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Rackable Systems, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) We will take our first question today from Mark Kelleher, Canaccord Adams.

Mark Kelleher – Canaccord Adams

Thanks. Guys, I noticed you didn't talk about the container business. How is that going?

Mark Barrenechea

Mark, thanks for the first question. As I said in my opening remarks, CapEx spending is certainly contracting and this is slowing big ticket purchases and certainly delaying some large-scale data center construction. We have seen certain large projects delayed, rather than canceled. And I think part of our disappointing news in '08 is that we haven't recognized any revenue for the ICE Cube, and that's certainly a disappointment. We remain a 100% committed to the solution. As we look out into the year, we are hopeful we will win business. But as for '08 we didn't recognize any revenue for the ICE Cube.

Mark Kelleher – Canaccord Adams

All right. And at your largest accounts, do you think that was all market driven or there is some market share shifts?

Mark Barrenechea

We see it primarily as market-driven not market share shift. And one of our major issues in 2008 was concentrated to two large customers whose revenue contribution was down near over \$110 million year over year. And if it weren't for those two customers, our base markets grew 5% year over year, storage up 23%, and service up 30%.

Mark Kelleher – Canaccord Adams

Okay. And maybe a question for Jim. The R&D line came in a little bit from \$5 million to \$3.4 million, is that a quarterly effect or with your comments on investing in R&D, should we expect that to go back up again?

Jim Wheat

We will continue to redeployed resources into R&D and to technology. I think the specific answer to your question, it was probably just a quarterization. And again remember, we have pulled out from continuing operations – the effects, Mark, of our RapidScale business.

Mark Barrenechea

Mark, thanks for sending the question to Jim as my voice was – so, I appreciate that. Just to make sure that I was heard clearly, so one of our major issues in '08 was concentrated to two large customers whose revenue contribution was down about \$110 million in the year. When we look to some of the bright spots in the year, our base markets grew 5% in the year, our storage business grew 23%, and our service business grew over 40% in the year. And certainly, the concentration was the major contributor to the revenue decline, not market share shifts.

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