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Phase Forward Incorporated Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Steven F. Crowley – Craig-Hallum Capital.

Steven F. Crowley – Craig-Hallum Capital

A couple of questions for you, Bob you made a point of talking about renewals, extensions and expansions of relationships and business deals with large customers. Can you talk to us a little bit about those discussions and the resulting terms? Have they been as expected? Has the environment bred any change in the discussion about pricing or renewal terms?

Robert K. Weiler

I think as we said before that the issue around renewals is that the customers are looking to us to provide more comprehensive solutions to help improve their processes and their productivity to reduce costs. That said, I would say we're very pleased with renewals and extensions and the value we've received from that and I would also say that it is as expected from even a year ago. With that in mind I would say the economic turmoil hasn't changed and the contracts we were able to deliver were based on what we expected when we did the same exercise at the end of 2007.

Steven F. Crowley – Craig-Hallum Capital

In terms of your operating margin guidance, in the past you've talked to Wall Street about the prospects for 100 basis points of operating margin improvement a year. That's obviously not what you're telegraphing for 2009. I'm wondering what the larger factors are in 2009 deviating from that pattern? Is it your decision to invest in certain categories, is it the macro back drop, is foreign currency playing a role? Maybe you could talk through that Delta?

Rodger Weismann

The previous guidance that I've given in approximately three years our targeting operating margin going in the range of 18% to 21% which on average that works out to 100 basis points per year. I think one of the keywords is average. The business world and actual results don't go up in an exact amount each quarter or each year so getting them up 300 basis points over a year isn't necessarily going to go in a straight line so that's one general answer to it.

But, within your question I think you hit on one of the things that part of the guidance we gave which is on R&D where we're forecasting about a 70 basis point increase in R&D as a percent of the total

going up from about 14.2% or 14.3% up in the neighborhood of 15% of our revenues so that is an increase where in the last couple of years its drifted down on a very slight basis.

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