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## Quest Software, Inc. F4Q08 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator Instructions) We'll go first to Phil Winslow – Credit Suisse.

#### Phil Winslow - Credit Suisse

When you look at headcount over the course of this year, how do you expect that to trend first half and then over the full year and also if you could give us a feel for expenses too.

#### Scott Davidson

I think what we are comfortable saying is that we managed headcount pretty aggressively in 2008. We made the cuts where we had the opportunity. In certain businesses right now, like in our virtualization business, we're making incremental hires. In other areas, where we're growing. In other parts of our business that are not growing, we're sort of cutting.

I think I can say that we're not trying to incrementally add many heads at all. Unless they're absolute critical replacements, we're trying to keep it as flat as possible but make those critical investments where needed.

From an expense perspective, you've got the run rate of Q4 in expenses and knowing that a portion of that is tied to commission expense based on the bookings numbers. You should be able to take that and get an idea what the run rate for Q1 would be if you sort of back that down a little bit.

#### Operator

Next John Difucci (John Hafner for John Difucci) - JP Morgan

#### John Difucci (John Hafner for John Difucci) - JP Morgan

Looking at the operating margins this quarter, they were really healthy and pretty strong when you look at year-over-year and sequentially. Scott talked about how it provided a benefit. Can you quantify a little further how much of a benefit you saw from FX to operating margins this quarter?

#### Scott Davidson

Actually the revenue line was hurt by about \$8 million from FX in Q4 and the expense line was benefited \$7 million during the quarter. So net-net it was fairly neutral within a quarter, but \$7 million specifically for the quarter.

**John Difucci (John Hafner for John Difucci) - JP Morgan**

Do you guys hedge your net exposure at all?

**Scott Davidson**

We do not.

**Operator**

We'll go next to Abhai Lamba with UBS.

**Abhai Lamba - UBS**

Margins, I assume that revenue you have lack of visibility, but on managing your expenses, solving for flat margins next year or solving for margin expansion?

**Vincent Smith**

What we're solving for is how much to spend right now and as Scott indicated we're looking for a pretty flat spend. With regards to margins, we have a revenue target that we're not giving guidance to and so until the revenue start coming in, we don't know what the margin should be. We know what we achieved in margins last year, but we're not saying hey we have to achieve that next year, but we're sensitive to it. We're not like saying that doesn't matter. We appreciate the benefit of bringing an increase in the margin as we did last year, but we're just not certain what's going to go on the revenue side to be then articulating out positional margins right now.

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