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PeopleSupport Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) We will go first to Joseph Foresi with Janney Montgomery Scott.

Joseph Foresi - Janney Montgomery Scott

Hello. My first question here is just on the guidance side. This is sort of the third revision downward. And I was wondering if you could give us some insight into how you go about setting those guidance expectations and maybe what happened this quarter that surprised you?

Lance Rosenzweig

Sure, Joe, this quarter we really saw two factors that happened that we were not expecting. First, is the tech and telecom sector, particularly EarthLink and Vonage, where we saw, and again, most significantly EarthLink, a significant further reduction in their business. EarthLink I think in its earnings call a couple of weeks ago, announced it was reducing its marketing and sales expenditures by around 70%, and that's most of the business that we did for EarthLink. And so we're seeing a significant decline there. And that sector has just been generally slow for us.

And secondly, we're seeing greater impact from the slowing economy, both on call volumes kind of across industries, and also on some delays in signing of new clients. But that said, if you take out those two clients, we are seeing very strong growth from our existing client base and also strong growth in new client signings.

In terms of the other part of your question I think was on how we develop our forecast and how we guide, and we take the information that we have at the time, we look at all existing clients and we build a bottoms-up forecast with those existing clients. We look at new prospects and where they are in the sales pipeline and what's signed or what's in legal, etcetera, and we assign probabilities and timetables based on those clients, and based on that we guide.

Joseph Foresi - Janney Montgomery Scott

So it's safe to say that when you gave the prior guidance, your probabilities on EarthLink and Vonage have significantly changed?

Lance Rosenzweig

Correct.

Joseph Foresi - Janney Montgomery Scott

Okay. And then just, you've talked about and maybe you can help us reconcile this. You talk about a very strong demand backdrop, yet guidance has come down a couple of different times, and it looks like you're making the business more efficient by reducing the seat count and even reducing the headcount. In addition to that, you're using the service offering to fill some seats that maybe perhaps you're not using. Help us kind of reconcile your sort of bullish stance on the pipeline and what potentially is out there versus what looks like a move towards efficiency and maybe getting rid of some excess capacity?

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