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Cavium Networks Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Dan Morris – Oppenheimer & Company.

Dan Morris – Oppenheimer & Company

First, I wanted to ask Syed about your comment about bookings coming back in January. Is that driven mainly by new products, or are you also starting to see some of your run-rate programs show some life there?

Syed Ali

Dan, it was a fairly broad base and it's a mixture of both the run rate type products and new products going to production.

Dan Morris – Oppenheimer & Company

Art, with regards to the guidance there, how much of the revenues there are already in backlog?

Art Chadwick

Generally, we don't spell that out specifically but given our order rate in November and December, we did start Q1 with a lower than usual backlog. However, as Syed mentioned, January is turning out to be a pretty healthy bookings month. So I think those are the dynamics of the quarter.

Dan Morris – Oppenheimer & Company

Turning to OpEx, now you've added roughly 100 heads now with the Star and the W&W acquisitions. Given current trends, it sounds like you're not really cutting back on headcount, but if you look forward if things continue as they are, is that something that you might consider?

Syed Ali

Dan, obviously we look at expenses on a quarter-by-quarter basis and also look at the market on a quarter-by-quarter basis, but we really don't feel that we will need to resort to anything like large-scale layoffs in the company.

Operator

Our next question comes from Quinn Bolton – Needham & Company.

Quinn Bolton – Needham & Company

My first question is for Art. Art, any of the cost reduction actions you're taking impact the gross margin over time? Can you do anything with the amortization expenses of masks or the operations team to try and get the margins up?

Art Chadwick

So, most of our cost reduction actions affect operating expenses because that's where the bulk of our employees are and that's where the bulk of our normal spending is. However, there are a lot of things we're doing to work on improving gross margins. One of the biggest things we can do is work on increasing sales, because as I mentioned we've got this fixed cost component of our cost of sales to the extent that sales are lower like they were in Q4, then gross margins get worse to the extent that sales increase, then gross margins get better.

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