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Tekelec Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question is from Scott Coleman with Morgan Stanley.

Scott Coleman – Morgan Stanley

Hi, good morning. Thanks for taking my question. I am wondering if you could address two things; first, is the amount of orders coming from the 34 new customers. I think you referenced, Frank, return orders from some of the ones that you saw in last year, but I am wondering if you could break that out a little more. And then second, I think related to that is, your professional services revenue was essentially flat year-over-year, actually down slightly. Given the amount of new customer activity, it is a bit of a surprise to me at least, I am wondering why you are not seeing good growth in that line of your business segments.

Frank Plastina

I will take the second one first. Professional services is a value-add service that really is dependent on the type of product line that we sell. If you look at the extended warranty line, that went up and that was attributable, as Bill said in the prepared remarks, to the increase in the installed base.

So, there really are two service lines to look at, one is really the extended services and warranty revenue which is up nicely and we expect that to be, given the increase in the installed base, and professional services is really dependent on how much activity we have and how much revenue recognition, in particular, that we have for our performance management and monitoring solutions, because that is the product line that attracts most of the professional services work.

In terms of the new orders from the customers, we don't breakout the new orders from the 34 new customers, but one thing we have been doing is tracking our success over time once we book that initial customer. And generally speaking, it is not unusual for us – for our new customer to generate expansion orders at a level of 3 to 4 times their initial order value within the first three years, and beyond that, it's a multiple over and above that over the life of the relationship. So, it is a very healthy re-order kind of amount after that initial win.

Scott Coleman – Morgan Stanley

If I could ask one follow-up there. Bill, I think you said in your remarks that the numbers for performance management, the revenue numbers, were low but that the order rates and the backlog were both quite strong. Should we expect to see the professional and other services revenue grow in line as you start to recognize more revenue from your performance management products?

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