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STEC, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Kamal Das with Lehman Brothers.

Kamal Das - Lehman Brothers

Can you please update us again on how you see the \$50.0 million SSD target for 2008?

Manouch Moshayedi

I think that by the end of the third quarter we will have done over \$30.0 million of SSDs and we think that the fourth quarter should be a very good quarter for us.

Kamal Das - Lehman Brothers

In the SSD sub-segments, like Enterprise Storage, Enterprise Server, notebook, and sub-notebook, can you please explain to us how we should expect the growth trends to be and how we should expect the margin trends to be?

Manouch Moshayedi

I can't really comment on all four, saying how the growth trends are going to be. But I think we have mentioned as least that ZeusIOPS is doing great, Mach8/IOPS is also doing great, and we are getting good qualifications done at server OEMs and on the Mach8/MLC, and automobile laptop SSDs are also progressing quite well. We are going to be shipping those types of parts in the third quarter already.

Kamal Das - Lehman Brothers

And how should we expect the margin trends in the four different segments?

Manouch Moshayedi

I can't really comment on that. And I really would like to ask everyone to just ask one question at a time so we give everybody a chance to ask questions, also.

Kamal Das - Lehman Brothers

Sure. The last question from me, if I may. Can you also elaborate on the trends on your ramp in Malaysia and how that should impact your tax rate in 2009?

Manouch Moshayedi

Yes. We've [inaudible] on Malaysia we think that is going to be positively impacting our taxes in 2009 and we'll be hoping to get it down below the 20% range.

Operator

Your next question comes from Rich Kugele with Needham & Company.

Richard Kugele - Needham & Company

When it comes to the inventory, can you just describe your procurement process? You know, when you get an order for an SSD, for example, and how that affects both your inventory and your working capital purchases? And the way you sign the contracts.

Manouch Moshayedi

The way that we like to work it is that once we have got a purchase order from a customer or a solid forecast along with a purchase order from a customer, we negotiate a price at that point, with the customer on an ongoing basis. So throughout the life of that purchase order, we lock in a price and delivery date. So we really don't like to take any risks whatsoever on either availability or pricing of our components at that point. And we like to lock in all the boundaries of that purchase order at that point.

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