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Websense, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Samuel Wilson – JMP Securities.

Samuel Wilson – JMP Securities

Dudley, what was headcount?

Dudley Mendenhall

About 1,250.

Samuel Wilson – JMP Securities

And do you have capex for the quarter?

Dudley Mendenhall

\$2.5 million.

Samuel Wilson – JMP Securities

Can you give us the non-GAAP R&D sales and marketing in G&A?

Dudley Mendenhall

R&D is running right at 14% of billings. We tend to track it to billings because of the revenue anomaly. And then sales and marketing is running about 36% to 37%.

Samuel Wilson – JMP Securities

What was G&A?

Dudley Mendenhall

9%.

Samuel Wilson – JMP Securities

Can you give us some sense on promotional activity? In the last quarter you talked about increasing promotional activity. What did you do in the December quarter and what are your thoughts here on the first part of 2009?

Dudley Mendenhall

Q4 was pretty typical promotional activities, nothing extremely aggressive. We will definitely look towards being fairly aggressive on product bundling promotions, specifically targeted at lengthening contract lengths for those few customers who might be willing to go from one to three years, in the first half of 2009 but don't expect to see anything unusual outside of that.

Samuel Wilson – JMP Securities

Gene, this is not meant to be in your face. It's one of those things where I'm doing it across the phone. But it has been three years you've been at the company. The quarter you came to the company it was growing and had 35% operating margins. Today you are looking at flat revenue for 2009 and 25% to 28% operating margins. Can you just take us and sort of grade how you see the company has performed over the last three years?

Gene Hodges

Yes, the major measure that I'm looking at is cash flow. I think that is how we are best valued. And SurfControl certainly increased the revenue base. We dropped a couple of margin points but when you look at the cash the company generates, it's up significantly. And the EPS last year, pro forma basis, increased 40%.

So I would say the first year was focusing to get ready to execute the strategy, 2008 was a year where we finished pulling all those pieces together. And I think we saw significant improvements in both cash flow and earnings and a big non-organic jump on the top line, which gives us scale to compete against a completely different set of competitors. And you know, I would like to see any other CEO stand up against that.

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