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ADTRAN Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Your first question comes from Scott Coleman with Morgan Stanley.

Scott Coleman - Morgan Stanley

Hi. Thanks, guys. Jim, I just want to go back over the guidance to make sure I understand it. You are expecting a sequential decline for Q4, and you also talked about going back to a more typical margin environment. Can you draw that out a little bit and help us understand what exactly you mean by that?

Jim Matthews

Well, Scott, I think what we mean for that is that recently we have seen gross margins in the high 50s range and over the past couple of years in the high 50s range, and we are anticipating that level of gross margins in the fourth quarter.

Scott Coleman - Morgan Stanley

Okay.

Jim Matthews

In terms of opex, no significant change really from the fourth. We may have a slight uptick in R&D potentially to a point somewhere between our R&D Expenses in the second quarter and the third quarter.

Scott Coleman - Morgan Stanley

Okay.

Jim Matthews

SG&A, we believe, should stay pretty much in line.

Scott Coleman - Morgan Stanley

Okay, and so, from a pre-tax margin perspective, that would seem to imply something below the 25% level. Is that what your expectations are at this point?

Jim Matthews

Well, it depends on revenue, Scott, but I think you can draw some reference to our operating levels at prior revenue levels.

Scott Coleman - Morgan Stanley

Okay.

Jim Matthews

Okay.

Scott Coleman - Morgan Stanley

Okay. Thanks for the clarification. And then maybe one more broad question. Obviously the spending environment is a little tougher at this point than I think most were anticipating. I am curious, Tom, what your thoughts are as to what is going on. It seems like there are a lot of network builds going on, a lot of carriers, either it is 3G or telco video, yet spending levels remain somewhat depressed. I am curious what your thoughts are as to why that might be and what is it that could possibly turn around the spending environment?

Tom Stanton

Yes, I can only speak to that in relation to our products and our customer base. We saw a couple of things happen in the third quarter. We had had a Tier 2 customer who just, significantly, the largest decline we saw in revenue was due to that one Tier 2 customer, who really put the brakes on their spending. Rationale behind that is something that you'd really have to get from that customer, but what we have kind of modeled going forward is no change in the environment that we saw in the third quarter.

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