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## SonicWALL Inc. 4Q 2007 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator Instructions) And we have our first question from Sterling Auty from J.P. Morgan.

#### Matt Medeiros

Hey, Sterling.

#### Sterling Auty - J.P. Morgan

Hey guys. So if I look at the guidance for March, the high-end of your revenue range is basically sequentially give or take, but you got \$0.02 lower EPS at the high-end, which looks like you are investing more heavily. Well, how much is the incremental investment going to come from headcount versus other discretionary spend and how much of that hiring has already been done?

#### Matt Medeiros

Most of the headcount related, by the way, I would say there are two primary drivers and the increase in operating expenses quarter-over-quarter. The first are sort of unfortunately normal Q1 type expenses like [SpikeGuard] and the 41-K match program that is neck in neck in terms of its impact on operating expenses along with headcount and the weighted expense in the quarter.

So those are two primary drivers. We did have a worldwide sales meeting that occurred now two weeks ago that also was responsible for part of the incremental amount of operating expenses in our forecast. We are expecting an increase in cooperative market programs, as well in our channel programs and that's pretty much the lion share of it.

#### Sterling Auty - J.P. Morgan

Okay. And while, you are not giving kind of full year guidance, should we expect the EPS to bottom or the margins to bottom here in the first quarter and then ramp throughout the year?

#### Matt Medeiros

We expect to be more efficient as the year progresses, yes.

#### Sterling Auty - J.P. Morgan

Okay. Next question is on the mix the TZ being one third, can you remind us what percentage of the product revenue TZ was last quarter and kind of how much of that deferred revenue growth had \$9 million, or so came from TZ with the bundle?

**Matt Medeiros**

Okay. In Q3, TZ represented about 37.5% of total product revenue versus a third or 33.3% in the current quarter. The unit volume on TZ's quarter-on-quarter increase sequentially, pretty substantially actually and revenues in fact did not increase, they went down slightly and we're very aggressive with the TZ product in the quarter to reestablish momentum with unit volume and we were successful in doing that.

**Rob Selvi**

I would like to add that across all of our products we have pretty good attach rate. So it wasn't as if the bundling of just the TZ 180 was what supported all of the growth in our subscription services business. We had excellent performance across all product lines Our E Class; our new products that we introduced at the end of phase obviously carry a very large level of revenue from subscription services.

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