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NIC Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Charlie Anderson with Doherty & Co. Go ahead, please.

Charlie Anderson - Doherty & Co

Good afternoon. Thanks for taking my questions. Just a few housekeeping items. First of all, I am wondering on the new state revenue. How much came from new states in the quarter?

Steve Kovzan

Sure, Charlie. Hi. How are you?

Charlie Anderson - Doherty & Co

Good.

Steve Kovzan

In terms of our new state, we are referring to Arizona, which was during the quarter about \$1 million, which is right in line with that \$4 million a year run rate, and in West Virginia, about \$400,000.

Charlie Anderson - Doherty & Co

Great. And then also, I just wanted to understand some the dynamics in the software development and portal management line. It looks like it is kind of down sequentially here, and was also last year. Is there some seasonality in that line I should think about going forward?

Steve Kovzan

You're talking within the portal revenue, the component of the portal revenue that relates to software development and portal management?

Charlie Anderson - Doherty & Co

Yes, you got it.

Steve Kovzan

Yes. We have a couple of onetime larger projects in the first quarter. That can tend to be a little bit lumpy, because it is time and materials. And there were a couple more in the first quarter. So there really is no seasonal aspect to the T&M line.

Charlie Anderson - Doherty & Co

Got you. And then on portal gross margins, you did make a comment on that. I appreciate that. We have seen them down just a little bit year-over-year, both quarters here to start of the year. I just wonder if that is kind of going to be the trend here going forward, or if you guys see any possible leverage in that, in terms of comping against a year ago on the gross margin line?

Steve Kovzan

Yes. When we provided our guidance for the year, we provided guidance of margins between 45% and 47%, and certainly one of the things that contribute a little bit to lower margins is some of the startup margins in our newer portals, most notably in Arizona, as you might recall, we are in the process right now of re-quoting all the applications that the state previously had, and migrating them over to the NIC source code. And so our margins are a little bit lower in Arizona during the first six to nine months of 2008 than they will be going forward. And also, we're seeing a new portal in West Virginia also start to fully ramp.

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