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Phase Forward Incorporated Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Brett Jones with Leerink Swan.

Brett Jones - Leerink Swan

When I look at the service margins, the sequential decline in service margins in Q2, I was wondering if there is anything that is sort of obfuscating the margins there as whether if there was a change in higher cancellation rate this quarter, decrease in change orders?

Robert K. Weiler

The answer is no, this was within our normal fluctuations quarter-to-quarter based upon timing and mix of our revenue and timing of cost. As you may recall in Q1 our services margin was up 300 basis points, so it was an abnormally large increase that quarter, but quarter-to quarter we can expect 1 to 2 percentage points changes in that mix. So, I don't think there is anything abnormal that stood out.

Brett Jones - Leerink Swan

In last quarter I believe were higher change orders; are those generally higher margin, I would assume?

Robert K. Weiler

It depends on the type of change orders; sometimes when a change order is retroactive, meaning that the work is already done, that flows immediately to the bottom line and that is higher margin. Other change orders are extensions of trials and they are just spreading revenue over some future period.

Brett Jones - Leerink Swan

And when you talked about the total deferred declining sequentially and that was just typical seasonality, is it my understanding and may be I have mistaken here when I think of total deferred being more tightly correlated with license revenue rather than the ASP and as the ASP starts to increase may be we should expect total deferred to decline overall?

Robert K. Weiler

No, I don't think it is more associated with license necessarily than others. We have a number of contracts that may be there is commitment associated with it that gets billed independently when

the ASP starts. So, like for example over the past year, we have seen significant increase in the mix of our business at ASP, but at the same time, our deferred revenue has continued to increase possibly even at a faster rate than it has in the past. So I don't think there is a direct correlation that as license component of the total grows at a slower rate that the deferred revenue growth will slow down. The quarter-to-quarter movement on deferred revenue has to do with the timing of when major contracts and billing fall, and if you go back for two or three years, we tended to have large increases in deferred revenue both in Q4 and in Q1 and it's random that we happen to have a couple large contracts or multiple large contracts signed in those quarters and those are the dates of the anniversary billings.

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