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Tellabs Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Tal Liani with Bank of America.

Vivek Arya - Bank of America

Good morning. It's Vivek Arya on Tal's behalf. Rob, a couple of questions. As I look at the last year, your SG&A spending has stayed relatively flat, but the R&D has gone down by almost \$12 million or by 15%. My question is that are you investing enough in new areas, so that top line can grow as the carrier spending grows?

Rob Pullen

Good question, Vivek. You're right, R&D has been reduced. And as Tim mentioned and as I've talked about in the past, we consolidated two GPON platforms into one and exited on profitable business and, therefore, cut our R&D expense, while still having the 1150 GPON access platform.

Next is, as I mentioned, we are investing 19% as a percent of sales in research and development in plowing back a lot of new money into innovative development. So, you will hear more about those as we roll that out over the coming months.

And lastly, you're right, SG&A is flat. And we're investigating that. But we consciously made a decision to invest more in our sales functions in developing countries like Latin America, specifically Brazil, to name one, and invest our way in sales through the downturn.

Vivek, if you take a look at Tellabs, we are a small percent of the overall CapEx spent in the world. And if we can sell our way through this downturn, we are going to increase our market share. And that's what we aspire to do.

Vivek Arya - Bank of America

And then secondly, the cross-connect sales are generally seasonally strong in the first half. But then, I think the sudden decline in the second half, so if that pattern holds, should we expect the gross margins to go down to the low 40s as we get into the second half of the year?

Rob Pullen

Well, as Tim mentioned, while we are not given guidance for the second half of the year, we will have some variability of gross margins based on mix. And you're right, Vivek, the 5500 typically does well in the fourth quarter, in the first quarter, and this year is no exception from that.

We exceeded fourth quarter of '08 revenue with the 5500 in the first quarter of '09. And I would expect revenue to go down in subsequent quarters. And I don't have a crystal ball for the fourth quarter of '09, but I would expect it to uptick in 4Q '09, as well.

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