

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a gold Greek letter alpha symbol to the right, all on a dark red background.

SI International Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Michael Lewis with BB&T Capital Markets. Please proceed.

Brad Antle

Good morning, Mike.

Michael Lewis - BB&T Capital Markets

Hi, good morning. How are you guys doing?

Brad Antle

Very well.

Michael Lewis - BB&T Capital Markets

Okay. So, Ted, I was wondering if you could kind of walk us through some of the assumptions surrounding the '08 guidance. Specifically, are there any new seasonality trends that we should be paying attention to? And also if you would offer us what your internal assumptions are for PTO over the next say six to twelve months?

Ted Dunn

So, major themes in the 2008 budget, I believe as Brad teed it up, we see 10% organic growth. We are coming off of two quarters of 7%, organic growth in our third and our fourth. We see momentum building. We see pipeline growing, civilian agency organic growth up 20% in the fourth. We think we have the momentum and the opportunity to deliver on that 10%. Looking at operating margins, when you peel the onion here, you will find an operating margin up about 7.4%, and that is teeing up some interest from many folks. Let me just tee it up by like this for you guys.

2008 is going to be a year of investment for us. We are going to continue to invest in sales and marketing people. We are going to continue to invest in our management team, in facilities, in order to achieve that organic growth. We believe once we deliver that and continue to deliver that, that margins will follow suit and our theme is top line first. Looking at interest expense, we will take advantage of a new credit facility that we have just entered into, new \$200 million credit facility.

We are lowering our spread at current leverage from about L plus 225 to L plus 125, so pick up about 100 basis points on interest. We are somewhat pleased to see that despite choppy waters in the credit market, we were able to secure a much more favorable credit facility. As you know Mike, we are free cash flow positive, so we will be doing this credit facility to position ourselves for the next acquisitions to come. And the fact that we can do it a little bit cheaper than the previous facility is wonderful news. And that's the best way to understand how to build your models for next year. The gross margin to be inline with what we saw this year, and something between 35 and 36%, and the rest I think you can build from there.

Copyright © 2008 CNET Networks, Inc. All Rights Reserved.