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Volcano Corporation Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator instructions) We'll go first to Michael Weinstein with JP Morgan.

Michael Weinstein – JP Morgan

Good afternoon, guys. Nice quarter. Let me ask you just a couple of items, just on a better read on, you obviously had a very strong quarter on your top line and your gross margin was strong which was actually much better than we are modeling. So, can you give us a little bit more on that? I would like to see if you could tease out the impact of upgrade kits both on the top and bottom line and just understand your thoughts on gross margin going forward. Thanks.

John Dahldorf

Yes. In the gross profit impact that we've talked about in the past Mike is really going to be related to the rotational introduction in Japan, that's going to happen in Q3 and Q4. So, the margin that we had this quarter really does not include any material upgrade kits per se.

Michael Weinstein – JP Morgan

And is that because – you just versus where you thought you would be three months ago? Is that that you shipped out your upgrade kits and that's why?

John Dahldorf

No. We always talked about that we felt the bullish of the rotational upgrade kits that we are going to sell to Japan; we are going to be in the third quarter because we didn't expect to get regulatory approval until the end of the second quarter. We got it a little bit earlier so we were able to ship out some consoles as we noted in our remarks as well as a few upgrade kits. So, we still expect that substantially all of the upgrade kits that we have talked about in the past in Japan that happen evenly between Q3 and Q4.

Michael Weinstein – JP Morgan

Okay. So, it's a mix with think about it right then. So, in terms of the gross margin impact in the back half of the year, we had been modeling it more second quarter, third quarter but you are saying third quarter, fourth quarter. So, we should assume that gross margins are down obviously in the third quarter, and is that what you are suggesting as well for the fourth quarter?

John Dahldorf

Yes. I think that in the past when we've talked about the upgrade kits in Q3, we were talking about margins potentially 500 or 600 points lower than that we had recorded in the first half. Because we are going to now be spreading the upgrade kits evenly across Q3 and Q4, I think that you won't see a single dip in Q3 in the margin but you may see it dip say a couple of 100 basis points but it will even between Q3 and Q4. But overall, we still expect to finish put the total year to 60% to 61% range and as you take out the upgrade kits in Q4, that would definitely be exiting Q4 at 63% which sets us up well to achieve our – through the 300 basis point improvement that we talked about in 2009.

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