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Checkpoint Systems, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question is from Robert Labick – CJS Securities.

Robert Labick – CJS Securities

Good morning.

Rob van der Merwe

Hi.

Robert Labick – CJS Securities

Hi, thanks, that was a lot of detail you gave us there. Just trying to absorb it all. I was hoping we could step back a little and talk on – I'll start with the discussion on Evolve. You obviously discussed the pilot program rollout and I think you said some of the competitive wins were involved in that. First, could you just tell us how Evolve is going – the feedback from the pilots so far. Have there been unusual expenses? Also just targeting for the quarter where there any unusual expenses with the rollout or the first time it is going out, and what we should expect in the second half, and when does it become a meaningful contributor to revenue? Is that '09 or beyond, you know, what its scale right now and where can it go?

Rob van der Merwe

Okay Bob, most of the launch costs making sure that the product was checked out for launch occurred during the first half. Now, we spent a lot of money bringing those products to market, introducing them to the customers and as the hardware has started to flow into the market there were additional quality checks that had to be put into place to make sure that the product worked right the first time. Those are being removed now because the product has checked out worldwide. We have a lot of pilots, I can't give you the number but it is many, many, many pilots that are in place and are effectively working as we speak. We're starting to see the early conversion of those. We expect to see those conversions continue based on the product performance that we saw in the earlier conversions, being checked out and proven, if you will, by customers. This – you know, the launch of Evolve is the pathway that will enable customers to move into more RFID enabled capability and as such it has resonated. We are picking up new market share and we are also converting existing customers with aging basis to this new technology. So it is about an 18-month rollout. We should be substantially down the track to doing that by the end of this year and by the middle of next year we should be done.

So, we will see it in terms of protecting our market share, we'll pick up market share. And when we can provide more detail on that we will, and we have already picked up some share so far, but it is not meaningful in the grand scheme of things. And I can share that with you as the program rolls out, but most of the costs are out of the way now. We saw those during the first half and we saw that during some of the innovation R&D spending and we saw it in our marketing costs.

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