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Aspect Medical Systems, Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) We'll take our first question from Eli Kammerman with Cowen.

Eli Kammerman-Cowen & Co.

Hello. First question is the percent of total sales derived from sensors seem to hit a new high on a historical basis, or close to it, but yet the gross margin didn't expand that much compared to the year ago period. How do you explain that the gross margin wasn't more on par with where it was in the second half of '07 rather than the first half of '07?

Michael Falvey

This is Mike. If you looked at the last, probably six quarters, as part of the shift in strategy of really focusing on existing customers in the US the trends you point to have definitely occurred, in terms of, an increasingly richer mixture of our total revenue is coming from those high margin sensor sales and so what we've seen over the last six quarters is a pretty nice increase in our, what we refer to as our product gross margin, so excluding the alliance revenue.

Depending on which point of comparison you want to use, last quarter or the same quarter of last year, and I think both are relevant, there is a couple of things that you need to consider; compared to last quarter, we've had about the same mixture of hardware to sensors except for two pretty important components: one is, as I pointed out Q4 was an unusually low quarter for international monitor units and that rebounded very nicely in Q1.

We telegraphed on the last call that we thought that was just a temporary aberration last quarter internationally, so it's good to see that trend return, but those units do tend to be lower margin and that took about somewhere between ½ and 1 point off of our margin in total, and the second factor to consider is the fact that, as I mentioned in my remarks, we shipped a little over 200 units to two different OEM partners at no charge and these were as part of some programs that we've put in place with those partners ? we do do that from time to time; it was a little unusually strong in this quarter, but we think it's going to set us up nicely for future sensor growth.

Eli Kammerman-Cowen & Co.

Were those 200 units' monitors or modules?

Michael Falvey

Those are modules.

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