FINAL TRANSCRIPT

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PRESENTATION

Operator

Greetings and welcome to the Juniper Networks' second quarter 2011 earnings results conference call. At this time all participants are in a listen-only mode. A brief question-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 with Juniper Networks. Thank you, Ms. Nemeth, you may now begin.

Kathleen Nemeth - *Juniper Networks Inc - Vice President of Investor Relations*

Thank you, operator. Good afternoon and thank you, everyone, for joining us today. Here on the call today are Kevin Johnson, Chief Executive Officer; and Robyn Denholm, Chief Financial Officer.

Please remember when listening to today's call that statements made during this call 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 the networking industry, changes in overall technology spending, the network capacity requirements of service providers, the timing of orders and shipments, manufacturing and supply chain constraints, variation in the mix of products sold, customer perception and acceptance of our products, litigation, and other factors listed in our most recent report on form 10-K filed with the SEC.

All statements made during this call are made only as of today. Juniper undertakes no obligation to update the information in this conference call in the event facts or circumstances subsequently change after the date of this call.

In discussing the financial results today, Robyn will first present results on a GAAP basis, and for purposes of today's discussion, we 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 results, please see today's Press Release. In general, non-GAAP results exclude certain non-recurring charges, amortization of purchased intangibles and other acquisition related 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 1 hour, and please limit your questions to 1 per firm. With that, I will now turn the call over to Kevin.

Kevin Johnson - *Juniper Networks Inc - CEO*

Thank you, Kathleen, and welcome, everyone. Through the first half of 2011, Juniper has delivered strong, year-on-year growth of 18%, with solid, year-on-year growth of 15% in the June quarter, and though it did fall short of our expectations, we delivered EPS at the low-end of our guidance range.

There were many highlights in the quarter. Our Service Provider Business grew 18% year-on-year. We saw solid growth in our Routing and Switching lineup. Our Enterprise Business grew 9% sequentially, even with the decline in our SLT Business.

We continue to focus on the market trends of the mobile Internet and cloud computing, and during today's discussion, I will comment on the current environment and why we are cautious about the second half yet very optimistic about 2012 and beyond. I will also provide an update on key, strategic innovation projects, design-win momentum and an organizational announcement we made yesterday.

In early June I spoke at an investor conference and commented on some macro signals that we were seeing in the market. With continued news coverage of topics including the sovereign debt situation Europe, rising unemployment in the US, softness in consumer confidence, the impact of the disaster in Japan, and lower GDP expectations in many parts of the world, it is evident that people are trying to digest the macro economic signals and understand what impact they are having on the buying patterns of customers.

These macro signals don't change the long-term demand equation for networking. The market trends of mobile Internet and cloud computing are strong and continue to drive demand. On a global basis, more people and businesses are connecting to the network and consuming more digital content.

These market trends are consistent and are core to our growth agenda. Having delivered 18% year-on-year growth through the first half, I want to highlight some factors that make us cautious about the second half yet optimistic as we enter 2012.

As we look to the second half, there are four reasons to be cautious. First, service provider CapEx guidance for the second half is lower than historical, seasonal patterns. The historical, seasonal pattern for tier 1 US service provider CapEx has been 43% to 45% invested in the first half, and 55% to 57% invested in the second half.

Tier 1 service providers in the US have guided 2011 CapEx at approximately 50% of spending in the first half, and 50% in the second half with the forecasted year-on-year growth of approximately 1%. This is a change to historical patterns. We see similar trends with the top 15 service providers globally.

Second, the macro economic signals may impact Enterprise and Public Sector spending near-term. As governments and certain sectors of the Enterprise look to reduce spending, there is a risk that this will impact IT budgets.

Third, as Japan continues to recover from the March 11 disaster, there are questions on how quickly the focus will shift to capital investments in new projects. In our June quarter, we saw revenue from Japan declined by 24% from a year ago.

Fourth, we had 2 very large customer deployments of the SRX a year ago which created some lumpiness in growth for our SLT Business. We are building the pipeline of new design wins to get SLT back on a growth path.

There are also several reasons why we are optimistic as we enter the second half and set up for 2012. First, the market trends of mobile Internet and cloud computing are intact. The continued growth of smart phones, tablets and connective devices consuming more digital content, including video, is creating demand for network innovation.

Service Providers and Enterprise customers continue to focus on large, virtualized data centers to deliver both private and public cloud computing. And we are focused on the right market trends.

Second, our innovation agenda is on a path to release a phenomenal wave of new products. During the quarter, QFabric successfully completed several proof of concept tests with key customers. We have now entered the formal beta process with 5 customers up and running the end-to-end QFabric system on premise. We have also secured our first, significant QFabric design win, and we are on track to release QFabric sometime around the end of this quarter.

In addition, our T4000 Core Router is on track to release later this year. This is a significant step forward in our Core Routing platform and we have already secured at least four major design wins for the T4000.

The PTX Converged Supercore has experienced very positive response from customers. We are now in the beta process with 6 customers and have already secured our first design win. The PTX is expected to release in Q1 of 2012.

During the quarter, we also released the MobileNext Broadband Gateway offering, which includes our GGSN and Evolved Packet Core Gateway running on the MX 3D. We have a growing pipeline of opportunities, traction with customer trials and we secured our first design win. We have additional features that are being developed on the MobileNext product roadmap and we are very optimistic about the direction of the product family.

Third, the number and size of design wins in partner mindshare is going. We have a portfolio of design wins in both Service Provider and Enterprise that represent strategic products that will unfold over the next 24 months. Robyn will share a bit more on the implications of these design wins in her comments.

In addition to the examples I just provided, we have also secured several key Junos Pulse design wins that will expand our software footprint and contribute to our growth agenda. With products like QFabric, Converged Supercore, T4000 and MobileNext coming to market, we are gaining more attention in mindshare for both our partners and our customers.

Fourth, growth in our Routing and Switching platforms. This quarter, Switching revenue grew 33% year-on-year, and Routing revenue grew 21% year-on-year. Growing these Core businesses is creating momentum ahead of new product introductions, which sets us up well for the future.

With 18% year-on-year growth through the first half of this year, we continue to drive hard against our multi-year growth agenda. We are aware of the macro signals that our customers see, yet we are optimistic about our position going into 2012.

We are making very good progress on the strategic innovation agenda. We are generating strong customer interest in securing key design wins. We also announced some key Management changes yesterday in alignment with our strategy.

In February of this year, we aligned our Systems Division under the leadership of Stefan Dyckerhoff. Yesterday, we announced the creation of the Software Division, which will be led by Bob Muglia. Bob joins Juniper from Microsoft where he was most recently the President of the Server and Tools Division.

Stefan leading the Systems Division and Bob leading Software Division enables us to drive our innovation strategy to expand both our systems portfolio and to move up the stack with software.

In addition, we made some tuning of Executive assignments with Gerri Elliot now leading sales. John Morris is leading Strategic Alliances and Mark Bauhaus leading Services. These changes leverage the unique talent of each of our Executives in alignment with our strategic objective.

In summary, we delivered year-on-year growth of 15% in the second quarter, and an 18% growth for the first half. We are cautious about the second half, yet very optimistic about our position going into 2012.

We look to grow faster than the market in 2011, while strengthening the innovation portfolio as we set up for 2012. I will now hand off to Robyn.

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

Thank you, Kevin, and good afternoon, everyone. In the June quarter, we delivered 2% sequential and 15% year-over-year revenue growth, which was short of our expectations. Through the collective efforts of our employees, we diligently controlled expenses and posted EPS at the low end of our expectations.

At a high level, our business in the second quarter was impacted by the following factors. First, the macro economic environment is not improving at the pace we expected when we outlined our operating principles for the year.

Second, demand for our SLT products was lower than we expected. Third, demand from service provider customers, while strong, was not as robust as we anticipated. And fourth, and as expected, we saw some impact from Japan.

Looking at the demand metrics for the quarter, book-to-bill came in above the first quarter, but slightly under 1.0, at 0.98. This was due primarily to weaker-than-expected service provider bookings.

Total deferred revenue decreased by $20 million to $930 million. This decrease was evenly split between Services and Products. While these metrics point to continued difficult conditions in the near term, we had many design wins this quarter, some of which will start deployment later in the fiscal year.

Total deferred revenue is up over 21% year-over-year. We are confident that our strategy and our solutions portfolio position us well going forward. We will continue to aggressively control expenses, while preserving the investments that support our long-term growth agenda. Coupled with a strong focus on execution across our business operations, we believe this is the right approach to properly address the current environment.

Now, a review of the numbers. Total revenue for the second quarter was $1.121 billion, up 2% sequentially, and 15% year-over-year. As I mentioned earlier, revenue growth was below our expectations due to the relative weakness in Enterprise Security demand and lower-than-expected demand from our US service providers.

This was partially offset by strength in Enterprise Switching, including our wireless LAN products and routing. In the quarter, there were no customers who accounted for more than 10% of total revenue.

For the second quarter, GAAP-diluted earnings per share were $0.21 and non-GAAP-diluted earnings per share were $0.31. Both results were an outcome of the combination of revenue and gross margins being lower than expected. And, this was offset slightly by prudent OpEx controls.

Included in both the GAAP and the non-GAAP-diluted earnings per share for the quarter is a $0.02 dilutive impact from debt related net interest expense.

Now, let me provide you with some color on revenue by region, business segment and market. In the second quarter, the Americas were approximately 52% of total revenue. EMEA was 29% and APAC was 19%.

The Americas' revenue was roughly flat with the first quarter, as service provider softness was offset by strength in Enterprise Routing and Switching. On a year-over-year basis, Americas was up 17%.

EMEA revenue was up 10% sequentially, with particular strength this quarter in Spain and Russia. And up 14% year-over-year. Design wins in Routing earlier in the year are beginning to gain traction and add to our results.

In APAC, revenue declined 3% sequentially, but rose 9% year-over-year. This sequential decline was primarily due to Japan, which declined 34% sequentially, and 24% year-over-year. However, we did see strength in China and Korea during the quarter.

Now, looking at revenue by segment. Infrastructure revenue was $884 million, 3% higher than the first quarter, and up 23% year-over-year. Within this segment, total Router revenue was $762 million, up 2% sequentially, and 21% year-over-year. This was driven by strength in Edge, offset by some softness in Core.

Total MX Product revenue was $279 million, slightly below Q1, but up 87% year-over-year. T-series was down sequentially in the quarter, as customers await our T4000 and PTX products. Our T4000 Products, as Kevin mentioned, are on track to begin shipping late this year, and we have increased the number of PTX beta trials due to strong customer interest.

Total Switch revenue was $122 million, up 16% sequentially and 33% year-over-year. EX Product revenue was $104 million, up 15% sequentially, and 18% year-over-year. This was driven by strong, sequential growth of the EX-42 and EX-4500 Products, while the LAN product revenue was $12 million, up 35% sequentially.

Moving on to the SLT segment, revenue for the quarter was $237 million, a 4% decline from the first quarter, and an 8% year-over-year decline. We saw sequential and year-over-year growth in the branch SRX, but still softness in Enterprise Security, primarily in the Financial Services sector.

The year-over-year decline was primarily attributable to high-end Firewall and high-end SRX products. SRX Product revenue, in total, was $62 million, up $1 million from the first quarter, and this was driven by the increase in our branch SRX Product family. Year-over-year, SRX declined $13 million, primarily due to lower Service Provider revenue.

This quarter, we had good design wins with both Media Flow and Pulse Products. We're seeing solid traction with customers and won a significant, multi-year Pulse deal and a Media Flow deal with a major, US tier 1 service provider.

Our global pipeline is strong. We expect to see further wins in upcoming quarters and revenues later in the year as the deployments of these design wins start to roll out.

We continue to build momentum from our Trapeze, SMobile, Ankeena, and Altor acquisitions. As we integrate them into our solution offerings, we are seeing good design wins that are contributing to our financial and strategic goals.

Looking more closely at the markets we address, Service Provider revenue was $730 million, down 2% sequentially, due to the anticipated impact of Japan and lower-than-expected demand from our Americas Service Providers.

Service Provider revenue increased 18% on a year-over-year basis due to broad strength in the Americas, EMEA and APAC. Enterprise revenue was $391 million, up 9% sequentially as well as year-over-year.

This was due to strength in Routing and Switching, and it was offset by weakness in SLT. For the quarter, Service Provider was 65% of total revenue, and Enterprise was 35% of total revenue.

Now, moving on to our Margins and Operating expenses. Non-GAAP gross margins declined to 65.6%, which is below our guidance range. This was due to unfavorable Product and Services margins. Product gross margins were 68.1% of Product revenue, or 2.5 percentage points lower than the first quarter and about 2 percentage points lower versus a year ago.

Product margins was negatively impacted by mix, due to the lower volumes of SLT and T-Series Products, and also due to higher overhead cost. Services gross margins were 55.7%, down 1.8 points from the prior quarter, and 3.6 points lower than the second quarter of the prior year.

Service margin performance was impacted by increased maintenance and support resources, as well as increased professional services personnel dedicated to design wins at our large Service Provider customers.

Non-GAAP operating expenses for the second quarter were $493 million, which was slightly lower than the first quarter, and were favorably impacted by cost reduction measures, including lower variable compensation. Year-over-year operating expenses increased by 14%.

R&D expenses were down 3% from the prior quarter. The teams have controlled expenses very well as we continue to focus on getting the next wave of strategic products to market.

Sales and marketing expenses were 1% lower on a sequential basis; however, we continue to invest in building our sales force in order to enhance our go-to-market capabilities. G&A expenses were almost flat sequentially, and were 6% lower than the 2010 second quarter.

Non-GAAP operating margin for the quarter was 21.6%, down 70 basis points sequentially. We remain agile in our ability to curtail spending in any given quarter, enabling us to balance the short-term trends with the longer-term strategic needs of the business.

Looking at operating margins by segment, Infrastructure operating margin was 23.7%, down 80 basis points compared to last quarter, and down 150 basis points compared to the second quarter of last year.

Infrastructure operating margins were affected by lower gross margins and these were partially offset by lower operating expenses. And as a reminder, the Infrastructure segment includes Routers, Switches, MobileNext and QFabric.

SLT operating margin was 13.8% compared to 14.7% in the prior quarter; and 20.4% in the second quarter of 2010. Operating margins in SLT were impacted by lower revenue and lower gross margin due primarily to mix. The GAAP tax rate was 26.5% for the quarter, and the non-GAAP tax rate was 26.8%. And both were consistent with our expectations.

Looking at the balance sheet, we ended the quarter with total cash and investments of approximately $4.2 billion. DSO was 39 days in the quarter compared to 38 days in the prior quarter, and this was on strong collections.

Cash flow from Operations was $318 million, up substantially from the prior quarter. This is benefited from the timing of cash collections, as well as the refund relating to the timing of last year's R&D tax credit. We expect to continue our organizational focus on strong cash flow generation, complemented by the prudent deployment of capital.

During the quarter, we repurchased approximately 3.9 million shares at an average price of $38.94 per share, or approximately $150 million. Our weighted average share on a diluted basis for the quarter were 546 million shares, a decline of 2 million from the prior quarter.

CapEx totaled $62 million, up $8 million from the first quarter, as we continue to build out our Corporate Campus here in Sunnyvale. Depreciation and Amortization was approximately $42 million, consistent with prior quarters.

We ended the quarter with approximately 9,300 employees, an increase of over 200 from the prior quarter. While cognizant of the realities of the near-term environment, we continued to move forward on the priority investments in sales, customer service and engineering headcount.

Now, let's discuss our guidance. As a reminder, guidance is provided on a non-GAAP basis, except for revenue and share count. As I highlighted in my opening comments, we believe the long-term fundamentals of our business remain healthy. However, the economic recovery has not progressed as we anticipated at the beginning of the year. And, the near-term environment warrants a careful approach.

While we have many design wins in the first half of this year, and our overall pipeline is healthy, many of these opportunities will not begin deployment until late this year or early next year. And, as a result we are lowering our outlook for the full year.

Our guidance for the third quarter of 2011 is as follows. We are expecting revenues to range between $1.070 billion and $1.12 billion. Gross margins for the third quarter are expected to range between 65% and 67%, which is slightly below our long-term range primarily due to product mix.

Operating margins for the third quarter are expected to be in the range of 19% to 21%. We will continue to be diligent in our expense controls, but we expect a slight increase in Operating expenses for the third quarter.

This would result in third quarter non-GAAP EPS of between $0.26 and $0.30 per share; and assumes a flat share count, a tax rate of 27%, and includes a dilutive impact of approximately $0.02 due to the net interest expense from our Q1 debt issuance.

Given the changes in the environment we discussed earlier, the timing of design wins translating to revenue and the fact that we do not expect a recovery in demand from our customers in Japan until late in the fiscal year, we expect revenues for the full year of 2011 to grow in the range of between 12% and 14%.

In summary, while we're not satisfied with our Q2 performance, we still generated solid year-over-year growth. We took decisive actions to reduce expenses and we delivered good profitability. We believe our strategy as well as our solutions portfolio continue to position us well for the future. And, I want to thank our fantastic employees for their dedication and hard work.

And, with that, I will hand it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions) Also, if you could please only ask one question and then come back into queue. Please hold while we poll for questions. Our first question comes from Nikos Theodosopoulos from UBS.

Nikos Theodosopoulos - *UBS - Analyst*

I wanted to ask about the gross margin. You gave some good color on how the mix impacted it, but I wanted to go into that a little bit more. On a sequential basis, can you elaborate on what happened in the Routing and Switching components of gross margin? And, if there were declines there, are those kind of temporary or would you see them as recurring? Can you provide some insight? Thank you.

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

Yes, Nikos, in terms of the gross margin, what we saw quarter-over-quarter, in Routing it was all to do with mix. As I said in the prepared remarks, we had a soft quarter in terms of T-series for Routing. Having said that, the overall Routing quarter was relatively strong so we had a good Edge quarter in Routing.

The gross margins relative to their normal levels were quite high in their individual categories. All quite reasonable in their individual categories. In terms of Switching, there was no discernible difference in the gross margins to Switching across the board. They were within their normal range.

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Operator

Thank you, our next question comes from Simona Jankowski, Goldman Sachs.

Simona Jankowski - *Goldman Sachs - Analyst*

Hi, thank you. I just wanted to understand some of the commentary around weaker demand in US service providers and it sounds like that was related to core routing and also to SRX. Why do you think that that weakness was related to the macro as opposed to your particular market share or design wins? In particular, it sounds like there's a pause ahead of the T4000 and PTX, but if you haven't yet won the design win for those two products with the North America tier 1 service providers, then how do you know that the weakness in the core routers is not just a share loss there as opposed to either timing or macro?

Kevin Johnson - *Juniper Networks Inc - CEO*

Yes, thanks for the question, Simona. And I will make a couple of comments. First of all, the tier 1 service providers have commented in their earnings calls, a lot of their focus in their capital investments went into things like radio access networks, cell towers and mobile backhaul.

And, as they make those investments, that then drives the traffic growth into the Edge and into the Core. So, part of this is a little bit of timing on where it puts pressure on Edge and Core which creates demand for us. That's number 1.

Number 2, we had, in SLT business, a significant deployment of SRX, high-end SRX, with a large tier 1 US service provider a year ago, which created a very high comparable for the SLT business looking year-on-year. And, so that certainly had impact on our SLT growth.

And then number 3, the guidance that the tier 1 US service providers have given for second half capital expenditures starts to change the historical pattern of what we've seen over the last several years.

I think if you look at their first half actuals plus second half guidance, I think it shows about a 1% year-on-year growth in total CapEx. And, it shows the distribution is about 50% in the first half and 50% invested in the second half. And that's a difference in the historical pattern of typically 43% to 45% in the first half and then back in second half of 55% to 57%.

So, that's prompted us to be more cautious about the second half. Yet, as we commented, we had a good Q2 growth of our Service Provider business at 18%.

Operator

Thank you. Our next question comes from Ehud Gelblum from Morgan Stanley.

Ehud Gelblum - *Morgan Stanley - Analyst*

Thanks, I appreciate it. Robyn, you said in your full-year guidance of 12% to 14% for the topline. You'd also spoken in the past about guidance in the Operating margin line of being up this year over last year. My guess is, that's not really going to happen anymore.

But as you now see the world, if you can give us a range on what Operating margin looks like now under your new revenue assumption, what kind of range, is it 22, 23? Is it 20 to 21? How does that work out for this full year?

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And then, the MX was down, which I couldn't quite put the MX into -- being down into the categories that you talked about them. And I'm guessing maybe it was the US service provider weakness that caused the MX to be down but I'm wondering if you think that's a little bit more in the competition side now that Alcatel-Lucent is coming in with another Edge Router, or do you think it has more to do with these CapEx types of issues you were talking about?

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

Yes, so in terms of the full year at 12% to 14%, I think that the factors that we've talked about in terms of being cautious in the near-term all apply. In terms of the full-year Operating margin guidance, our Operating principle was that we would expand Operating margins for the full fiscal year. We do not believe that that will happen now. So the answer to that is, we will not expand Operating margins for the full fiscal year.

In terms of the third quarter, I gave you the range of 19% to 21%. We expect improvement in the fourth quarter from that point and we'll give you more color on that as we move forward here.

In terms of the MX, we're very confident with our MX portfolio. We know the product is very competitive out there. We've got lots of design wins, some of which have not started to deploy yet. And, the quarter-over-quarter sequential was relatively modest in terms of the decline. So, I put that more down to timing of the deployment that we still have in terms of the commencement of those starting as we move forward throughout the year.

Kevin Johnson - *Juniper Networks Inc - CEO*

Just add to that, I think year-on-year, the MX growth is something like 83%. 87%, Robyn says. So we've seen MX growth year-on-year 87%.

The other comment I would add, Ehud, is that in our partnership with Ericsson, with Ericsson's GGSN, that it runs on our M-series, we saw a very strong quarter of our M-series in the partnership with Ericsson. And we view that as a positive thing and that's why I think we've seen good growth on Edge market overall.

Operator

Mark Sue, RBC Capital Markets.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you. Maybe if you can talk about linearity and linearity going forward, are you starting to see longer evaluation cycles or deal sizes getting smaller? Is the increased competition delaying some closure rates and just kind of dynamics and how the business is now being done as versus before? And then, Robyn, I don't think we've got a sense of your long-term Operating margin targets.

Kevin Johnson - *Juniper Networks Inc - CEO*

Let me take the first one and then I will hand off to Robyn, Mark. Thanks for the question. First of all in terms of changes in the selling dynamic, we're not seeing longer sales cycles. We've got, in many of these large projects, they are a long sell cycle anyway, and I don't see that being extended.

I do see that as part of these design wins, certainly several of these design wins include products that are on the roadmap ship. For example, in the area of the PTX, the design wins around PTX typically have a combination of the PTX plus T-series plus the MX. So it's an architectural solution.

And part of that is getting to the point where we're shipping; you're shipping the T4000, shipping the PTX. But I view that as positive because we are solving customer problems in very unique ways.

So I don't see the sell cycle being elongated. I see that some of these design wins have the products that are in the roadmap to ship here over the next couple of quarters, and so that might have some implications on how a timing of when these big deployments hit.

The one thing that we did observe in Q2, certainly, at the very end of the quarter, we have line of sight to a set of opportunities that we felt some percentage of those would close in Q2. And, a portion, certainly there was a number of those opportunities that did not close in Q2, but they did close very early. A high percentage closed very early in Q3, which is a signal to me that customers are being very aware of the macro situation and deciding which side of the quarterly boundary they want to land their capital expenditures on.

And, certainly, it is nowhere near extreme as it was in 2009, but I saw similar types of behavior in 2009; and I saw a little bit of that in Q2. Robyn, I will let you comment on the second question.

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

Yes, so on the Operating margin, obviously for the full fiscal year of 2011, we don't think we will achieve our operating principle of expanding the Operating margins for the full year.

Having said that, we believe that 25% in terms of the Operating margin, or higher, is definitely still the target from a long-term perspective. And, there are many things that we are optimistic about in terms of revenue growth.

I think if you said back, we are focused on driving revenue growth which then yields the 25% Operating margins that we've been targeting the Company at. And, many of those products and many of those solutions, it's nearing coming to market. So, we feel very good about that.

Operator

Our next question comes from John Marchetti from Cowen and Company.

John Marchetti - *Cowen and Company - Analyst*

Hi, thanks very much. I just wanted to ask, Robyn, in terms of the full year guidance that you gave of the 12% to 24% -- excuse me, the 12% to 14%, that obviously implies a fairly significant quarter-over-quarter ramp as we go into 4Q.

Just curious, and sort of embedded in that guide, how much is related to these design wins that you are referring to? How much is related to Japan coming back and how much is just related to the overall macro piece improving as we get a little bit further into the year? Thanks.

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

Thanks, John. In terms of the 12% to 14%, at the midpoint of guidance, at 13%, we are expecting many -- well, a lot of the design wins that I talked about, starting in the last part of the year or later in the year, to commence deployment in the fourth quarter.

We are not expecting a return to demand in Japan to normal levels in the fourth quarter. We think that's more likely the first part of next year. So, it's really a commencement of the design wins that we have, as well as Switching growth as we move forward as well.

Operator

Our next question comes from Ittai Kidron from Oppenheimer & Co.

Ittai Kidron - *Oppenheimer & Co. - Analyst*

Thanks. So, I did want to follow up on that, Robyn. If you look at the midpoint of your September quarter, it is sequentially down from June. Can you give us some color as to what product areas you expect would be declining sequentially from June to September versus rising?

And as we think into December quarter, also where do you expect most of the recovery to happen versus still seeing some challenges?

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

So, in terms of Routing, we are expecting low single-digit decline in Routing overall, primarily the Service Provider sector there, as these design wins still are not coming to fruition in terms of the timing of those. We expect most of those to happen in the fourth quarter, as I sort of alluded to before.

So, sequentially down, low single digits for Routing. Enterprise, growth, primarily all related to Switching. We expect flat to slightly down in terms of SLT for the third quarter in Enterprise. And, so that actually, at the midpoint, has us down at 2% quarter over quarter.

Operator

Brian Marshal, Gleacher & Company.

Brian Marshall - *Gleacher & Company - Analyst*

Great, thanks. Just a follow-up on the two previous questions. I'm calculating 19% implied sequential guidance for the December quarter. And I think over the last 5 years, your average for sequential growth in December has been about 8%, so obviously, pretty big bump up there.

Can you talk a little bit about some of the key factors within Service Providers as well as Enterprise, which are really going to drive that revenue to get up to that level and what gives you the confidence around that? Thanks.

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

I think if you look at the midpoint of guidance, 12% to 14%, obviously the midpoint is 13%, and at the midpoint for the third quarter, it's a sequential 2% decline. For the fourth quarter, we have the midpoint at 18%, quarter-over-quarter increase.

If you look at last year, we actually did about 18.5%. So, our sequential increase from third quarter to fourth quarter of the last few years has been in that range of 18% to 20%. And, the factors that will influence that is Routing deployments in the fourth quarter, as well as Enterprise revenue growth in Switching between the third and fourth quarter as well.

Operator

Tal Liani, Bank of America Merrill Lynch.

Tal Liani - *Bank of America Merrill Lynch - Analyst*

Hi, just a follow-up for a clarification. Last year, I know you just quoted the numbers for last year 4Q sequential growth, but it included an accounting change; and if we remove the accounting change, the growth was 12%. So -- (multiple speakers)

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

So, Tal, the accounting change was a year ago. It was the beginning of Q1 of 2010.

Tal Liani - *Bank of America Merrill Lynch - Analyst*

Right, but you provided in the K, you provided the accounting change for each and every quarter, so there was a major increase in the accounting impact in the fourth quarter. It was basically half of the annual change. So, if I remove the accounting change from both 3Q and 4Q and recalculate the growth, I just don't want to apply growth to the accounting. I am getting a much lower growth and the question here is whether, on one hand, 3Q is down sequentially, on the other hand, which is abnormal kind of, on the other hand 4Q seems to be above normal trends, does it mean that there was some push-outs or something that leads you to believe that fourth quarter should, in addition to regular seasonality, should compensate for the decline in 3Q? That was my question.

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

So, I think, Ehud, the first thing, in terms of the third quarter, we do you view that as a sideways to down quarter in terms of revenue from the second quarter. So, and that's not our normal seasonal pattern, as Kevin mentioned before. Normally we have a sequential increase. And so, there is some timing related to design wins deploying later in the year.

I would actually go back and have a look at the calculations for the year-over-year growth, because the third quarter last year, there is no impact from the accounting. The accounting actually started at the beginning of the fiscal year, so all the way through last year, there were new deals that were accounted under the new revenue recognition.

They are not old deals that have changed their accounting treatment, so they were new deals in the third quarter. So the real way to look at year-over-year growth for the third to fourth quarter for last year is 18.5%.

Operator

Simon Leopold, Morgan Keegan & Co.

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

Thank you. I wanted to see if you could touch on your OEM partnerships, in particular, IBM and Dell. And if you could give us a little bit of color on your thoughts regarding Dell specifically, given their plan to acquire an ethernet switch vendor. Thank you.

Kevin Johnson - *Juniper Networks Inc - CEO*

Thanks for the question, Simon. First of all, the partnerships we have with our alliance partners continue to grow and continue to do well, and that includes Nokia Siemens Networks, Ericsson, IBM and Dell.

And, certainly, you said the OEM relationships, we have OEM relationships with, certainly, Ericsson, that is doing very well. Their GGSN on our M-series. We commented on the growth there. The relationship with IBM has an OEM component and the piece that has been growing has been IBM reselling Juniper branded equipment.

So our growth is really on the resell components of Juniper branded equipment, and the same with Dell. The growth has been, in the Dell partnership, has been reselling Juniper branded equipment versus the OEM versions.

So, the partnerships are good. The OEM branded version is not where the growth is coming. It is coming from those partners reselling, IBM and Dell specifically reselling, Juniper branded equipment.

The second part of your question is related to Dell's announcement to acquire Force10. I spoke with Michael Dell before that came out. He gave me a call and we had a discussion around -- both of us have an intent to expand or to continue this partnership.

And look, I acknowledge it will make it more complicated because there's more overlap in the product line. But the fact is that we also have products that go into the solutions that are complementary to what Dell would be doing with Force10 and their other products. And it is our intent to continue to focus on how to create a good partnership with Dell, built on a foundation that we have established thus far.

Operator

Brian White, Ticonderoga Securities.

Brian White - *Ticonderoga Securities - Analyst*

I am just wondering, how should we think about revenue recognition for QFabric, MobileNext and T4000 this year? And then what type of a ramp can we expect in the first half of next year?

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

So, in terms of QFabric, we will get some revenue this year, but as we've said consistently, it will be relatively modest this year. In terms of T4000 and PTX, the T4000 will start shipping this year. We're expecting revenue in the first quarter of next year. In terms of PTX, it will start shipping in the first quarter of next year.

Operator

Jeff Kvaal, Barclays Capital.

Jeff Kvaal - *Barclays Capital - Analyst*

Yes, thanks very much. Kevin, I was wondering if you could spend a little bit more time talking about the migration from EX to QFabric, how that's coming along. Off the top of my head, five beta trials seems like a fairly modest rent, relatively speaking.

Kevin Johnson - *Juniper Networks Inc - CEO*

I'm sorry, Jeff, you're breaking up a bit. Could you repeat the question, please?

Jeff Kvaal - *Barclays Capital - Analyst*

Oh, I'm sorry. Is this better?

Kevin Johnson - *Juniper Networks Inc - CEO*

Yes, that's better. Thank you.

Jeff Kvaal - *Barclays Capital - Analyst*

I was wondering if you wouldn't mind going into the migration from the EX to QFabric, how that is progressing? And how comfortable you are with the QFabric trajectory?

Kevin Johnson - *Juniper Networks Inc - CEO*

Yes, first of all, EX and QFabric can coexist. The customers who have implemented an EX environment configuration can now install QFabric and have the two coexist as they decide what portion of their data center they want to run in Fabric mode versus what portion they want to run in our two-tier architecture based on the EX.

So, I think from that standpoint, the way we have architected the product and the roadmap for customers, there is a very smooth way for customers to decide how fast or how slow they want to go in the migration from an EX environment to a QFabric, or from a competitive Switching environment to QFabric, for that matter. We've made it very easy for customers to do that migration and I feel very good about the approach that our engineering and services teams have taken.

The second part of your question might be how we feel about the progress that we are making with QFabric. I think, given the fact that in Q2, we successfully completed the three Proof-of-Concept tests with customers; and we're now in the beta process which we just started about two weeks ago, and we are now running the end-to-end system with our five beta customers. And we are on path to look to ship that product around the end of this quarter.

So, we feel good about the progress we are making. We feel good bit about the pipeline. We feel good about the fact that we've now got even our first significant design went around to QFabric that has been a result of the Proof- of-Concept in these betas.

So, I think we are setting the foundation to have a very highly differentiated solution for data centers for both private, public clouds. As we go into 2012, that solution can interoperate with our EX and with our competitors' switching environments. And, so we've got a good opportunity as we look forward.

Operator

George Notter, Jefferies & Company.

George Notter - *Jefferies & Company - Analyst*

Hi, thanks very much. I was hoping to ask about the PTX, specifically. Is there any evidence in your conversations with customers or activities that you would be able to put the PTX into core routing networks that are based on Cisco Core Routers?

Kevin Johnson - *Juniper Networks Inc - CEO*

Thanks for the question. Certainly the way the PTX is architected is to interoperate with industry-standards, and so there is nothing that would prevent it from going into an environment where there is a competitive install of a core router.

The early design wins that we've seen, however, are typically solutions that involve the PTX plus the T4000 plus the MX target its very unique scenario. So there's nothing that would prevent us, technically, or from a go-to-market standpoint, to selling PTX to customers that have non-Juniper technology in the core.

Yet, what we are finding is there is great value that we have in synergy across the product line in these early design wins.

Operator

John Slack from Citigroup.

John Slack - *Citigroup - Analyst*

Robyn, you reiterated your 25% or higher Operating margin target. I'm wondering where you feel you shake out on the longer term growth target. Is it still greater than 20%? And then maybe you left out the color on the MX 3D. Maybe we can get a little color on how the MX 3D is doing this quarter?

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

In terms of the long-term model, we talked about it on the call. We feel really good about the long-term in terms of the growth opportunities that we have ahead of us with product cycles that we have.

In terms of specific color about next year's growth, we will do that late in this year or early next year as we get ready for setting up for the 2012. But, I think if you look at the model, the model is about optimizing the topline growth with the market opportunities that we face ahead of us as well as being efficient and effective with our use of resources to drive that 25% Operating margin.

In terms of MX 3D, I did give the number. The total MX was down slightly quarter-over-quarter, and up significantly year-over-year. And, it was really around the timing and deployment of the design wins that we have. So, it was a normal type of thing that you would have with deployments of the fast ramping product.

Operator

Jayson Noland, Robert W. Baird.

Jayson Noland - *Robert W. Baird - Analyst*

Kevin, a question on SRX and your thoughts on your high-end SRX pipeline and recent weaknesses. Is that a function of competitive pressure or maybe misexecution versus macro-related issues?

Kevin Johnson - *Juniper Networks Inc - CEO*

Yes, I think first that the high-end SRX, the most significant factor in that, was the very significant comparable we had from a year ago of a very large tier 1 service provider in the US doing a massive deployment of SRX.

And, so that large deployment created a very high comparable which was the biggest impact on the overall SLT business. Second to that, I would comment that the branch SRX has done very well. And, then that leads then in Enterprise data centers. And Enterprise data centers, I think that we're seeing more competition. And I think, frankly, there's opportunities for us, as we release QFabric, to show the whole end-to-end solution that we have in these data centers that combines what we've done with SRX, then with the virtual gateway that runs in VMware and Junos Pulse on the client.

So I think more competition related to data center. I think we've got good path forward with what we're doing with QFabric in our data center architecture. We feel very good about the high-end value proposition for service providers. And even, as they move to LTE, there is new technology that we are building into the SRX to enable that architecture for LTE as they switch from 3G to LTE.

So, I feel good about where we are in high-end SRX with service providers. I feel good about where we are with Branch SRX and Branch and Campus. Acknowledge, we are seeing more competition in Enterprise, but I think with what we are coming to market with with QFabric, and how we stitched together the end-to-end story of what we are doing to secure the client, secure the network and secure within the VMware servers, we think we've got a very good competitive story.

Operator

Rod Hall, JPMorgan Chase.

Rod Hall - *JPMorgan Chase - Analyst*

Yes, thanks for taking my question. I just had one clarification on a quick question. The clarification is on the five beta trials for QFabric. I wonder if you guys can say how many of those are web services type companies and how many are IT compute applications, like exchanges and universities? Just to give us some idea of what the spread is as the trials look like.

And then my question is on EMEA. I guess it was counterintuitive to see the revenues there up as much as they were, even though you guys did call out at the pipeline in Q1; I guess that was coming through in Q2. Can you talk a little bit though about what the distribution of revenue across the regions might look like in Q3 and Q4? Do you think the EMEA will be weaker and the other two regions stronger? Or any color you can give us on that would be interesting.

Kevin Johnson - *Juniper Networks Inc - CEO*

Yes, thanks Rod. I'll take your first question on the QFabric betas and then I will hand off to Robyn to comment on EMEA.

In the QFabric, the five betas that we have, I would characterize it as a mix of large service providers and large Enterprise customers. I think these are going to be the types of data centers and the types of demand that QFabric is very well suited for. It's not -- I'd frame it as that way. It is high-end Enterprise customers that have demand for that and as well as service providers that are moving into the business of managed services and providing cloud-based computing services. And, it's a very good mix. On the EMEA question, I'll hand off to Robyn.

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

On the EMEA question, Rod, you're right, we actually saw strength in the quarter and they're related to design wins that we had late last year, early this year. And so, we do have EMEA as one of the areas for caution as we move forward, just given the entire macro perspective there.

Having said that, we are doing well with service providers in EMEA and we do have other design wins that we'll start rolling out later in the year. But, in terms of Enterprise, we are cautious on Enterprise in EMEA, pretty much across the board.

Kathleen Nemeth - *Juniper Networks Inc - Vice President of Investor Relations*

And Operator, we have time for two more questions before our close at 3 PM.

Operator

Paul Silverstein, Credit Suisse.

Paul Silverstein - *Credit Suisse - Analyst*

Thanks. If I could ask a question of clarification. The question is, given that the relatively weak service provider CapEx environment that you called out, Kevin, it seems like it's unlikely to change on a global basis, on an annual basis, given the tight revenue environment, given the tight margin environment, all those carriers find themselves in.

And historically I thought it was a fairly decent divorce from your revenue relative to that, to the overall macros related to the carrier. I'm trying to reconcile your comments about design wins versus the macro headwinds you are seeing at the service provider level. The clarification, did you mention how many MobileNext trials design wins you have?

Kevin Johnson - *Juniper Networks Inc - CEO*

Yes, let me take the question, Paul. In terms of the service provider, I'm not sure -- there's certainly macro things going on, but for service providers they are growing subscribers and they've got more smart phones, more tablets, more devices connected to the network.

Independent of macro, there is more network traffic and the focus that service providers have had, especially in the US, has been implementing more of the RAN, or the radio access network components, the cell towers and the mobile backhaul.

As that gets implemented then, there will be a phase that that brings that network demand traffic into the Edge and Core, which will then drive an upgrade cycle on Edge and Core. So, I think part of this is timing of where the build-outs are taking place.

That said, your question, about the fundamentals for growth in network traffic are unchanged. And, that is what is driving continued demand for innovation in the area of network and that is where innovation, like PTX and T4000 and what we are doing with MobileNext and MX 3D comes into play.

On the second part of your question around MobileNext, I commented on the fact that we've secured our first design wins and that we have a number of customer trials in place. So, the only comment that I made was on that first design wins; and we just released that software here in the last two, three weeks.

Operator

We have time for one further question. Our last question comes from the line of Bill Choi from Janney Capital Markets.

Bill Choi - *Janney Capital Markets - Analyst*

Okay, thanks. So, back on SLT here, can you address what looks to be a continual drag on the non-SRX products here, the ScreenOS-based product, it seems to be accelerating on the downward trend, and I'm not sure what the game plan is to really transition that base and create a scenario several quarters down the road, where the overall SLT business revenue will go up. I guess, you haven't had a ScreenOS upgrade since two years ago. Thanks.

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

So, in terms of the strategy around the SLT products, the idea is to transition them over time from the net screen products, ScreenOS-based products, to the Junos-based products.

So that transition has started. We have a very loyal customer base on the older products and that is why that hasn't declined as much as you might think. Branch, in terms of SRX this quarter, is a proof point of that. We actually did see a good, sequential and year-over-year increase in Branch, as we start to make sure that the features and functionality are there for customers to adopt those going forward as their new platforms.

Operator

Thank you. I will now turn the call back over to Ms. Nemeth for closing comments.

Kathleen Nemeth - *Juniper Networks Inc - Vice President of Investor Relations*

We would like to thank everyone once again for joining us this afternoon. This does conclude our conference call and we look forward to speaking with you again in the future. Thank you.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time.
