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E5 Networks Inc. F2Q09 (Qtr End 03/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Troy Jensen - Piper Jaffray.

Troy Jensen - Piper Jaffray

Andy, historically March quarter you've always had a book-to-bill below 1, something like six or the past seven years, followed up with a book-to-bill above 1 for the June quarter. So I'm just curious if your guidance is reflecting expectations bill backlog?

Andy Reinland

When we give guidance, it's more with the expectation of flat backlog.

Troy Jensen - Piper Jaffray

Next for you Andy, the product gross margins down a little bit here sequentially, was that mix issue, pricing pressure or just absolute revenue levels?

Andy Reinland

No, as I said in my script, we actually took a charge this quarter that was pretty significant, so affected this by 225 basis points. And then you if you add into that another 140 basis points for the patent settlement I talked about, see where our gross margin on a GAAP basis was down about 76.3%. So, those should not reoccur and we'd expect to be back in our historical range next quarter.

Troy Jensen - Piper Jaffray

One for John, John can you think about when you guys did launch Buffalo Jump? Can you give us a sense for how long it took before the new operating system really started gaining momentum with customers?

John McAdam

I mean obviously that was in September 2004 and these are different times, so I'll talk about 2004. I'm not implying it's going to the same in 2009, I wish it was. It was a pretty aggressive pickup. I mean in the first quarter, that means quarter after by 25% of our business was the NME got about 50% of our business, but what it did was, it did, in our opinion actually increased the market as well because market grew at the same time and I'm sure that's not a coincidence.

Now TMOS version 9 was a very big architecture changes. This isn't quite as much an architecture change with 10. It's is more of a feature, with a lot of features if I could say approximately about 150. So it's not quite seemed product to market. I don't want expectation thinking it's equal, but it's definitely going in our opinion gave us significant competitive advantage.

Operator

Our next question comes from John Marchetti - Cowen and Company.

John Marchetti - Cowen and Company

Thanks. Cowen and Company. Just a quick question for you, Andy, on the guidance, you talked obviously about a much larger range this quarter. Just curious about some of the puts and takes between sort of the 148 at the low end and kind of how you get to the different ends of that guidance between the 148 and 157? What has to go right, what has to go wrong to be on either side of that?

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