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Check Point Software Technologies Ltd. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Rob Owens.

Rob Owens - Pacific Crest Securities

Could you give me a sense of what the appliance revenue was as a percentage of licensed sales during the quarter?

Gil Shwed

Appliance revenues were approximately one-third of new product and licensing.

Rob Owens - Pacific Crest Securities

One-third. Okay. Then relative to the gross margin, as you've seen appliance revenue really take off as a percentage of the mix, your gross margins held in well over 91% here. What's the difference between the appliance business and your traditional business? And what should we expect with your gross margin going forward?

Gil Shwed

I think overall the appliance sales are contributing higher revenues, higher contribution to the bottom line. We changed a little bit the subscription model but we also increased the maintenance and subscription revenues. So I think overall our contribution so far is all positive. And, I don't know yet about the margin and how we will see them moving forward. But we do have good margins on our appliance business, consistent by the way, from what you see from any other security companies and networking companies, that all have high margin. And giving their percentage of our total revenues, that's how we maintained the overall growth margin number.

Rob Owens - Pacific Crest Securities

And I guess, more specifically on that since you've been in the appliance market now for six quarters, have you driven any cost efficiencies? Are you seeing higher margins now, then say, you were a year ago at this time? Or are your gross margins on the appliance business consistent with where they were a year ago? Thanks.

Gil Shwed

I think it's slightly improving. Again, it depends on the mix, but for example, this quarter we introduced five new models with update our entire UTM-1 appliance range. And these appliances all have much higher performance, higher capabilities for the customers, and we were able to reduce the cost that we have on these appliances.

So, I think overall we are focusing on both ends of the scale. The main focus that we have is to keep being on the forefront of technology. But we are doing that while making sure that we maintain a healthy cost structure and if you look at the traditional history of Check Point for the years, I think we are focused on both sides, and making sure our business is effective and efficient, and mainly on the customer needs and growing them.

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