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## PRESENTATION

**Operator**

Greetings, and welcome to the Juniper Networks fourth quarter 2012 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, Investor Relations for Juniper Networks. Thank you, Ms. Nemeth. You may begin.

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

Thank you, operator. Good afternoon, and thank you, everyone, for joining us today. Here on the call are Kevin Johnson, Chief Executive Officer, Robyn Denholm, Chief Financial Officer, Bob Muglia, Executive Vice President Software Solutions Division, and Rami Rahim, Executive Vice President Platform Systems Division.

Before we continue, I would like to highlight some planned changes to our earnings release format that will be implemented next quarter. Starting with our first quarter 2013 earnings, we will no longer be including certain financial tables within our earnings press release. But we will continue to make them available for download in Excel format on the Investor Relations section of Juniper's website. The financial tables are noted in the appendix of today's fourth quarter and full-year 2012 earnings press release, and include segment operating results, share-based compensation by category, share-based compensation related to tax by category, and reconciliation between GAAP and non-GAAP results related to the tables I just referenced. We believe this change will simplify and streamline the earnings press release format, while continuing to make valuable information available to our shareholders.

Please remember when listening to today's call that statements concerning Juniper's business outlook, economic and market outlook, strategy, future financial operating results and overall future prospects are forward-looking statements that involve a number of risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including economic conditions, generally or within the networking industry, changes in overall technology spending and spending by communication service providers and major customers, the network capacity requirements of service providers, the timing of orders and shipments, manufacturing and supply chain constraints, variation in the mix of products sold, customer perception and acceptance of our products, rapid technological and market change, litigation and other factors listed in our most recent 10-Q filed with the SEC.

All statements made during this call are made only as of today. Juniper undertakes no obligation to update the information in this conference call in the event facts or circumstances change after the date of this call. In discussing the financial results, 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 8-K filed with the SEC today. For the detailed reconciliation between GAAP and non-GAAP, please see the Investor Relations section of our website. In general, non-GAAP results exclude certain nonrecurring 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 estimates. Please note that today's call is scheduled to last for one hour, and please limit your questions to one per firm. With that, I will turn the call over to Kevin.

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**Kevin Johnson** - *Juniper Networks Inc - CEO*

Thanks, Kathleen, and welcome, everyone. Juniper finished the year on a good note, exceeding our Q4 guidance. Robyn will review the financial results shortly. Certainly, 2012 was a challenging year given the global macroeconomic environment. And we have focused on controlling the things that are within our control and improving execution. I think we have made solid progress in a number of key areas.

First, we strengthened our product portfolio and introduced breakthrough technologies over the past year. We are gaining traction in the marketplace as we execute against a multi-year strategy that will help us embrace the ongoing transition in the networking industry towards flatter, more scalable network architectures. This is evident in the new products we have brought to market in routing, switching and security. In addition, we have also made important improvements to many of our existing products with new features, enhanced performance capabilities, and quality improvements. This includes our security portfolio where we have made and continue to make key advancements to strengthen our offerings and narrow competitive gaps. In addition, we have clearly stated a path for Juniper to leverage our assets and embrace the concepts of software defined networks. Bob Muglia will share some more details on security and SDN in a few moments.

The second area of progress in 2012 was excellence in execution, focusing on our innovation strategy and on the things we can control. Last fall we announced a set of restructuring efforts designed to sharpen our focus, drive efficiencies and enable agility throughout the organization. We are also well along the path, where we have improved our sales pipeline and forecasting execution, R&D execution to deliver innovation of product quality, and customer service and support execution. We also strengthened our capabilities in business processes and key internal management systems, which will further improve our ability to execute. There is always more to do to drive continuous improvement, and this will continue to be a focus in 2013. From my perspective, Juniper is already executing at a higher level, and this adds to my confidence as we enter the new year.

Third area of focus is around capital allocation. Juniper consistently delivers strong operating cash flows, and we are being very thoughtful about how we allocate these dollars across investment priorities that drive growth, and opportunities to enhance shareholder returns. We will continue to be thoughtful in our capital allocation throughout 2013. The progress in each of these areas lays the foundation for improving performance in 2013. But before I get into our business outlook, I want to touch on the announcement we made last week around software defined networking at our annual Global Partners Conference.

I want to highlight a couple of points. There has been a lot of talk, and in many cases a lot of hype around SDN. We were relatively quiet on the topic in 2012, but in the background we were hard at work on our strategy and plans. We recognize this is an inflection point in the industry, and we share the view that SDN will play a transformational role in networking. Juniper has played a critical role in prior transformational moments in networking, and we see this as the next big transition.

A couple of things are clear today. One, it is early. That is evident in the variety of approaches beginning to emerge in the industry. Two, the vision and strategy we laid out last week defines a comprehensive path that we believe leverages our heritage as the innovation leader in high performance networking, and puts us in a good position to execute and create value, both for our customers and our shareholders. Bob will comment on this further in a minute.

I would like to focus the remainder of my remarks on how Juniper is positioning itself for 2013. The macro and spending environments remain mixed, with the beginning signs of increased project activity in service providers, offset somewhat by weakness in US federal and other parts of the enterprise. Macro environment in Europe remains challenging. That said, we are playing offense, and we are focused on making solid progress against the targets in our long-term financial model. We enter the year in a good position. As I have discussed, we are stronger operationally, we are more focused and more agile. The Company is well-prepared for growth.

In routing, innovative new products like PTX and ACX are gaining traction. This was evident in the fourth quarter. The flagship MX family of routers continues to gain widespread adoption, and we plan to take share in routing. In switching, we are continuing to take share in the market overall, and we continue to add customers for our data center switching offerings. We introduced the smaller version of the QFabric Interconnect, the QFX3000-M in Q3. And this contributed to the addition of over 130 net new customers in Q4 and an acceleration in full fabric deployments. We continue to enhance the features and capabilities of our data center solutions. And finally in security, we continue to have good traction with service providers, while we have reenergized enterprise security strategy and we are beginning to show results. This will be a big area of focus in 2013, and Bob will share more on this topic with you.

Of course, for Juniper to generate good growth, we also need to see a healthy spending environment. We will continue to watch the macro environment carefully, and we think the steps we have taken to improve our execution will enable us to manage the business prudently and with agility. We continue to believe that the underlying trends driving network investment around the cloud and mobility are intact and remain strong. US Tier 1 service provider spending in 2012 was healthy, and we think signs in our business point to some improved momentum in routing in 2013 from US and European service providers. Enterprise continues to be challenging and difficult to predict, particularly in key sectors like federal, where the US budget situation has clouded visibility and continues to weigh on the sector. But bigger picture, we are steadily improving our position in the data center, and we are making important strides toward restoring growth in security. We believe the long-term demand for high performance networking continues to be positive, as mobile devices such as smartphones and tablets proliferate and service providers increasingly rely on high performance networks to support the demand for data.

Wrapping up, we generated solid financial results in 2012 in a challenging macro environment. We focused on those things that we could control, and in the process we strengthened our product offerings, improved our execution and allocated our capital thoughtfully. Looking ahead, Juniper is entering 2013 in a strong position with good opportunities to take share in routing and switching, and we expect to continue to make progress in security. We will play offense as we pursue our three year financial targets, and we will do this by staying true to our strategy, delivering great products, focusing on operational excellence, and managing our costs carefully. Thanks again, for joining us today. And now I will hand it over to Bob to share more details on software defined networks and our activities in security. Bob?

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**Robert Muglia** - *Juniper Networks Inc - EVP Software Solutions*

Thank you, Kevin, and it is great to be joining the call with all of you today. Kevin has asked me to update you on a couple of items. The first of those is our strategy and vision for software defined networking. We unveiled this as part of our Global Partners Conference last week to an enthusiastic response. And today I will put some more context on why this announcement is important. The second item is our progress in security. We have refined our security strategy, improved our products, and delivered significant new capabilities over the past year. You will be hearing more details on what we are up to, over the coming weeks at events like RSA and Mobile World Congress, and I will offer a bit of a preview today.

Well, let's start with our SDN announcement. I think we all appreciate that SDN is likely to represent a significant shift in networking. Yet for all the hype, the industry conversation has been pretty narrowly focused. We actually view SDN as a much broader opportunity than what has been defined to date by industry players and analysts. Although we have been fairly quiet up until now, we have been working hard behind the scenes for some time. And what we articulated last week is a clear vision for the industry as well as a pathway for our customers, service providers, enterprise and cloud providers to begin thinking about how they will embrace SDN in their networks. We intend to lead the shift to SDN.

We started that conversation last week by defining six principles for SDN, and providing customers with a four-step road map. Steps that will help enterprise and network operators achieve the real promise of SDN, making their networks more agile and lowering their OpEx. We strongly believe that Juniper is ideally positioned to take this leadership role in SDN. The factors that are driving the SDN opportunity uniquely align with Juniper's strengths and track record of disruptive innovation. Our technology vision for SDN will embrace Juniper's focus on silicon systems and software.

But the business model is just as important. Leveraging proven business software industry practices, we believe that the licensing model we introduced last week, Juniper Software Advantage, will deliver great value to our customers while driving incremental revenue growth for Juniper in the years ahead. So we think we are in an excellent position to succeed with our SDN strategy in business. Depending on where you sit in the networking industry, SDN can be an opportunity or a threat. For Juniper, it is an incredible opportunity. We look forward to keeping you updated.

Let's now turn to security. The SRX continues to gain traction with service providers, and we see more opportunity ahead as the international mobile market moves to LTE. We expect this to continue as SPs expand from large cell towers to small cells within shopping malls, stadiums, and other high traffic areas to provide better service and more effectively utilize their license spectrum. The combination of leading performance, together with well-established customer adoption uniquely positions the SRX to capture these deployments. We are still turning the corner on enterprise security sales. But in Q4, we made major strides with our delivery of great security products that meet the needs of enterprise customers.

As we committed earlier this year, in Q4 we released the production version of our integrated security management product, Security Director. This product has been in trial with 100 plus beta customers, and has already been deployed by over 25 customers, cutting across enterprise vertical segments including financial services, healthcare and retail, as well as service providers. In addition, over the past six months, we have engaged in many strategic security conversations with enterprise CSOs. Mykonos, Juniper's thought leadership Intrusion Deception technology has garnered both significant interest, as well as new sales in the enterprise and has provided us with a vehicle to discuss our overall security portfolio. At the upcoming RSA event in San Francisco, you will be hearing more about our new security product offerings.

We will also have some exciting news to share at Mobile World Congress around our security offerings in the 4G LTE environment. We are pretty excited about what is on tap in security in 2013. We have accomplished a lot in the past year, from stabilizing the business to charting a strategy for resumed growth. And now the fun stuff, executing on that strategy and showing customers what we can do. As we have said many times, security is a growth market, and for Juniper it is a core area. Despite our recent challenges, we have a double-digit share of this market. We are committed to growing that share, and we are putting the pieces in place to do just that. And now here's Robyn.

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

Thank you, Bob, and good afternoon, everyone. In the fourth quarter, Juniper improved operational execution and delivered good results. I am pleased with our quarter-over-quarter and year-over-year revenue growth and our operating margin expansion. Looking at the year overall, in a challenging macro and market environment we continued to make progress in three main areas. First, operational excellence where we aligned our cost structure, to sharpen our focus to enable agility and drive efficiency. Second, focus on innovation, where we strengthened our portfolio with disruptive new products and key enhancements to existing products especially in the enterprise security and data center. And third, prudent capital allocation, where we are adding complementary technology through acquisition and increased our share buybacks.

We have largely completed our announced headcount actions. We have also made significant progress on the facility and other actions. These are all intended to bring our cost structure more in line with our long-term model. As expected, these restructuring-related actions resulted in pretax charges for the fourth quarter of $11 million, associated with severance, facilities and other restructuring costs. We also completed the acquisition of Contrail Systems for a total of $176 million of cash and equity. The total net cash outlay was $49 million, and the remainder of the consideration was in the form of equity awards.

Looking at our demand metrics for the quarter, book-to-bill remained greater than 1. Product backlog increased sequentially for the third quarter in a row, reaching $410 million, up 17% sequentially and 37% from a year ago. As anticipated, product deferred revenue decreased sequentially, and increased year-over-year. The sequential decrease was due to delivery of certain software features in the quarter. Total revenue for the fourth quarter was $1.141 billion, an increase of 2%, both sequentially and year-over-year. The sequential increase was due primarily to growth in America service provider revenues and modest improvement in EMEA. The year-over-year increase was due to growth in US service providers.

Revenue for the full-year was $4.365 billion, down 2% year-over-year. During 2012, we strengthened our product portfolio with the roll-out of new products and product enhancements. We also had good year-over-year growth in existing products. Compared to 2011, SRX grew 17%, EX grew 8%, and MX grew 7%. Verizon accounted for over 10% of Juniper's total revenue, both in the fourth quarter and for the full-year. Verizon continues to be a strategic customer, and deploys many of our routing, switching and security products across both their wired and wireless networks.

For the fourth quarter, GAAP diluted earnings per share were $0.19. This includes the impact of the restructuring charges I noted earlier, which totaled $0.02 per share. Non-GAAP diluted earnings per share were $0.28, up $0.06 sequentially and flat to the fourth quarter of last year. The sequential increase reflected the combination of revenue growth, good growth margins and lower operating expenses. For the full-year, GAAP diluted earnings per share were $0.35, compared to $0.79 for the prior year. Non-GAAP diluted earnings per share were $0.85, versus $1.19 a year ago.

Now let me provide some color on revenue by region, business segment, and market. America's revenue was up 8% sequentially, and 16% year-over-year. The sequential and year-over-year increase was due to US service provider growth. This was partially offset by a decrease in US enterprise, as a result of weakness in federal. EMEA revenue was up 5% sequentially, and down 15% year-over-year. While EMEA remains challenged, we continue to see modest improvement in the demand environment, particularly in Western and Southern Europe. APAC revenue was down 18% sequentially, due to a significant decline in China service provider.

Now let me review our revenue by segment. Platform Systems Division revenue for the fourth quarter was $930 million, up 4% both sequentially and year-over-year. PSD router product revenue was $514 million, up 5% sequentially and 7% year-over-year. The sequential increase was driven by record revenue for MX and good growth in PTX. Year-over-year, we saw significant growth in MX product family driven by US service provider in the Edge. This growth more than offset the anticipated decline in older M&E series products. We will continue to closely manage our supply chain in response to increasing service provider Edge routing demand. Total router product revenue including both PSD and SSD increased 3% sequentially to $531 million.

Total switching product revenue was $146 million, flat sequentially and down 6% year-over-year. It is important to note that orders grew 19% sequentially, and given the timing of these orders, we ended the quarter with a strong backlog. SSD revenue in the fourth quarter was $211 million, down 6% sequentially and 7% year-over-year. Total security product revenue was $170 million, down 4% sequentially and 8% year-over-year. The 8% year-over-year reduction in total security product revenue reflects the continued decline in our ScreenOS Enterprise firewall business. And as Bob outlined we have been taking steps to address this with enhanced functionality and management features. Consistent with the trend we have seen over the last year, service provider accounts for approximately 35% of our total security product revenue. High end SRX product revenue declined 19%. We expect revenue for this product to continue to fluctuate based on the timing of service provider deployments. Branch SRX was up 17% sequentially and 18% year-over-year, demonstrating the early signs of progress we are seeing with our Enterprise customers.

I would also like to provide some insight into demand for our new products. At FAM, we said we expected the combined revenue from ACX, QFabric, PTX, T4000 and MobileNext that we would exit the fourth quarter of 2013 with a quarterly revenue run rate of $150 million. We have seen healthy bookings for the new products, and we believe that we are on track to achieve this level of revenue. For Q4 2012, we are pleased with our progress. The combined bookings from these five products are approximately 50% of our total 2013 year-end goal.

Looking more closely at the markets we address, service provider revenue was $740 million, up 5% sequentially and 9% year-over-year. Both the sequential and year-over-year increases were attributable to broad strength in America service provider, where we have seen good breadth of demand across all verticals, carriers, both wireless and wireline, cable and content service providers. We have also benefited from modest improvement in demand in EMEA.

Enterprise revenues was $401 million, down 3% sequentially and 10% year-over-year. The sequential decline reflects weakness in the Americas, primarily federal, which was offset by an increase in EMEA. The year-over-year decrease was also attributable to America's enterprise, with both federal and financial services declining compared to a strong Q4 2011. Our enterprise business in APAC has performed well this year. For 2012, our total revenues in the US federal area accounted for approximately 4% of full-year total revenue.

Moving on to gross margins and operating expenses. Non-GAAP gross margins for the fourth quarter were 65.3%, compared to 65.6% last quarter. This was slightly better than we expected due to favorable mix and a strong services margin performance. Non-GAAP product gross margins were 66%, compared to 66.8% in the third quarter, and non-GAAP services gross margins were 63.2%, up 1 point from the prior quarter. Non-GAAP operating expenses were better than expected, decreasing 1% sequentially to $537 million, as a result of cost reduction activities.

Looking at headcount, we ended the quarter with 9,234 employees, down 350 from the third quarter. This headcount includes the employees from the Contrail acquisition. We are pleased with our activities on the cost structure, and we are committed to achieving our targeted cost reductions. Non-GAAP operating margin for the quarter was 18.2%. I am pleased with this result which was due to a combination of higher revenue, higher gross margins and lower operating expenses. The non-GAAP tax rate was 26.8%. As a reminder, the fourth quarter tax rate does not reflect the renewal of the R&D tax credit which came into effect in early 2013.

Looking at the balance sheet, we ended the quarter with $2.8 billion of net cash and investments. Cash flow from operations was $155 million, down sequentially as a result of an increase in working capital. DSO was 35 days in the quarter. Capital expenditures and depreciation were both up slightly from the prior quarter. We repurchased 14.5 million shares for $250 million at an average price of $17.24. We have $568 million remaining on our current authorization. And we expect to continue to calibrate our buybacks in future quarters with market conditions at the time.

As we have done in the past, we kick off the year with an updated set on operating principles, which provide insight on how we are managing the business. For 2013, our five principles are, we expect the macroeconomic environment to remain uncertain. We expect overall modest growth in the markets we serve. We expect to take share in routing and switching, and stabilize our share in enterprise security. We expect to expand 2013 operating margins over 2012. And we expect to continue to generate strong cash flow and prudently allocate capital.

Now I will review our outlook for the first quarter. And as a reminder, these metrics are provided on a non-GAAP basis except for revenue and share count. Our outlook for the March quarter reflects our expectation of a typical seasonal decline, especially in the enterprise sector. This decline is consistent with the cautious approach our customers are taking to capital deployment. In service provider, we see a continuation of US service provider capital spending, and some signs of improvement emerging in EMEA. With that backdrop, for the first quarter we expect revenues to range from $1.050 billion to $1.070 billion. Gross margins are expected to be in the range of 64% plus or minus 0.5 point. Operating expenses are expected to be $515 million, plus or minus $5 million. We expect operating margins to range from 14% to 16%.

This is expected to result in non-GAAP diluted EPS of between $0.18 and $0.22 per share. This assumes flat share count and a tax rate of 29%, which does reflect the Q1 impact of the R&D tax credit. Given the timing of the renewal of the tax credit, and its retroactive application to 2012, we expect an additional benefit to the Q1 tax rate of approximately $15 million. This is not reflected in the 29% rate that I just mentioned. In summary, throughout 2012, we have focused on improved operational execution, continued innovation, and prudent capital allocation. We finished the year with a good quarter. In 2013, we will navigate with the same disciplined approach, driving growth by taking share in routing and switching, while stabilizing security. I would like to thank our employees for their hard work and ongoing commitment to executing our strategy for driving revenue growth and disciplined operational execution. Now I will hand it back to the operator to open the call for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Our first question is from Jeff Kvaal of Barclays. Please go ahead.

**Jeff Kvaal** - *Barclays Capital - Analyst*

Yes. Thank you very much. I have a question, Kevin for you, and one for you, Robyn, as well. Kevin, you had spent some time during the quarter talking about the routing cycle, and how you felt there was time for a recovery. Can you give us a bit of insight into how you were thinking about what that means for your 2013 growth rate? You had talked about growth in your [prior] press release as well, if you could give us some more thought behind that, that would be wonderful.

**Kevin Johnson** - *Juniper Networks Inc - CEO*

Yes. The second question you had for Robyn, Jeff?

**Jeff Kvaal** - *Barclays Capital - Analyst*

Oh, yes. Robyn, I wanted to know on the OpEx side of things if you could tell us, is that $515 million guidance for the March quarter, is that effectively where we should think about your OpEx plan as bringing the OpEx, or is there another leg to go after that?

**Kevin Johnson** - *Juniper Networks Inc - CEO*

Thanks for the questions, Jeff. I will take the first one, then hand over to Robyn. In 2012 year-to-date through Q3 the addressable -- total addressable market for routing had actually declined by about 3 percentage points. Yet at the same time, traffic continues to grow. And we had a service provider customer event in early December, and just confirmed with our customers that certainly traffic was continuing to grow through that period. And what that means then is overall service providers are running their networks hotter. And so it is a matter of time when they cycle through, and say, okay, now it's time to make new capital investments in routing infrastructure either to, A, modernize those networks, or B, add capacity to them.

And I think based on the set of projects that we are engaged in and have been awarded, combined with the uptick we saw in Q3 on service provider routing spending, I think that is an indicator that I think we are about to enter a better cycle for routing spend. Which leads to our view, that we think this is an opportunity for growth in 2013. I will remind you, it is still early and it still varies by geography. But we had a very strong quarter with our US Tier 1 service providers, and we have got a good base of wins in both Europe and Asia-Pacific. So we will see how things play out. But I think if history repeats itself, it looks like we are on that kind of cycle. Rami, let me ask Rami, if he wants to add anything to that as well.

**Rami Rahim** - *Juniper Networks Inc - EVP Platform Systems*

Yes, sure. I would agree with that, Kevin. In talking to many of our customers throughout the quarter, I would say that a lot of the usual trends that we have been seeing are going to start to impact them in 2013 around just dealing with capacity as the result from video traffic, as well as convergence. I mean, our operators are looking for ways to simplify their networks, to collapse networks, and to just reduce the OpEx of running those networks. And I do think that some of those investment cycles that Kevin talked about throughout 2013 are going to play out.

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

Yes, and Jeff, let me talk about OpEx. So as I guided in the prepared remarks, OpEx is $515 million plus or minus $5 million, for the Q1 period of time. I want to remind you that Q1 is where we see an increase typically in OpEx around FICA and variable compensation for employees. I also said in my prepared remarks that we are largely complete with our employee actions. But we are continuing, in terms of facilities and the other actions that we have around cost structure. So my view is we are well on track to achieve the cost targets that we have talked about previously.

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

Our next question?

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**Operator**

Thank you. The next question is from Tal Liani from Bank of America Merrill Lynch. Please go ahead.

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**Tal Liani** - *BofA Merrill Lynch - Analyst*

Excellent. Thank you guys. I have two questions. The first one is on switching. Switching was down, as you said about 6.5% year-over-year I think and flat sequentially. But you also said that the orders were up 19%. And I am wondering what causes in switching, what causes the orders -- I assume it's Enterprise switching. The question is what causes in switching the orders to go into the deferred, and not into recognition? Is it just timing, or there is more of a long-term contract, et cetera? So that's one question. The second question is about OpEx again. And the question is how much of your announced cost cuts was already implemented in the fourth quarter, third quarter, et cetera? You gave us very good guidance before, about the amount and how it falls and where it falls in the P&L. And I am wondering if you can update us on what was done already, and what is going to be done in next few quarters. Thanks.

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**Kevin Johnson** - *Juniper Networks Inc - CEO*

Thanks for your questions, Tal. Rami and I will take the first one. We will hand it over to Robyn for the second one. On your question on switching, in the quarter, enterprise switching grew sequentially. And the place that we had bookings that are going to ship in Q1 is on the service provider side. And the way I interpret that is, when I look at the spending patterns of service providers and the orders they place, they prioritize the CapEx around shipping the routing infrastructure, and placed orders for some switching that is going to ship in Q1.

So actually, our Enterprise switching grew, and the bookings that are shipping in Q1 were service provider. So it is not unusual for service providers to place orders for routing, switching, security and book those, and say, okay, we want this to ship in Q1. And that is mainly the way that each one of them is prioritizing where they are putting their CapEx. Rami, do you want to add anything to that?

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**Rami Rahim** - *Juniper Networks Inc - EVP Platform Systems*

Sure, I mean, that is essentially right. The service provider component of switching tends to be lumpy, because it depends on fewer number of orders from fewer customers. So that is what we saw happening in Q4. The other thing that is just worthwhile reiterating is simply that we have been introducing new functionality to our QFabric product. In fact, we introduced a new version of our QFabric which is what we call the Micro-Fabric, the smaller version, which we have seen hit the sweet spot in the market. And as a result of that we have seen an increase in the number of customers and greater adoption of that product in the switching market.

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

Yes, in terms of OpEx, Tal, I did talk about the overall targets that we have for the full-year in terms of taking out OpEx, those percentages still apply. I have talked about 75%, 80% in OpEx, and the rest of it in cost of goods sold. And I will reiterate, you can see that the headcount is down net about 350 at the end of the year. That -- we did previously talk about notifying about 500 heads. So there are still some that were on-board at the end of December. So some will come out in the first quarter. But largely, the headcount actions have been taken. Obviously, not all the cost savings are in there, that is reflected in the $515 million guidance that I have given you for the first quarter. Things that we will see that actually will reduce OpEx as we move forward, are some of the facilities and other related cost actions, some of which are in the COGS area as I have mentioned before around supply chain activities, that type of thing. But overall, we are very comfortable with actions we have taken. They are the right actions. They do help us with our agility, our focus, and our state as a Company, as well as taking out costs and aligning the cost structure to our long-term model.

**Tal Liani** - *BofA Merrill Lynch - Analyst*

So Robyn, is there a specific number, how much cost cuts is left to be done?

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

We -- I haven't called out that number in terms of what is left to be done. You can see by the guidance that there is a significant reduction. Typically what we see in the first quarter is an increase, and it's to do with variable comp and the FICA, et cetera. So you can expect some additional decline from the 15 -- the $515 million number.

**Tal Liani** - *BofA Merrill Lynch - Analyst*

Got it. Thank you.

**Operator**

Thank you. Our next question is from Ehud Gelblum of Morgan Stanley. Please go ahead.

**Ehud Gelblum** - *Morgan Stanley - Analyst*

A couple questions. First of all, Robyn, thanks for that switching order number, 19%. Can you give us a sense as to what routing orders looked like in the quarter, to give us kind of handle on what that looked like? And then I think Kevin talked -- you spoke about either 130 or 133, I didn't know if I got it correctly down new customers in Q4. I believe that was for -- you said data center switching? But if you could say that again or clarify if that was in fact QFabric or that was all switching? And how that compares to last quarter when I don't think we have a number for that. Then I had a follow-up on tax rate.

**Kevin Johnson** - *Juniper Networks Inc - CEO*

Yes, I will take the second question, and then hand over to Robyn. What I said, Ehud, was we added over 130 net new QFabric customers in Q4. And that was a result of I -- think in many ways the release or introduction of the Micro-Fabric. And Robyn, you want to take the other question?

**Ehud Gelblum** - *Morgan Stanley - Analyst*

Kevin, first on that (Multiple Speakers). Can I just ask -- clarify that, is that for the top of rack, the way it used to be in previous quarters? Or was there some of those taking the full solution?

**Kevin Johnson** - *Juniper Networks Inc - CEO*

Some of those are taking the full solution. We also had -- I commented that we had over 130 net new incremental QFabric customers, and a wave of full fabric deployment. So certainly a portion of those were -- all at least were [node] customers, and there was a wave of full fabric deployments as well.

**Ehud Gelblum** - *Morgan Stanley - Analyst*

How many does that give us in total? Because you used to give us a cumulative total?

**Kevin Johnson** - *Juniper Networks Inc - CEO*

I don't have that number, Ehud. We just looked. It is sort of once the release of Micro-Fabric came out, what was the impact on that. I apologize, I don't have that number in front of me.

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

So in terms of the backlog, as I mentioned the backlog was up again sequentially. That is the third quarter in a row. It reached $410 million for the quarter. So it's up nicely at 17% sequentially and 37% year-over-year. And clearly in any quarter, a significant proportion of our backlog is always routing. So we were happy with the bookings in the quarter as Rami mentioned before. We talked about a very good MX quarter in terms of revenue. There are deployments happening on the Edge, and that is a good indicator for us in terms of the demand environment.

**Operator**

Thank you. Our next question is from Rod Hall of JPMorgan. Please go ahead.

**Rod Hall** - *JPMorgan Securities Inc. - Analyst*

Yes, thanks a lot guys. Just a couple questions. I wanted to ask about PSD and SSD contribution margin, sequentially PSD up quite a bit, and then SSD down. I am particularly interested in maybe a little more color on the PSD contribution margin trajectory. I think Robyn, you said that MX and PTX were big contributors to the growth in there. Can you just talk to us a little about, was it mostly MX driving the margin better, or did PTX maybe get a little margin -- better margin than a lot of us expected? And I was curious, you didn't mention the T4000. So I just wondered if you could give us a little update on what the latest status on T4000 refresh is?

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

So in terms of the overall margin, Rod, let me talk about that, and then I will let Rami talk about the T4000. So in terms of PSD margin and SSD, clearly volume has a big amount to play with those overall contribution margins. We saw a surge in revenue as you saw from the numbers in terms of PSD, given that routing is up, et cetera. And obviously with high end SRX decline quarter-over-quarter which we were expecting, because of the service provider deployment, that actually weighs on the overall revenue being down for SSD, and therefore the contribution margin. And so if I up level the discussion, you talked about gross margins, the gross margins in the quarter were healthy.

They were actually better than we expected. And I mentioned that in the prepared remarks. That was primarily the result of two factors. One was mix was better. We did see a good uptick in MX in the quarter. And the second factor was the services gross margin. That was actually a very good gross margin for them, given their execution in the quarter, and also the result of some of the cost reductions that we have been focused on in that area. So the two factors combined increased the gross margin from our guidance for the fourth quarter.

**Rami Rahim** - *Juniper Networks Inc - EVP Platform Systems*

I can weigh in a bit on the T4000 question. We definitely saw in Q4 that there was a bias of investment by service providers towards the Edge. And this is -- if you look at the investment drivers in the Edge in the core, they differ somewhat. In the core it's really all about capacity. So operators will tend to defer investment, until they actually hit the capacity constraints. In the Edge, it's about capacity, but it is also just about connectivity. It's also about services. What we saw in Q4 was the Edge drivers were much stronger than the core drivers, and for that reason, there was in fact a decline in T4000 upgrades overall. Now if you look out into 2013, we expect that because of the fact that networks are running hotter. And eventually the constraints or the bottlenecks in the network will start to move from the Edge to core, that will start to be a driver for upgrades in T4000, and also a driver for adoption of the PTX as well.

**Operator**

Thank you. Our next question is from Brian Marshall of ISI Group. Please go ahead.

**Brian Marshall** - *ISI Group - Analyst*

Great. Thanks guys. Considering the T4000 is probably the Company's highest gross margin product family out there, and you are guiding margins in March to be down about 130 basis points sequentially to 64%, would that -- I guess that would imply that you still don't expect the P4K line cards to be deployed en masse in the March quarter? I guess that is question number one. And then the second question is, with respect to preconfigured systems gaining traction out there in the marketplace, and obviously Juniper has a partnership with IBM Secure, can you talk a little bit about how this is developing and this focus for you? And are there perhaps other opportunities out there for the Company to pursue from a partnership perspective? Thanks.

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

Okay. Thanks, Brian. I will talk about gross margin. So in terms of the absolute gross margins between P and MX and routing in particular, versus switching and security, go back to the FAM slide that I put on gross margins. We make good margins on routing and security. Obviously, switching is slightly lower. QFabric is higher. So it's not a reflection of our expected demand for T4000. We, obviously, when I was talking about switching, I gave you the bookings mix versus the revenue mix deliberately, obviously.

The overall mix of switching in the quarter for Q4 was lower than we have seen. So that had a positive impact if you like, to mix in terms of the gross margin factors. But overall, the gross margins are healthy. We are happy with where we are in terms of our long-term model range, obviously. We called that range out in June as well at 63% to 66%. And two quarters in a row, different factors, but we are in that 65% range which we -- we're comfortable with. In the next quarter, volume clearly plays a role in our gross margins. So given the revenue is down quarter-over-quarter, you would expect to have an impact on the gross margin, just related to that volume drop quarter-over-quarter.

**Kevin Johnson** - *Juniper Networks Inc - CEO*

Yes, and Brian, the second question you asked was related to our partnership with IBM, and some work we have done with IBM, and the distribution partner, Arrow, that we both work with. Fundamentally, IBM has put together the PureFlex systems, and we worked with Arrow and IBM to now integrate QFabric nodes in the top of rack with those integrated systems. And that allows those systems to operate in standard two tier ethernet mode or in the QFabric mode. We have gone through the testing and certification, to make sure that we have got a fantastic solution for customers, who look at fully-integrated solution. I think that was announced last week at our Global Partner conference. I will mention too, we continue to work very closely with a number of partners in the industry. I think we also announced in 2012, second half of 2012, completing the interoperability testing with EMC, and the EMC storage of QFabric. So these are just examples of use cases and scenarios where we have been working with partners, and yes, we are pleased. It is early days with the IBM Arrow work that we just announced last week. But we do feel good about the fact we have got preconfigured, tested, certified solution from both IBM and Juniper that we can stand behind with our customers who want a fully integrated stack.

**Operator**

Thank you. Our next question is from Simona Jankowski of Goldman Sachs. Please go ahead.





THOMSON REUTERS

**Simona Jankowski** - *Goldman Sachs - Analyst*

Hi. Thank you very much. I just had a clarification, first for Robyn, and then a question. When you commented Robyn, that in the current deferred revenue decline, most of that was due to the recognition of some large software piece of revenue. Can you just clarify which segment that was recognized in, was it in routing or switching or security? And then when you highlighted a couple of the areas of weakness in Q4, namely one in a large China service provider, and then also in the federal segment, for each of those can you just comment on whether you expect those to come back either in the first quarter or in the full year 2013?

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

So Simona, in terms of the deferred revenue, it wasn't software that we recognized. It was actually systems. So it was in the PSD area, largely in routing. And that's -- the features that we are talking about were releases of Junos, with the features that caused the deferral in the first place if you like in terms of commitments on those [phases]. So thank you for the clarification. It was systems revenue that actually the deferral came from.

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**Kevin Johnson** - *Juniper Networks Inc - CEO*

Yes, and on the second part of your question, Simona, let me address. Because I think as Robyn mentioned, a large service provider in China, we had a big project that completed in Q3. And so that created a comparable from Q3, and we continue to drive opportunities in China, and service provider spending will be lumpy as it is in other customers as they start and stop projects. But the service provider sector overall, we think the trend of more improved spending cycle will continue to unfold. In US federal segment, I think that has -- US federal has been a customer set that's been down in 2012, and certainly was down in Q4. And given the situation that our US government is dealing with, whether it's the fiscal cliff, the debt ceiling, the budget, I don't anticipate that becoming more clear any time soon, but we will all see.

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**Operator**

Thank you. Our next question is from Kevin Dennean of Citigroup. Please go ahead.

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**Kevin Dennean** - *Citigroup - Analyst*

Great. Thanks very much. You clearly sound better on the service provider outlook, and you mentioned that you have plans to take share in routing in 2013. Can you discuss a little bit where you think the opportunities to take share in routing is? Is it core? Is it Edge? Is it the PTX ramping? And also maybe where you see the biggest opportunities to do that, in terms of geographies?

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**Kevin Johnson** - *Juniper Networks Inc - CEO*

Let me just -- I'll just kick it off, but I will let Rami add to this. I think if you just look at the Infonetics share data on routing, Q1 of 2012 was a bottom point sequentially, since Q1, Q2, and Q3 we have gained very modest amounts of share. We have been gaining share slightly. We will see what the numbers play out for Q4. And Rami, I will let you kind of share perspective on the product side, and the different areas of network that we feel we have got good strength and position to gain share.

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**Rami Rahim** - *Juniper Networks Inc - EVP Platform Systems*

Sure. So in routing, two primary areas, I would say. First -- and both in service provider. First is in the Edge, the other was in the core. In the Edge, it's really all about execution towards our universal Edge strategy that we have been working on for the last several years, in fact. We continually enhance the feature set of our MX product, such that it delivers new and interesting offerings that satisfy our customers' requirements. So that puts it into different applications like business services, residential services, and increasingly mobile services. And as you also know in the Edge one of the things that we did in 2012, was we complemented our Edge offering with an end-to-end solution for mobile backhaul and universal access. So all of these I think are going to be good drivers for us in 2013.

In the core as well, I would say that we have a very rich offering right now with the PTX sort of as a disruptive play for transport. T series, as a really nice investment protection play to increase the capacity of existing T series deployments especially. And also the introduction of the MX2020 that we are this quarter that will essentially give us a bit of a different approach, an all-out services approach for Edge, core, and aggregation. So I think we have got a really rich set of offerings in the core as well.

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**Operator**

Thank you. Our next question is from Ittai Kidron of Oppenheimer. Please go ahead.

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**Ittai Kidron** - *Oppenheimer & Co. - Analyst*

Thanks. Congrats guys, and good numbers. Robyn, I wanted to dig a little bit into the switching again. Can you tell us a little bit more color on the revenue in the quarter, splitting it between QFabric, the EX and your Wi-Fi business? And the second question regarding the order figure, I just want to make sure that we are looking at this on an apples-to-apples basis. Clearly, you have a book-to-bill in this segment above 1. But can you tell us what was it from in the third quarter? I am just trying to understand whether this 19% up quarter-over-quarter is off a low number from the third quarter, or off of solid strong number in the third as well?

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

Yes, thank you, Ittai. So in terms of the second question around the order patterns and that type of thing, I called out the orders for switching, because obviously that was a different pattern to revenue. So I always want to give you insight into where those patterns are different. So in the fourth quarter, we did see strong orders as I mentioned before. In terms of the third quarter, there was nothing unusual about the third quarter. Otherwise, I would have called that out.

And so, our view is it is an important data point for you to have, in terms of the bookings versus the revenue in the quarter. And as we have mentioned earlier in response to another question, it is different, it was different by enterprise versus service provider. We saw good sequential increase in enterprise revenue. So that is on that question. In terms of the split between the different product families within switching, we have not broken that out on the call. And it's not the right time for us to do that. At some point in future, we may do that, but not today.

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**Operator**

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

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**Mark Sue** - *RBC Capital Markets - Analyst*

Thank you. If we look at the full-year and consider the likelihood of a reacceleration in revenue growth in the second half, what will -- will that mostly be market recovery of switching and routing? Or would you say it would be a better uptake of some of the new products, and also the new SRX product? And just your thoughts maybe of what Juniper might do to stimulate demand? And then separately, reading into your comments on capital allocation, it sounds as if you are so close to announcing a dividend. Maybe if you can highlight your comfort with future cash flows?

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**Kevin Johnson** - *Juniper Networks Inc - CEO*

Well, I will let you take the second one, Robyn. (Laughter). Thanks for your question, Mark, go ahead, Robyn.

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

So Mark, in terms of the dividend, we are not announcing a dividend. We would tell you if we were announcing a dividend. We are not -- doing that at some point. Obviously, as our cash flows are strong, and we have had opportunistic repurchases over the last few quarters to bring the share count down, and also obviously return capital to shareholders at the right time. So our point of view, in terms of -- we have a prudent capital allocation strategy that balances our growth agenda, both organic and inorganic, and our M&A strategy has not changed. We will continue to do technology tuck-ins over time, and then also our repurchase program. So the three things around capital allocation program.

**Kevin Johnson** - *Juniper Networks Inc - CEO*

Yes, and on your first question, Mark, I think I would sort of highlight four things that I think are important and relevant, in the question of how we stimulate demand, how we go about creating opportunities for us to grow share in a market, that on the service provider side should be improving throughout the year. First, it has got to start with great products. And I think when we look at our routing portfolio, I think we feel like not only have we introduced great new products, but we have enhanced our existing product set, enhanced them with new features that Rami made. And fundamentally, we have improved quality in the products as well. So I think when we look at everything from what we are doing in core routing to Edge routing, to the access and aggregation layers of routing, we feel like we have got a very, very compelling portfolio. And one that is stronger today, than it was a year ago.

And you look then across our switching fabric portfolio, and with continued focus on that, we continue to see growth opportunities. And certainly, in the area of security, we have a very strong service provider security business. And we have acknowledged there were some gaps, competitive gaps in our enterprise security portfolio that we have been closing. So I think, in all dimensions of the products sets, we have strengthened our product sets. So it has got to start with great products.

Number two, when we look at our key accounts, our largest customers, we have really focused on how we execute well in deepening those relationships with those key accounts. And that is where the work that we have been doing to win a number of these projects, and really align the value that we are bringing to those accounts, with the strategy that they are on, we think we have deepened those relationships. And it's been shown in our customer satisfaction surveys. We just finished our customer sat survey at the end of 2012. And overall satisfaction with Juniper is up, overall satisfaction with quality of account management, up, product quality, up, service and support, up. So we have really engaged in a deeper way, and we are seeing good results from that.

The third then, is our partners. We just hosted our Global Partner conference last week in Las Vegas. We had over 1,000 people live at the event and over 2,000 attending by webcast, and continuing to educate and arm our partners with the information they need to go grow their business, and do it based on Juniper technology. I think we had a very, very good event and a lot of very positive energy there. And so, when I look at it, those are kind of three examples of things that we are very focused on. And all those things come down to excellence in execution, and how we are focused on both the innovation agenda, and the go-to-market agenda and just executing better. And that's going to help us.

**Operator**

Thank you.

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

Okay. Thank you. That is all the time we have for the call today. We would like to thank everyone for joining us, and your IR team is hosting several events during the quarter, including one at Mobile World Congress. We hope you will be able to join us via webcast, and we will be sending out details soon. Thanks, everyone, for joining us.

**Operator**

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