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EarthLink, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Jennifer Watson - Goldman Sachs.

Jennifer Watson - Goldman Sachs

What is the greatest obstacle that you see to consolidation at this point in time? And does the current market make it more challenging for something to happen in the near term?

Rolla P. Huff

I don't think that the market is impacting it. I think there are a lot of moving parts that are currently taking place in the industry that we read about every day in the newspaper and I think that we've been sort of waiting on some of those things to play themselves out. So I think the biggest obstacle is just sort of a clearing of this inflection point in the industry and we're as anxious about that as everybody else is, but as I mentioned in my comments there will come a point when it just simply doesn't make sense for our shareholders to sit on the cash that we have and I would hope that doesn't affect our ability to be that consolidator and that's why we're going to give it a little more time before we change our view on that.

Jennifer Watson - Goldman Sachs

Who else would you see in the industry as being a consolidator?

Rolla P. Huff

I think we're the best in the industry to do it.

Kevin M. Dotts

We're certainly I think the best of the strategics.

Rolla P. Huff

Yes, I think there are really two or three players out there, obviously AOL being the largest, us being the second largest, United Online's access business is probably the third largest group of customers, and then MSN is probably the fourth largest.

Operator

Our next question comes from Youssef Squali - Jefferies & Co.

Youssef Squali - Jefferies & Co.

You talked a little bit about exploring other areas. Can you just help us understand how far out of the access realm you would consider going as you explore uses for your cash? And secondly, philosophically assuming that you basically make a decision between now and year-end as to the best way for you to use the cash, do you have any preference as to strategies for recaps? Do you have a preference for dividends, for stock buy-backs, versus potentially going private? And then I have a follow up for Kevin.

Rolla P. Huff

In terms of the alternatives, we've tried to be as thoughtful about that as we have about how we've run the business, so as I think about it sort of the overarching answer is that I'd probably would not have a big tolerance for getting too far afield from our core competencies. And that's the way I look at it. So we'll look at what we believe are adjacent industries. I mean obviously we're in the ISP business, we're in the value-added services business, we're in the web hosting business, we're in the SELEC business. Beyond that though from my perspective it really the wisdom of a deal and for me to have the ability to look at our investors in the eye and tell them that we've created shareholder value, there has to be real synergy around whatever we do. And as I mentioned in my comments, I would be disingenuous if I said that there were a world of opportunities out there for the type of customer base that we have. There are some, and then it really boils down to whether or not we like the health of the industry, whether it's the SELEC industry or the web hosting industry, the various industries that we're in, whether we like the health of the industry, whether we like the core competencies that we can bring to the industry, but above all do we create synergies that create value? Because I'm not going to invest our cash in a business that our shareholders could do just as well if they invested the same cash in. We need to bring something more to the table and I think we're going to run through that process pretty thoughtfully. I think the clearest purpose for our business would be to consolidate the industry, but we can only do that if there's somebody on the other side of the table that is selling at a value that we can create value for our shareholders. I don't want to be the consolidator just to have something to do. We really need to be able to demonstrate that we can create value with any transaction we do.

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