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Tier Technologies, Inc. F2Q09 (Qtr End 3/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Wayne Johnson - Raymond James.

Wayne Johnson - Raymond James

I'm just trying to get my hands around the expenses a little bit more, gross profit margins a little bit better, SG&A a little bit higher. Going forward for the next few quarters how should we be thinking about that as a percentage of sales?

Ronald Johnston

Let me answer it in this fashion. The margin improvements that we're seeing are coming principally as a result of the ChoicePay acquisition and the mix of cost of goods associated with their revenue base. So as they maintain and hopefully grow that revenue base we should continue to see an improvement in overall gross margin.

On the SG&A side in the quarter the general and administrative expenses increased in the quarter and by approximately \$600,000 as a result of really two factors - one was now the general and administrative expenses associated with the ChoicePay acquisition and, as I said earlier, legal expenses incurred in the quarter as a result of the stockholder meeting.

Wayne Johnson - Raymond James

So for ChoicePay what kind of growth rate do you think that they bring to the table? I believe it was \$10 million in revenue, is that right, if I recall correctly?

Ronald Rossetti

That was the run rate of the business at the time of acquisition and we've subsequently added additional clients.

Nina is here. Nina, do you want to speak to that?

Nina Vellayan

Sure. Wayne, since the close we've actually added 8 additional accounts, as you saw per Ron's comments. And from a growth rate standpoint I believe it's growing at -

Ronald Rossetti

Well, you have to look at ChoicePay in two segments in terms of what it does for our growth. In the first place we think that the utilities category for us is going to grow at least in the 35% to 40% growth rate over the next year or so, maybe two. And so they're adding to that growth.

But also ChoicePay brings us a couple of other payment types, mainly walk up payments as well as some of the heavier level in ACH. To give you one example, in one utility we're increasing transaction volume probably by 250,000 to 300,000 a year just by the use of walk ups. We plan on applying that to all of our government space. And the addition of payment types like bill me later and a number of others, [inaudible] and a number of others, are going to add to that ability.

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