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Network Equipment Technologies, Inc. F4Q09 (Qtr End 3/27/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes Greg Mesniaeff - Needham & Company.

Greg Mesniaeff - Needham & Company

Actually, I have a two-part question on the government business. You had mentioned that not only did the government business decline in the quarter both year-over-year and second quarter but there was also the continued mix shift away from Promina to next generation products, which contributed to the lower margin. I'm curious as the government business eventually does start to pick up later this year, are you faced with pretty much market share pressure of any kind to competitors such as, say, a Juniper or someone else as the transition from TDM to IP continues for them or is this just a matter of waiting when the business returns?

Nick Keating

Let me start with the transition from legacy, i.e., TDM-based switching over to IP-based switching.

We've clearly seen a trend within DISA that they're buying less and less of our Promina products and they're moving over to all IP-based backbone solutions, and clearly the new backbone being built by DISA is a Cisco and Juniper backbone. So our products continue to be installed, but they're being used for access and aggregation. But that is a long-term trend that I think is irreversible.

On the hand, if you look at our deployed systems - these are the systems that we sell that are put into communications vehicles and vans and ships and aircraft - those are predominantly IP-based solutions. The NX1000 is a hybrid; it supports both TDM and IP and I mentioned in the call today that we've now added pseudowire capability to it, which would allow us to be able to handle other legacy traffic, whether it's [frame] relay or TDM or ATM with an IP trunking capability.

That's a product where we're not seeing competitive solutions from organizations like Juniper and Cisco; I see them less on the deployed side. Likewise, on our VX products, the issues for the VX really related to large programs. We had a contract that wrapped up a year ago with the Marine Corps where we sold nearly 1,000 VXs to the Marine Corps. Now we're seeing new purchasing coming from these agencies, but sometimes they're not of the size as some of the bigger programs have been in the past because there's been a lot of equipment that's been ceded out there.

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