charges, amortization of purchase intangibles and other acquisition charges and expenses related to stock-based compensation. On today's call, Robyn will also be providing forward looking guidance. As a reminder guidance is provided on a non-GAAP basis other than that with respect to revenue and share count.

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

Kevin Johnson - *Juniper Networks Inc - CEO*

Thanks, Kathleen and welcome everyone. Our results for Q4 are in line with the updated outlook we provided earlier this month and Robyn will cover the details after my remarks. I would like to spend a few minutes providing some insights on our 2011 performance, the near-term macro environment and industry dynamics, as well as our strategic approach which is centered on innovation and customer value. I will wrap up by sharing our operating principles for 2012 and update you on our innovation pipeline.

Juniper's revenue growth was 9% for 2011. Annual revenue for 2011 represented a new record for the Company. Profitability was solid, though lower than expected. Our Q4 rules felt the effect of increased macro volatility that escalated over the second half of the year due to the sovereign debt concerns in Europe and slowing recoveries in APAC countries as well as the US.

Here in our US business we saw a number of our largest customers reduce their spend within the quarter including tier 1 service providers and financial services, though in other sectors like federal we saw stronger spending than expected. Another factor that played into recent results is the fact that we are entering what is surely the most exciting new product cycle in our history. As we move through the launch phase on these products we have seen some short-term effects, particularly in core routing as customers awaited the T4000. This product is now shipping and we are seeing very good early response. Our PTX transport core product line is on track to release later this quarter.

There are also some significant positives in our results particularly in enterprise. And even with the macro head winds and product transitions I described, enterprise sales were up 9% year-on-year for Q4 and 11% for the full year. This growth reflects good performance in both routing and switching with the latter category up 28% in 2011. We are taking share in the enterprise consistent with our stated objectives. Enterprise growth is one of several proof points that validate our strategy and reinforce the strength of our value proposition to customers. We are firmly grounded in our strategic direction and we will continue to play offense while managing through the current pressures in our industry.

As we begin a very active 2012 here at Juniper, I think it's a good time to refresh on the five key components of our strategy. One, we are a peer play in high performance networking. All of our world class talent is focused 100% on expanding our leadership in this category which we firmly believe will encompass most of the networking market as the two mega trends of mobility and cloud computing accelerate. Two, we are recognized around the world as the innovation leader in networking. We are committed to investing in R&D at a level that drives our innovation agenda, enabling us to deliver highly differentiated products and at outstanding value to our customers.

Three, we were committed to leveraging our R&D investment to develop products and solutions that span both our service provider customer base and our growing enterprise customer base. Again, the trends of mobility and cloud computing make it easier for us to harness the strategy across the two sectors. Four, we are diversifying our customer base. We have significantly broadened our service provider business over the last several years adding 155 net new service provider customers in 2011. We are also expanding our presence in the enterprise and we continue to take share.

And five, we were complementing our system strategy with the Junos Space software solutions. These solutions leverage the One Junos platform and are highly synergistic to our systems business. We believe this strategy aligns well with the powerful forces that are driving the new network. Innovation is what will drive long-term value creation in the networking industry as customers abandon the complexity and unnecessary costs that plague old architectures and embrace open systems that can scale across multiple dimensions of network growth.

As our innovation takes hold in the market we are seeing competition become more aggressive. This only reinforces that we are on the right track and we need to maintain our investments and continue to innovate faster than the competition. We will stay the course with our organic R&D investment. 2012 is a major new product year for Juniper. We will be very focused on making investments that best monetize our innovations while remaining thoughtful about spending levels across the business. It is important to recognize that Juniper's R&D commitment has rewarded the Company time and time again. Five years ago we began investing in the MX3D edge routing platform. We maintained our investment and MX has established Juniper as a key player at the service provider edge.

Our EX switching portfolio is another example. Over a three to five year arc, the EX has further expanded our portfolio and has translated, as we predicted, into a share taking position for Juniper in switching. We fully expect our new line of next generation data center fabric will enable us to take that position to a new level. Of course, there are some implications as we release new innovation into the market. For example, we have just started shipping the T4000 as planned and this may have slowed T-series orders over the last six months as customers awaited the new product. These customers know that we are updating the performance that we deliver in the core.

In security, our customers are continuing to adopt Junos-based SRX offerings. While our SRX portfolio for service providers is strong, there are some product features that we are focusing on for our enterprise customers. You will hear more about our action plan for security and other innovation developments in a special technology discussion with Stephan Dyckerhoff and Bob Muglia at Mobile World Congress at the end of February. So, we are confident in our strategy, our innovation pipeline and deeper penetration we are achieving in both service provider and the enterprise. But the near-term environment remains challenging. As we have done in the past few years we have established a set of operating principles by which we are managing through the year.

For 2012 those principles are, first, we are assuming continued uncertainty in the near-term macro environment. Second, we plan to grow faster than the markets we serve focusing on new product introductions to accelerate growth as we exit the year. Third, we will maintain investments that deliver innovation and our product road map. Fourth, we were focused on prudent cost management. And fifth, we expect to generate solid cash flows to support our strategic needs while maintaining a strong balance sheet. As we operate the business within these principles, we are maximizing the success and accelerating the adoption of our new innovations coming to market.

I'm pleased with the progress we are making and the customer feedback we are hearing. I would like to share a few examples. Our T4000 router is now shipping and two major service provider customers Telefonic and Comcast placed initial orders in Q4. Our PTX trial process is going well and we have received customer orders for this product which will ship as planned later this quarter. QFabric had its first full quarter of revenue contribution which exceeded our expectations. Most important at this stage, however, is securing early adopters for deploying QFabric and will serve as references to other interested customers. This creates and accelerates demand cycle. We are pleased with the progress in this area as we now have a number of key customers in various stages of deployment across all three theaters. These wins combined with the growing pipeline of opportunity is also generating more and more partner attention on this important product.

In the quarter, we released the next wave of MobileNext feature including the S-Gateway as planned. Customer trials and third party tests are showing that MobileNext, of all packet core software running on an MX 3-D delivers breakthrough performance results for customers and that success is supported by an increased interest we are seeing with service providers. As an example, is Elisa Corporation, the Finnish telecoms and ICT services company, which has selected the Juniper Networks' MobileNext portfolio as a unique mobile packet core solution in its network.

To wrap up, we are aligned strategically to address what we firmly believe is a vibrant long-term growth opportunity in networking. There are some near-term challenges, but as we have demonstrated in the past, we are committed to investing in an innovation road map that best positions us to capture the long-term opportunity ahead. The two key trends of mobility and cloud are fully intact and in fact are accelerating demand for the differentiated products we offer.

Customers recognize that legacy networks are plagued by complexity, unnecessary cost and inadequate performance. And customers around the world are embracing flatter networks that reduce complexity and cost while delivering dramatic improvements in performance and scale. We are the one of the very few companies delivering breakthrough technology in the networking category and we fully embrace that position. We look forward to seeing you at our upcoming meeting at Mobile World Congress. In the mean time, thank you for joining us today and I will turn it over now to Robyn to cover the results.

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

Thank you, Kevin. Good afternoon, everyone. The December quarter was an atypical and unexpectedly weak finish to the 2011 fiscal year. These results are consistent with the revised ranges we provided on January 9. With a backdrop of continuing uncertainty in the macro environment, two main factors contributed to the weakness. Firstly, our largest service provider customers reduced their spending intentions within the quarter. And secondly, while our enterprise business did well, the growth was driven primarily by federal with a softer finish than expected in other areas.

Looking at our demand metric, book-to-bill was 1.0 and product deferred revenue was up slightly sequentially and relatively flat year-over-year. While we believe that the long-term demand fundamentals remain intact and the near-term outlook remains uncertain, in this environment a careful approach is appropriate as we anticipate the effects on customer demand and the prioritization of their investment and project deployment. We will continue to execute our strategy while remaining focused on prudent expense management.

Total revenue for the fourth quarter was $1.121 billion, up 1% sequentially and down 6% year-over-year. Revenues for the full year was $4.449 billion, up 9% year-over-year. There were no customers who accounted for more than 10% of total revenue in the quarter or for the full year. For the fourth quarter, GAAP diluted earnings per share were $0.18. Included in the GAAP diluted earnings was a $0.02 impact for restructuring and other charges.

Non-GAAP diluted earnings per share were $0.28, which is unchanged sequentially and a $0.14 year-over-year decrease. As a reminder, last year's non-GAAP diluted earnings included a $0.03 favorable impact related to the renewal of the full year R&D tax credit in the quarter. For the full year, GAAP diluted earnings per share was $0.79 compared to $1.15 from the prior year. Non-GAAP diluted earnings per share were $1.19, versus $1.32 a year ago.

Now let me provide you some color on revenue by region, business segment and market. In the fourth quarter, the Americas were approximately 46% of total revenue, EMEA was 36%, and APAC was 18%. America's revenue was down 6% sequentially and 10% year-over-year primarily, due to the reduction in demand by some of our largest service providers. This year-over-year decline was partially offset by good enterprise growth. EMEA revenue was up 28% sequentially and 11% year-over-year with both service provider and enterprise gain. We saw good growth in eastern Europe and the Netherlands. In addition, we saw the first revenue from a significant new win with a top service provider in Eastern Europe which spans a broad range of our product portfolio.

APAC revenue decreased 16% sequentially and 20% year-over-year. This was primarily due to continued weakness in Japan and the pushout of some demand in China. Now looking at the revenue by segment, infrastructure revenue was $849 million, up 2% sequentially and down 6% year-over-year. Within this segment, total router product revenue was $507 million, down 8% sequentially and 21% year-over-year. Total MX product revenue was $255 million, up 11% sequentially, and 8% year-over-year. This reflects the healthy competitive position and incremental wins we've secured in the edge.

T-series products were down sequentially as a result of weaker overall demand from service providers coupled with an expected pause as we introduced the T4000. As planned, we shipped the first T4000 units this quarter and expect first revenue in Q1. We also anticipate the first PTX shipments in Q1 and both products are generating excellent customer interest. Total switching revenue was a record $168 million, up 28%

sequentially and 36% year-over-year. Product revenue which includes QFabric and wireless LAN was $157 million, up 29% sequentially and 33% year-over-year. This was driven by strength in our EX products both in data center and campus deployment. We also recorded the initial revenues from the first deployments of our full QFabric solution. We are very encouraged by the strong customer interest in this disruptive technology.

So the full-year infrastructure revenue was $3.4 billion, up 12% from the prior year. This was surprised primarily of router product revenue of $2.3 billion, up 7% and switching product revenue of $493 million, up 31%. Moving on to the SLT segment. Revenue for the quarter was $272 million, which was flat sequentially and down 4% year on year. For the full year, SLT revenue was just over $1 billion, down 2% from a year ago. SRX product revenue for the quarter was $81 million, down 12% from a strong third quarter. As we have noted in the past, SRX revenues will vary by quarter, influenced by the timing of high-end SRX service provider deployment.

In the enterprise, we have seen positive customer traction with the branch SRX but the revenue growth from these products has not offset the decline of the older enterprise security products. The Q4 release of the security design application in Junos Space and the product road map are promising steps as we stabilize and ultimately regain growth in the enterprise segment of the security market. We continue to see good adoption of Junos Pulse and had our first revenue from the new Mobile Security Suite. Also we began our first customer deployment of MobileNext and had new video optimization design wins, both of which will yield revenues this year.

Looking more closely at the markets we address. Service provider revenue was $677 million, down 1% sequentially and 14% on a year-over-year basis. Lower routing revenue was partially offset by strength in switching, both sequentially and year-over-year. We also saw strength in sales to cable providers and T-2 carriers. Enterprise revenue was $444 million, up 6% sequentially due primarily to strength in switching. We also saw strength in sales to federal and several European countries.

Revenue was up 9% year-over-year as routing and switching growth offset a slight decline in security. For the quarter, service provider was 60% of total revenue and enterprise was 40% of total revenue. For the full year, service provider was 64% of total revenue and enterprise was 36% of total revenue. Our increasingly diversified revenue base both in service provider and in enterprise helped offset some of the weakness with our top customers.

Now moving on to our margins in operating expenses, non-GAAP margins for the fourth quarter was 63.3% compared to 65.3% last quarter. Product gross margins were 64.2% of product revenue, down 3.3% sequentially and 5.1 points year-over-year. Gross margins for the quarter were negatively impacted by three mix-related factors -- firstly a lower proportion of router styles; secondly, a shift in the geographic mix of revenue from the Americas to EMEA; and lastly, a higher percentage of services in our total revenue. Performance for the year was impacted by these same factors as well as increased fixed overhead and inventory-related costs. While we recognize competitors are positioning themselves aggressively we have not seen any discernible difference in our discounting or in our win-loss ratio. Our strategy is to continue to differentiate our products through innovation and total cost of ownership.

Services gross margins were 60.6%, up 3.2 points from the prior quarter and 2 points compared to the prior year. This was the result of higher overall services revenue and good cost management. Non-GAAP operating expenses were flat sequentially at $501 million, driven by lower variable compensation offset by higher prototype and development costs and very good cost management. R&D expenses were down 1% from both the prior quarter and last year's fourth quarter. Sales and marketing expenses were flat sequentially and down 2% year-over-year. G&A expenses remained about 3% of sales at $38 million.

Looking at head count, we ended the year at 9,129 employees, a slight sequential decrease and a net increase of 357 heads or 4% from last year. We have slowed our hiring and are focused on the most strategic requirements as we address the near-term environment. Non-GAAP operating margins for the quarter was 18.6%, down 1.4 points sequentially and down 5.9 points year-over-year. Looking at operating margins by segment. Infrastructure operating margin decreased 1.5 points sequentially and 9 points lower year-over-year. This was primarily due to lower revenue and product gross margins. For the full year, infrastructure operating margin was 21% of sales, 4.4 points lower than last year. As a reminder, the results of the infrastructure segment include routers, switches, MobileNext and QFabric.

SLT operating margin was 23.4%, 1.1 points lower sequentially and 3.7 points above last year's fourth quarter. For the full year, SLT operating margin was 19.4% of sales, 0.5 point lower than last year. The GAAP tax rate was 21.5% for the quarter. The non-GAAP tax rate was 23.7%, down 3.7 points from the prior quarter. This was due to our geographic mix of earnings and a one-time impact from the favorable resolution of certain state income tax matters.

Looking at the balance sheet we ended the year with $4.3 billion of total cash and investments with approximately 50% on shore. Our net cash and investments was $3.3 billion. DSO was 46 days in the quarter, up from 36 days last quarter but in line with Q4 last year. Cash from operations was a strong $244 million this quarter, up $58 million sequentially and down $127 million from the prior year. For the full year, we generated strong cash flows at $987 million from operations.

Q4 CapEx totaled $78 million; for the full year CapEx was $266 million, an increase of $81 million over the prior year. This was driven primarily by the costs for Sunnyvale corporate campus. Depreciation and amortization was flat with last quarter at approximately $43 million. Our weighted average shares on a diluted basis for the quarter were 533 million shares, a decrease of approximately 3 million from the third quarter. On a full-year basis we bought back $541 million of shares which largely offsets stock issued through our employee equity program.

Now I will review our outlook. As a reminder, these metrics are provided on a non-GAAP basis except for revenue and share count. Looking ahead, we believe the long-term demand fundamentals remain intact and we are confident about the growth potential of our new product portfolio. However, we are concerned by the near-term uncertainty in the macro environment and the effect it may have on the level, timing and prioritization of customer demand. Given this view, we expect Q1 2012 to be challenging. We are expecting revenues to range between $960 million and $990 million. This reflects seasonally lower enterprise spending and continued caution by service providers.

Gross margins for the first quarter are expected to be in the range of 63% to 64%. We expect the first quarter's revenue mix to have similar characteristics to last quarter's but should see progress from our continued focus on cost improvement. Operating expenses are expected to increase in Q1 as we incorporate the typical increases in employee expenses such as FICA and the reset of variable compensation. As we have done before, we will continue to make the strategic R&D and go-to-market investments that are necessary to successfully execute our strategies and capitalize on the new product cycles while carefully managing costs.

As a result of lower revenue, similar growth margins and higher operating expenses for the first quarter, we expect operating margins for the first quarter to range from 11% to 13%. This is expected to result in first quarter non-GAAP diluted EPS of between $0.11 and $0.14 per share. This assumes a flat share count and a tax rate of 29%. The tax rate includes an estimated $0.01 quarterly impact on EPS and assumes no renewal of the R&D tax credit.

In summary, we are confident of our strategy of disruptive innovation and our operating principles for the year position us very well going forward. In the near term, we anticipate the revenue environment will remain challenging. For the full year we expect to grow faster than the markets we serve based on the new product cycles and the conversion of current design wins. We also anticipate that we will improve our operating margin from the Q1 levels throughout the year.

We will navigate this near-term uncertain demand environment as we have in the past, remaining focused on prudent expense management, investing in critical areas of the business to drive growth and continuing to bring value to our customers as they address the market demands of mobile internet and cloud computing. I want to thank our employees for their continued support Their dedication, innovation and commitment to delivering the new network are keys to our success. With that, I will hand it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brian Marshall, ISI Group.

Brian Marshall - *Gleacher & Company - Analyst*

Great. Thanks, guys. Question with respect to service and router CapEx outlook. Obviously very difficult to ascertain, but was wondering -- obviously not talking about things from a quantitative perspective but more qualitatively. I was wondering if you could talk a little bit about your best guess with respect to when things might start to pick up from an industry standpoint from a wireline CapEx perspective. Historically it seems like these happen in four quarters and seems like we are halfway through, if that's the case, implying a bottom in a sort of summer time frame this year. Would you agree with that? Thanks.

Kevin Johnson - *Juniper Networks Inc - CEO*

Thanks, Brian. I will go ahead and take that, Robyn. Let me just comment on some of the trends, Brian, that we see unfolding. First I think clearly, there is a shift of CapEx from wireline to wireless. And when we look at that shift, fundamentally that plays into the architectural approach that we put together. Architecturally when we look at that shift from wireline to wireless, we believe customers -- certainly there will be a wave of investment around radio access networks.

As things come to the packet switch network, we believe in fixed mobile convergence or the unified edge, which basically is what we architected the MX 3D to do, was to be handle both the wireline and the wireless side. And so with that shift from wireline to wireless, we think that starts to play into the architectural value proposition that we have about helping customers collapse multiple networks into a single unified edge which gives them better economics in terms of carrying that traffic. In addition to that shift, there is also the trend that I think you see with service providers where they are much more closely looking at the level of CapEx relative to revenue generation. And this is something, too, that over the last three years we predicted. As customers look at their revenue streams and start to map the level of investment required to drive that revenue, they are looking for efficiencies and efficient use of capital. We believe that, too, plays to our value proposition whether it's on the edge with the unified edge or whether it's in the core or whether it's in the Converged Supercore. And so with that market shift we think it plays to several things that have been a core part of our strategy over the last few years as we've built these architectures and products.

The question is, if you think about going through the year, when and how will CapEx unfold? First I will remind you that the packets which networking component of CapEx is a small percentage of the total service provider CapEx. I do believe that in talking to many customers, certainly a combination of the uncertainty related to the European sovereign debt situation and the implication that has on financial services and the implication that has on access to capital is one of the reasons I think that service providers are being somewhat perhaps more cautious in the levels of capital expenditures, but they are also being more mindful of how those capital expenditures are aligned behind their revenue generation.

I think we will have to wait and see how the macro-economic situation unfolds and our approach is going to be consistent with what we have done in the past, is to remain very agile as we see that unfold, yet staying true to our strategy. Because we believe we have the right strategy that plays to the value proposition these customers need and are looking for and we are going to have to be agile as we work through the time period and see how these things start to pick up.

Operator

Ehud Gelblum, Morgan Stanley.

Ehud Gelblum - *Morgan Stanley - Analyst*

Couple things. When you look at -- Robyn, you were talking about the T-series and the T4000 stalling a little bit on the router side, at what point did you see that happen? And since PTX is also somewhat of a core router type of product are you seeing any mix of customer base perhaps a bit of PTX is perhaps cannibalizing some of your T-series or core. Are you seeing anything happen there on the dynamic? Then a clarification, the enterprise side, if you can just give us what the wireless LAN revenues did. That will be helpful also. And then finally on the MX, that did very well this quarter. How do you see that, if you can give us a sense as to how that kind of plays out through the rest of 2012? Does it start weak and then go up every quarter throughout or are you still waiting to see what carriers do before you can call what the MX is going to do?

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

Thanks, Ehud. I will start answering that question and then Kevin can elaborate as well. In terms of routing, you know, as Kevin mentioned before we are confident in the strategy that we have both on the core and on the edge in terms of the universal edge and the core. In terms of customers pausing for the T4000, we were expecting that in the quarter if you recall back to last quarter's call. We had a surprisingly strong quarter in T in Q3 and we called that out. We actually were expecting it to decline in the quarter and it did.

In terms of the overall commentary about routing, we obviously did see that come down during the quarter as service providers changed their spending intentions within the quarter. With respect to wireless LAN, I talked about the total switching growth in the quarter. We saw growth in all three areas of the switching, EX as well as wireless LAN as well as QFabric quarter over quarter. So we are pleased with progress across the board for the switching portfolio. With respect to MX, the strength in the quarter, we did see that come back up as we called out on the third-quarter's earnings call. That's the result of both new design wins and continued deployments of existing design wins that we have on the MX side. And our view is that that platform is very strong in the universal edge strategically, as Kevin commented. You know, there is a convergence on the edge and we believe that MX is very well positioned for that. Kevin, anything you like to add?

Kevin Johnson - *Juniper Networks Inc - CEO*

Yes, I'll just add on the question you had about the PTX, Ehud. Look, most of the PTX deals that we are working on, fundamentally the PTX and Converged Supercore, it collapses multiple layers of the network. It doesn't replace the core. And so most of the deals we are working on have T-series for the core MX and the PTX as we are working with customers. I don't anticipate that the PTX is a product line that cannibalizes the core. What it does is it now extends the core and allows that core network to be able to collapse multiple networks into a single point with the PTX.

Operator

Tal Liani, Bank of America.

Tal Liani - *BofA Merrill Lynch - Analyst*

Hi. I wanted to ask about margins of co-routing and edge routing. First, do you see any pricing pressure in the market within -- when you look at like-to-like customers outside of geographical mix? And then how is pricing different between core and edge? I'm asking this just because Cisco mentioned repeatedly in the last six months about declining margins and routing and I want to correlate it with your declining margins. Thanks.

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

Yes, I will answer that question, Tal. So firstly, as we have stated strategically our -- the way we work with customers is on total cost of ownership in terms of delivering products into the markets that will reduce their cost of ownership both in terms of CapEx and OpEx. And so we have been focused on that across all the product areas that we are in with both service provider customers and with enterprise customers. That is our core way of operating within the marketplace.

And we continue to deliver the innovation that customers need in order to do that. In terms of pricing, as I said in my prepared remarks, we are not seeing discernible difference in the discounting practices or in the win-loss ratios versus any other period of time. So there is -- obviously the competitive environment is intense, but it has always been intense. Our view is that that hasn't changed. I think what has changed is we are delivering innovation to the market that directly drives total cost of ownership different for our customers and they are seeing that translate to value for them. So, Kevin, anything else you'd like to add?

Kevin Johnson - *Juniper Networks Inc - CEO*

I'd just sort of punctuate that point, Robyn. First of all, the innovation agenda we are driving creates differentiation, which our strategy is to sell the value in the differentiation we have. That said, we are very aware of the competitive dynamics and our sales teams are very focused on customer situations and if we see areas where competitors are getting more aggressive on price, we may decide to be surgical in a certain customer deal or two. I think as Robyn commented this quarter, we didn't see broad levels of discounting taking place. But I want to comment that from a competitive standpoint, we will sell our value and we are going to be very focused on the customer and the competitive dynamics in that account and if we need to use price surgically, we will consider and be thoughtful about how to do that.

Operator

Mark Sue, RBC Capital Markets.

Mark Sue - *RBC Capital Markets - Analyst*

Kevin, I'm trying to reconcile the promising market trends against declining revenues, customer delays and lower operating margins. Why do you think the challenges are temporary in nature and if the competitor's actions are increasing do you subscribe to the notion that your large and growing target markets are now just large markets and now there's a structural change to margins for everyone.

Kevin Johnson - *Juniper Networks Inc - CEO*

Well, first of all, I think the long-term market trends that we start with would be those of mobile internet and cloud computing and the fact that the traffic driven by those market trends continues to grow. That is point number one. Point number two, is the transition of how to carry that traffic to packet-switch networking. So the packet-switch networking is a subset of the total capital expenditures of these customers. And then, number three, you look at the fact that customers are trying to get more efficiency out of the investment in CapEx which, in order to get that efficiency, we believe very strongly it's a combination of the architectural approach that we've taken with the new network and the innovation that we've put into our products.

We think that number one, the long-term demand trends remain strong. Number two, the customer trend and desire to get CapEx more aligned with their revenue is going to make the architectural approach and the innovation we are delivering more valuable to them. And number three, then I think is going to come down to how well we compete in the market to earn those opportunities. I do think that there will be places where there will be surgical action taken on price, but I think overall, we feel like we've got differentiation in the technology and that comes from our investment in R&D. So we've got to lead with that value and then at the same time -- look, we are very aware of the market situation. We are very aware of customers and we are playing offense. We will see how things unfold.

Operator

Simon Leopold, Morgan Keegan & Company.

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

Great. Thank you. Appreciate that. Couple of things. One is probably a tricky question to answer but needs to be asked anyway. In light of a couple of disappointing quarters, I'm trying to figure out how much of your forecast is an effort to be super conservative and cautious so that you have got a number you are very comfortable meeting versus how much of this guidance is truly some change in the fundamental demand for your product in the quarter. And maybe you can even tie that to the commentary we have gotten from at least the major service providers in the US

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suggesting that their capital spending would be roughly flat year-over-year which certainly doesn't align with this first quarter guidance. Thank you.

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

Thanks, Simon. I will start with that question and Kevin, if you want to add anything, please feel free to do so. In terms of the guidance, we have taken the same approach to our guidance for the first quarter as we typically do. Obviously we always look to refine the approach and improve it and make sure that we are looking at different things from a process perspective. But the philosophy and the approach to the first quarter guidance is consistent with what we have done previously.

In terms of how we were looking at things, as we said in the prepared remarks, the demand fundamentals for the markets that we serve are absolutely intact. We continue to see progress in terms of things that are driving the demand for the new network. Our view is that for the first quarter, service providers are going to continue to be cautious in their CapEx spending. And we also typically see a seasonal decline from the fourth quarter to the first quarter in our enterprise business as well. So that is what we are projecting for the first quarter in terms of guidance.

Kevin Johnson - *Juniper Networks Inc - CEO*

I will add to that, the macro-economic situation I think in the enterprise has some implications in financial services. And I think if you look at the financial services sector you see some of the implications there. And we saw some of those customers push some of the deals out of Q4 into Q1 and so there are some questions of will they push again from Q1 to Q2 depending on how things unfold in Europe. There is a little bit of factoring that into the seasonal decline that we normally see in enterprise from a Q4 to a Q1. The other factor is in Q4 of 2011, we had a very strong quarter in federal which was very unusual. Typically in US federal you have your bigger quarter in Q3 and then things decline in Q4. So we had a big federal quarter in Q4 which question is, is that repeatable in Q1?

There is a couple of other things that were factored in as we looked at the Q4 to Q1 guide. And then for service providers as they are shifting to wireless, oftentimes -- it depends customer by customer but oftentimes they put a lot of capital first into the radio access network and the access side. And as they do that, that's part of what then allows them to start to generate more traffic from smartphones, tablets, and as we go to LTE, even significantly more traffic. And then as that cycle works through, then it puts more traffic demands on the edge and core of the networks and that's where we play. Some of this is timing as the wireless investments are made and as that traffic pattern builds up. Those are a couple of the factors that were part of the thinking on the guidance.

Operator

Jeff Kvaal, Barclays Capital.

Jeff Kvaal - *Barclays Capital - Analyst*

Yes, have I two questions. Kevin, one might be more for you and then Robyn, one more for you. Question is your revenue levels now are at levels that you might have reached two or three or four years ago. And yet your OpEx is significantly higher. I'm wondering, if this revenue level persists what might trigger you to reconsider where your OpEx levels are. Then my second question is, Robyn, if I'm not doing it wrong, I have the DSOs up sequentially and I would have thought if you had a weak close to the quarter that the DSOs might not have been up all that much.

Kevin Johnson - *Juniper Networks Inc - CEO*

Thanks, Jeff. I'll take the first one, Robyn, and then let you handle the second one. Jeff, the approach we are taking is very consistent to the approach we have taken over the last three and a half years or so as we have worked through the economic ups and downs of the situations we have managed through over this three and a half year period. Certainly our view is this becomes, after Q1, an opportunity for us to continue to grow and as Robyn commented, improve on operating margins from Q1.

And so certainly if we continue to see lower revenue levels, then that's going to prompt us to be much -- to continue to be very thoughtful about what we are doing on the operating expense side. But I think when we look at the product portfolio and look at the full year, I think we are set up in the right way. We are delivering on the set of products that we have had in the pipeline. But certainly as we see how Q1 unfolds and as we move into Q2, we are going to be very agile and thoughtful in our cost allocations.

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

Yes, and in terms of the DSO, the DSO is very consistent with last year in terms of the Q4 DSOs. It was up sequentially in terms of the third to fourth quarter, but very consistent with what we have seen in prior Q4 DSO trends.

Operator

Brent Bracelin, Pacific Crest Securities.

Brent Bracelin - *Pacific Crest Securities - Analyst*

Thank you. I guess a question for Kevin here. And really taking a step back from Q4 and looking at the trends within the service provider business over the last year. Service provider segment revenue declined sequentially in each quarter during 2011 and your outlook would imply another sequential decline in the service provider business in Q1. We have really never seen this five-quarter consecutive decline in the business and I went back ten years. So I guess the question is, what gives you confidence this is just an industry issue and not some share loss or competitive issue? And then obviously given the strong balance sheet with $4 billion in cash and investments, why would you not consider getting more aggressive on the acquisitions front and try to further diversify away from the provider that continues to be pretty weak here.

Kevin Johnson - *Juniper Networks Inc - CEO*

Let me first comment on your question about market share. And the data point I look at -- we had very, very strong Q1 and Q2 on our router business. In fact, if you look at year-to-date through Q3, our router business was up year-on-year about 19%. And the Infonetics data showed that the addressable market was up 11%. Certainly, we have to see how all of the router market gets reported for Q4 and factor that in. But year-to-date through Q3 we were -- routing business was up 19% and addressable market up 11%. So we will see how that unfolds for Q4.

But that's part of the thesis as we are watching this unfold, we had a big cycle of some big deployments Q1 and Q2, then certainly mid-year 2011, the concerns about European sovereign debt and some of the other things started to perhaps have some implications in the industry. And we will see as the data comes out for Q4. Second part of your question is around M&A. I think clearly we continue to drive the strategy that organic R&D is our primary value creation strategy. We will continue to complement that with acquisitions. And we want to focus on acquisitions that are complementary to the R&D strategy that give us somehow synergies in terms of the solution or the technology and the value that we are delivering to customers.

And, I think over the last two years we have done six or seven different acquisitions that would be characterized probably more as tuck-ins. Things that were smaller that had intellectual property and some number of head count and talent in a certain area and it was intellectual property that was very complementary to things we were doing in our overall organic R&D strategy. So I think we feel good about the architectural approach that we are taking to market and the different domains of networking that we are participating in. We feel good about this wave of new products and we are going to always be mindful of what M&A we could do to complement our organic R&D, but I still think that the focus we have is driving an innovation agenda that comes from the talented people that are inventing new architectures and new ways to solve complex problems for our customers.

Operator

Simona Jankowski, Goldman Sachs.

Simona Jankowski - *Goldman Sachs - Analyst*

Just two questions. The first one is you didn't have any 10% customers last year, which is not typical for you. So I was curious as you look out into this year based on the pipeline of your design wins if you would expect to have a 10% customer again at some point this year. Then the second question was, in the first quarter switching did better than we had expected and just in particular QFabric seeing an excellent response. So I was curious if you can give us some categorical examples of the kinds of customers that are the early adopters of QFabric, whether it's the federal segment or internet companies or large enterprises, et cetera. Thank you.

Kevin Johnson - *Juniper Networks Inc - CEO*

Thank you for the question, Simona. I think on the 10% customer, one of the strategies we articulate is that we are diversifying the customer base and that's a strategy as much about service providers as it is about enterprise. And we've expanded our go-to-market model in the service provider sector where we are now reaching out to -- with our partners and others to a larger number of service providers, smaller service providers but tier 3 service providers that still make a significant amount of investments in our technology. And so that customer diversification and service provider combined with our growth in the enterprise and our diversification in the enterprise is the reason we have not seen a 10% customer last year. And, it's possible we would have a 10% customer this year but it's probably not a likely scenario. But we will see how that unfolds.

In terms of QFabric and your question about the strong results that we had in switching in fabric, I will give you a little perspective. We released the QFabric Nodes in Q2 -- or in late Q1, basically, and started selling in Q2. And then released QFabric Interconnect and Director in Q3, late Q3. So Q4 was the first full quarter that we had the Nodes, Interconnect, and Director available for customers. And that road map was all as planned and what we communicated when we announced QFabric. So through Q4 -- in Q4 we had over 100 customers of QFabric that, at a minimum had purchased QFabric T and subset of those customers have purchased and are deploying the full QFabric systems.

We are very focused on working with those customers to ensure that they have a great customer experience and great early success as they adopt QFabric. And strategically that's important because those customers that have great success, they certainly are willing and enjoy talking to other customers and it's having those customer references where we can take a customer to go see another customer's implementation of QFabric, hear directly from them the success that they are having and the good results that they are getting from it. That is in turn creating more interest and more pipeline. The increased pipeline and interest is generating now a lot of energy from our partners.

We hosted our Global Partner Conference last week and we had record attendance at the Global Partner Conference. And in many cases these are partners that -- some of them are new partners to Juniper and some of them have a significant business in networking today. One of the big areas of interest for them is being able to grow their business and expand their business with new innovation like QFabric. We are in the cycle right now where I think the demand and the pipeline is growing. And right now we are having to focus on how to build skills. I think now the pipeline and demand is growing at a rate and at a pace where the concern is are we now building enough skills and capabilities in our partner channel and certainly with the teams in the field that are working with customers to be able to continue to service that demand. That gives you a little bit of color and a little bit of background on what we were seeing with QFabric.

Operator

Nikos Theodosopoulos, UBS.

Nikos Theodosopoulos - *UBS - Analyst*

Thank you. I have two questions. The first one, can you discuss the conversion of orders and backlog to revenue? If I think about the 1.2 book-to-bill and the 1 book-to-bill this quarter, my rough calculations are backlog grew 30% this year and the revenues don't seem to be converting. I'm having a hard time understanding that, especially going into the next quarter's guidance. Then the second question would be, I know it's early but based on your discussions with your carrier customers, what do you see the carrier routing market growing this year? Your total router revenue grew about 7% in the full year of 2011. Do you think that's a reasonable target for this year based on your discussions? Or do you see that being higher or lower than that? Thank you.

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

Thanks. I will answer the first part of the question and then Kevin can add to that. In terms of the conversion of book-to-bill, yes, the book-to-bill in the quarter was 1.0 so equal to revenue for product book-to-bill. We did have a sequential increase in product deferred revenue, a slight increase of about 3%. We have grown the backlog. The same phenomenon that we had last quarter in terms of the proportion being out one quarter did not occur in the fourth quarter so was a one-quarter phenomenon in third quarter. We left the fiscal year of 2011 with more normal proportion for the first quarter than we would have had if the year was ending at the end of Q3.

The backlog is healthy in terms of the first quarter. The deferred revenue balances are essentially flat year-over-year and a slight sequential increase from the third to fourth quarter. So in terms of the Q1 demand environment as we said in our prepared remarks we are expecting the cautious nature of the service provider orders to continue into the first quarter. Obviously with the book-to-bill of one, you can calculate how many orders we got in the fourth quarter for products. Our view is that continues through the first quarter.

Operator

Rod Hall, JP Morgan Chase.

Rod Hall - *JPMorgan Securities Inc. - Analyst*

Thank you for taking my question. I guess the big question is on routing share. And the data we are presented with I think most people on this call would conclude you are losing share in Q4 on carrier routing and that that probably continues into Q1, just because the last two times we have seen carrier routing the market decline, as Brent indicated in 2008 and 2001. So those are pretty tough years. It doesn't feel like it's anything like as bad as that this year and yet your routing revenues are down.

I guess the question is, do you agree with that and is that your opinion? You must have an opinion on your routing share. And do you think that it would make sense to get more aggressive on the pricing going forward to preserve your position in routing? And the other thing I would just toss in there is, Cisco clearly indicated more aggression starting back in September. And maybe that happened early in the market. So it seems like they have been putting more pressure on routing in Q4. So if you can address that for everyone that I think is going to leave this call otherwise concluding that you are losing share. That would be great.

Kevin Johnson - *Juniper Networks Inc - CEO*

Let me take your question, Ron. First of all, remind you of the comment I made on the earlier question. Year-to-date through Q3 our routing revenue had grown 19% versus Infonetics estimate of the addressable market growing 11%. We will have to see what the Q4 numbers come out. I do suspect that with the T4000 releasing and the decline that we had in T-series, we may see in the quarter that there was some share loss short-term in the quarter on T-series as we were preparing to ship the T4000.

On the MX -- the MX grew and so I think on the edge, I think we probably are in a different situation on the edge relative to the core. So we will have to wait and see how those numbers come out. Overall we feel good about the product portfolio. We feel good about the value proposition and the earlier comment I made, we are being very aware of pricing actions and what competitors are doing in specific accounts. And with the big router business and specific accounts, it's an account- by-account opportunity for us to be thoughtful about the value proposition and the set of things we are doing in that account and if we need to be surgical on price for certain things we certainly are open and will be very thoughtful about doing that.

Operator

Jess Lubert, Wells Fargo Securities.

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

Thank you for taking my question. First, is it your expectation to grow the overall business in 2012 and then secondly, you're clearly investing to support the launch of a number of new products despite the lower revenue. Given that scenario, I was hoping you can help us understand how you are thinking about the progression of operating margins in 2012 and help us understand where you think operating margins may get to by the end of the year. Thanks.

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

In terms of the question, Jess -- thanks for the question. Obviously one of our operating principles for the 2012 year is that we expect to grow faster than the markets that we serve. So clearly we are expecting growth in terms of growing faster than the markets. In terms of the operating margin question, we will make progress from the operating margins from the first quarter that I put out in guidance throughout the year. And again, that we said in terms of our overall principles for the year. Kevin, would you like to add to that?

Kevin Johnson - *Juniper Networks Inc - CEO*

I will just a couple of thoughts and it links back to routers as well. Certainly with the T4000, I think we said there would be some revenue recognition late Q1 and most likely Q2 with the PTX shipping late Q1. I think when it comes to core routing and the Converged Supercore, that is really a Q2 through Q4 revenue opportunity for us which we believe allows us to continue to build on our Q1 revenue streams. And the second point that Robyn made I think is very important which is -- we look to expand operating margins from our Q1 base as we go throughout the year which is a function of you that we are going to see growth improving as we go forward. And if the volatility in the market or some other reasons indicate that that's not happening, we are going to be very thoughtful and agile on our operating expenses and, as we have done in the past.

Operator

We have time for one last question. Sanjiv Wadhwani, Stifel Nicolaus.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Thank you so much. Two questions. One, Robyn, I'm trying to reconcile understanding the fact that Q1 is seasonally weak. However, you obviously had a pretty good book-to-bill of 1.2 coming out of Q3. Some of the shipments that are going to come out in the March quarter. If anything, I think despite sort of negative seasonality you should have a little bit of a better Q1 outlook.

Then second question is, just taking up a previous question on sort of the growth for 2012.I know you are suggesting that you are going to grow faster than the market. I'm just curious to get your take on what your thinking about the growth rate for the overall market? Are you thinking the market grows 10%? North of that? South of that? Any color would be helpful. Thanks.

Robyn Denholm - *Juniper Networks Inc - EVP and CFO*

Yes. Let me just talk about Q1. Thanks for your question, Sanjiv In terms of Q1, we obviously have backlog coming into the first quarter. We did have some of those orders actually in the third quarter as we talked about on the third-quarter call. All of those orders are going forward. There isn't any change in that. The booking rate in the fourth quarter as it relates to the book-to-bill for product being 1 was obviously slower than the third quarter.

So our view is the rate of orders from the service providers are going to continue in terms of their cautious view around CapEx for the first quarter. That is principally the reason for the reduction in terms of the guidance that we put out there on the service provider side. On the enterprise side, as I mentioned in the prepared remarks, we typically see a sequential decline between the fourth and first quarters each year. We are expecting that for the first quarter. And so when you combine sequential decline for service provider and a sequential decline for enterprise, we get the guidance that we've put out there.

Operator

Ladies and gentlemen this does conclude today's teleconference. Thank you for your participation. We may disconnect your lines at this time and have a wonderful day.