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The Ultimate Software Group, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) We'll go first to Richard Baldry with Canaccord Adams.

Richard Baldry – Canaccord Adams

Thanks. It looks like if you look through the Q4 guidance and you took the 10% op margin on a \$50 million top line, you've reversed pretty sharply, sequentially on the earnings side. You've actually come in higher than you did in the first quarter.

So, given the demand you're seeing in the environment and the bookings that you've had, well, some reasons that you might not see op-ex get sort of, ahead of your expectations again as we've seen sort of in the last two quarters?

It doesn't look like demand's falling down, so it seems like that's going to be probably your toughest execution in the quarter. Thanks.

Scott Scherr

Rich, I think on the op-ex side, if I heard your question correctly, the variables probably come in sales and marketing in terms of commission expenses related to the sales, and how they flow in. In terms of R&D, we know the head count. We know what their plans are there. So I think in that area, I think we have a pretty good handle on the op-ex in Q4.

Richard Baldry – Canaccord Adams

And, then, just on the balance sheet so we can start to figure out going forward, I'm curious that the funds held for clients is basically flat and slightly non-sequential as you're adding customers onto the tax platform. So, how do we think about that on a go-forward –?

Scott Scherr

Again, remember that the amount of taxes we hold depends on when the taxes have to be turned over to the authorities. Let me look up something, the day before, so it's going to vary on a daily basis. The day before was \$3.5 million. So it's really a function of when the taxes get remitted to the authorities, but the average daily balance went up and the next question is it's not so much where we ended a quarter, but it's what happens to the average daily balance, and by the end of the third quarter, that was up to about \$1.4 million compared to, I think it was \$600,000 at the end of Q2.

Richard Baldry – Canaccord Adams

And, then, with it looks like your Performa profitability again will step up in the fourth quarter, so do you expect to get back to more of an aggressive buyback plan? It sort of looks very strong in the second quarter, a little more moderate in the third quarter. I'm just curious what your thoughts there with your stock trading where it is? Thanks a lot.

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