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Data Domain, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Aaron Rakers- Wachovia Capital Markets.

Aaron Rakers- Wachovia Capital Markets

First, Mike, if you can a quick clarification for 2009 did you make the comment that gross margin would be 64% to 68%?

Michael P. Scarpelli

No the comment I made was looking out long term three to five years, I said gross margins will come down to 64% to 68%.

Aaron Rakers- Wachovia Capital Markets

If I look at that and I believe the longer term target that you've thrown out there in the past has been somewhere in the 68% to 70% range, maybe you can help us understand the degree of discounting that you are seeing and how we should think about the impact from some of these larger deal sizes and maybe also talk about where we see average deal sizes trending through '09?

Michael P. Scarpelli

Our target model was always exiting Q4 of '09, we had said it was going to be 68% to 70%. I'm now giving longer term guidance and that's as we move more into the secondary storage market and we get into bigger systems and bigger enterprises, we fully expect that we will be doing more discounting, there's going to be a lot more hardware on it involved too which will drive our gross margins down along with the fact that support and services will be a bigger percentage of overall revenue.

This is something we have expected since day one would happen.

Aaron Rakers- Wachovia Capital Markets

Can you talk about the comment that you'd seen some deal deferrals or weakness develop more strongly as you got out of December and maybe also give us an update of what necessarily those trends have looked like in January? Then I'll cede the floor.

Frank Slotman

We saw right after Christmas some softness in the pipeline which we were not fully expecting because we had not seen that in our prior operating history and that's what we were reporting here. You can't really compare the operating history in January so far with December because they are totally different times in the quarter, couldn't be more different December versus January. It's premature to really comment on what it's going to be like when we get to late March and see if we encounter similar things.

We are operating with a good bit of caution because the environment is very defensive out there, it's choppy, it's fluid in the sense that we haven't settled down and we're still learning day by day what we're walking into here.

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