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STEC, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from Gary Hsueh from Oppenheimer Funds.

Gary Hsueh – Oppenheimer Funds

Thanks for taking my question, and just incidentally the broadcast over the telephone cut out a significant portion of your prepared remarks, so I apologize if some of these questions are repeats of what you already presented. But -- just bigger picture, can you help me understand what sustaining your DRAM kind of business? I'm not a masochist here expecting this to go zero, but given all the kind of macroeconomic situation and conditions out there impacting into bad, how is DRAM holding up that well in your business line in Q3?

Manouch Moshayedi

We've consistently said that our DRAM business is pretty much a stable business. Even though we are not trying to grow the DRAM business, our existing business is very stable. We've got customers who are quite stable in this -- in that market. The products that we sell are very customized products. So there are not too many suppliers of the same type of DRAM modules to those customers. So we don't -- unlike the whole macro picture of DRAM, we don't foresee the DRAM business suddenly dropping from the bottom of the floor. I know that you're surprised, but we've been saying this for the past 45 quarters.

Gary Hsueh – Oppenheimer Funds

Okay. And can you kind of walk me through margins, gross margin real quickly? Again, your prepared comments had cut out,

but can you walk me through gross margins and specifically why gross margins are relatively flattish for pretty good sequential uptick in revenues? I would -- I just assume that given DRAM and memory, NAND Flash prices going down so much in the September quarter that that would have acted as a tailwind to gross margins, higher gross margins for you.

Manouch Moshayedi

Yes. In our case, gross margins really don't move that much up and down because of the price of Flash or DRAM that goes up and down. We -- basically, we look at DRAM and Flash as sort of a pass-through inside. So if the price of Flash goes down for us, we will immediately drop the price of -- price of our end product to our customers. So we try to maintain the same type of gross profit

margin on each particular product going forward. The reason why it didn't go up, in fact, we were forecasting it last quarter when we announced that our margins were -- gross margins would actually go down during this quarter simply because we have a small portion of our business that has gone into PCIe business, or the small mobile, ultra mobile type of laptops, but that the margins are going to go down. But fortunately, I think the number ZeusIOPS that we shipped out this quarter augmented that business and therefore kept our margins quite flat. We were actually originally forecasting our margins to go down by a couple percentage points.

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