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PeopleSupport Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you, sir. Today's question-and-answer session will be conducted electronically. (Operator Instructions). And we'll go first to with David Scharf of JMP.

David Scharf - JMP

Hi, good afternoon.

Lance Rosenzweig

Hi. David.

David Scharf - JMP

Lance, few things, obviously there is terrific top line and bottom line results for the quarter, just trying to get a little more clarity on the numbers in between. Can you talk about the cost of revenues that seem to be the biggest variants in from expectations? It looks like sequentially your revenue was up 7%, 8% on an absolute dollar basis, your cost of revenue actually went down. I know you said headcount was down a little bit, but can you help us understand how to think about that gross profit number?

Caroline Rook

Sure. I mean, David, I'll take this question. So, cost of sales did go down from both operational efficiencies as well as some analysis that we had cost benefits from that I talked about. One of them being the pension expenses in the Philippines about \$0.4 million was the cost benefit in cost of sales and also about \$0.3 million of the management incentive plan accrual reversal, was primarily in the cost of sales. So, that's about \$0.7 million there. Also, we benefited from a full quarter's worth of our Captive Services, which was as Lance mentioned there was about \$1.5 million in revenues where we had some very, very high margins David which also contributed towards our reduction in costs of sales.

So those three aspects as well as, we don't want to take away from operations really beginning to hit their stride, really contributed to the cost of sales before FAS 123R reducing from about 74% in Q2 this year to, a shade less than 70% in Q3.

David Scharf - JMP

So the pension benefit in the accrual, but those are sort of one-time, should we think of this 31% kind a gross margin level as a fairly stable number going forward?

Caroline Rook

Well, it's not expected to be there in Q4, of course just given?

David Scharf - JMP

?on an annual basis though?

Caroline Rook

Seasonality, as I said, that's about \$0.7 million of benefits that we saw. The Captive Services also helped contribute to our margins, as we said and that's expected to terminate in early '08. And also the Peso, it depends what the Peso does to us as, you know, we record the Peso at whatever the cost it is, operating cost of sales. And that's a variable that we can't predict and we get the benefit on our current programs in other income.

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