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Acme Packet, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator instructions) Our first question will come from Simona Jankowski from Goldman Sachs; please go ahead.

Simona Jankowski – Goldman Sachs

Hi, thank you very much. It looks like there was an almost 40% decline in the quarter in your direct sales, which I think is mostly in the US. Can you just give us a little more color of how concentrated that decline was, and what is your best visibility at this point of – is that coming more from the equipment or the licensing side and to what extent are those utilized with customers? In other words, how long should we expect for them to take – to kind of come back and start ordering again, whether it's equipment or licenses?

Keith Seidman

Hi Simona, this is Keith. I think as we have mentioned in previous calls, when our equipment is deployed, they are pretty much utilized at full capacity. And so, when new subscribers are acquired by our customers, they buy new systems. They don't buy systems and then fill them up over time. Most of our customers are usually at a pretty much near capacity, and then when they get to their internal threshold of capacity, they buy new system. So, we don't believe there's an inventory of systems out there at our customer side with much more expansion capacity that they don't need to buy additional systems from us.

I think North America, unlike the European and Asia-Pac and CALA region, is slightly more concentrated in those regions. There's a number of large carriers, there is not one specific carrier that caused any shortfall or slowdown in the North American market. But as we'd like to point out, we don't want to measure a particular region by a three-month period. We would like to know on an annual basis, we feel very confident about North America. In 2007, if you look at each quarter, there was a slowdown in Q3 2007 from North America, but they bounced back with a very strong fourth quarter. So I think we really don't want to look at the quarter on a one – we don't want to look at the region on a one quarter basis, but in a full year. We still think there's a lot of opportunity in North America.

Andy Ory

And the other thing, Simona, I'd like to mention is that, the overall and majority of what was either not able to be recognized or was pushed out and subsequently will be closed in the third quarter are new large systems, it's not license upgrade. The systems that are in the field are largely fully utilized, and

we have seen an increase in traffic in the marketplace, which we think bode very well for additional equipment purchases.

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