

ATS Q1 2010 Earnings Call Script

OPENING OF CALL/OPERATOR:

OPERATOR: Welcome to the ATS Corporation First Quarter 2010 Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question and answer session.

And now I would like to turn the program over to Joann O'Connell, Vice President of Investor Relations.

MODERATOR (J. O'Connell): Thank you. Good morning and thank you for joining us to review our first quarter 2010 results. With us this morning from ATS Corporation are Ed Bersoff, Chairman, President and Chief Executive Officer, Pamela Little, Executive Vice President and Chief Financial Officer and Sidney Fuchs, Executive Vice President and Chief Operating Officer.

Before I review the structure of this morning's call, I would like to read the safe harbor statement.

This conference call could contain forward-looking statements about ATS Corporation within the meaning of the Private Securities Litigation Reform Act of 1995. Forward looking statements are statements that are not historical fact. Such forward looking statements are based upon the current belief and expectations of ATS Corporation management and are subject to risks and uncertainties, which could cause actual results to differ from the forward looking statements. Such risks are more fully discussed in ATS Corporation filings with the Securities and Exchange Commission. The information set forth herein should be considered in light of such risks. ATS Corporation does not assume any obligation to update the information contained in this conference call.

At this time, I would like to outline the agenda for today's call:

- First, Dr. Bersoff will offer opening remarks.
- Next, Ms. Little will review ATS Corporation's first quarter financial results.
- Next, Mr. Fuchs will review operating results for the quarter.
- Finally, Dr. Bersoff will further comment on the Company's performance and outlook as well as offer concluding remarks.
- At the completion of Dr. Bersoff's remarks, the Company will open the call to take your questions.

At this time, I would like to turn the call over to Dr. Edward Bersoff, Chairman, President and Chief Executive Officer of ATS Corporation.

Ed?

OPENING REMARKS:

E. BERSOFF: Good morning and thank you all for joining us today to review ATS Corporation's first quarter 2010 financial and operational performance.

Before I discuss those results, I would like to first welcome our new Executive Vice President and Chief Operating Officer, Sidney Fuchs, who joined us on April 5. He comes to us with extensive industry experience that crosses each of our market areas. He was most recently the President and Chief Executive Officer of OAO Technologies, a global provider of IT services to government and commercial companies that was sold earlier this year. He also served as a corporate officer at Northrop Grumman Corporation in two key executive roles, one being the CEO and President of TASC, Inc. when it was a \$1.2 billion Northrop subsidiary and the other as President of Northrop's \$1.4 billion Information Technology's Civilian Agencies Group.

Now turning to our results, we are very pleased to report a strong first quarter. We achieved quarter over quarter performance improvements across the board, including revenue growth of 12%, EPS growth of 150%, EBITDA growth of 29%, EBITDA margin improvement of 140 basis points, backlog growth of 12%, and a reduction of days sales outstanding by 15 days. We also booked \$65 million in new contract awards in the first quarter, resulting in a book to bill ratio greater than two.

With this positive start to the year, we are optimistic in our outlook for the rest of 2010. We believe procurement activity will continue to increase for us throughout the year and we believe we are well positioned in our current markets for additional growth opportunities. I will further comment on our performance and outlook after Pamela provides the financial details of the first quarter and Sid discusses our operating results.

Pamela?

FINANCIAL RESULTS:

P. LITTLE: Thank you, Ed. We will begin with our GAAP results, followed by our Earnings Before Interest, Taxes, Depreciation, Amortization and then explain the difference.

For the quarter ended March 31, 2010, we recorded \$30.5 million in revenue. Revenue for the quarter increased by approximately 12.4% over the first quarter of 2009 revenue of \$27.2 million. Revenue from commercial contracts increased by 48% and revenue from civilian and defense contracts increased by 5% over the first quarter of 2009.

Operating income and net income for the quarter was \$2.1 million and \$1.1 million or \$0.05 per diluted share, respectively, an increase from operating income of \$1.7 million and net income of \$426,000 or \$0.02 per diluted share for the first quarter of 2009.

Let me now turn to our internal metrics of performance and highlight how we look at our results. As I said a moment ago, our reported net income was \$1.1 million for the quarter. We incurred depreciation and amortization expenses of approximately \$641,000, net interest of \$821,000 and taxes of \$625,000. Adding these expenses to our net income results in an EBITDA of \$3.2 million and an associated EBITDA margin of 10.5%.

The quarter over quarter increase in our revenue was driven by a significant improvement in our commercial business areas, particularly with Fannie Mae. We also saw expansion from our civilian and defense customers, with the Department of Housing and Urban Development contributing the strongest quarter over quarter revenue gains. Quarter over quarter increases in operating income, net income and EBITDA were driven by continued realized efficiencies in our selling, general and administrative expenses on a higher base of revenue. Furthermore, in this quarter we benefited from a \$495,000 favorable settlement on an acquisition-related indemnification claim that we had discussed on our last earnings call.

Other measures of performance that we monitor regularly include days sales outstanding or DSO and contract backlog. At March 31, 2010 our DSO was at 64 days. Our DSO decreased from 79 days at the end of March 31, 2009, and from 66 days at the end December 31, 2009.

Our contract backlog at March 31, 2010 was \$201.2 million, of which \$59.7 million was funded, an increase of 12% over our backlog at March 31, 2009 and an increase of 21% from our backlog at December 31, 2009.

Additionally, as of March 31, 2010, the balance on the revolving credit facility was \$18.1 million and we had approximately \$917,000 in promissory notes. As we reported in our annual report on Form 10-K filed on March 24, 2010, our promissory note balance was reduced by \$495,000 during the quarter to reflect a settlement reached with the sellers of Number Six Software related to an indemnification claim associated with the acquisition of this business in 2007. Since December 31, 2009, we paid down approximately \$2.2 million in total debt.

Related to our outstanding debt and as we reported in our quarterly report filed on Form 10-Q today, we have agreed to terms for amending our existing credit facility with Bank of America and Citizens Bank. That facility was to expire in June of this year. The most significant changes under the amendment include an increase in the limit from \$50 million to \$55 million, a three-year extension to the maturity date, an adjustment on the applicable margin from 2.00% to 3.50% to a range of 2.00% to 3.00% based on the leverage ratio, an annual basket for stock repurchases not to exceed \$3.0 million and a \$20 million basket for

acquisitions that does not require lender approval. Furthermore, there will be no upfront fee to the amendment. We expect to finalize the amendment next month.

As also noted in the 10-Q we filed today, we finalized our settlement agreement with Maximus on April 6, 2010 and paid Maximus \$1.5 million in return for a full release. As we discussed in our fourth quarter earning release, we booked a \$1.5 million loss contingency in the fourth quarter of 2009 in accordance with accounting rules and regulations associated with the timing for booking the expense, and therefore there will not be any impact on our 2010 financials as a result of the Maximus settlement. We do, however, intend to pursue our indemnification claim against the former principal owners of Advanced Technology Systems, Inc. or ATSI, under the stock purchase agreement governing the transaction in which the Company (then Federal Services Acquisition Corporation) acquired ATSI, as we have previously reported. We could recover the amount of the expected settlement of \$1.5 million, as well as associated legal fees and related expenses. Any recovery of the settlement amount will be recorded as other income, when received.

In conclusion, our financial results today show strong top-line growth and margins. We have been able to continue to pay down our debt by \$2.2 million and repurchase another 152,000 shares of our common stock during the quarter. We are also very pleased with our anticipated credit line amendment and believe the terms reflect our strong performance and the positive working relationship we have had with our lenders over the last three years. This concludes my review of the financials and I would now like to turn the call over to Sid to discuss the operating results for the quarter.

Sid?

OPERATING RESULTS

S FUCHS: Thank you, Pamela and good morning. I'm pleased to participate in my first earnings call for the Company.

We are very encouraged with our operating results for the quarter. Our total revenue increased 12% over the first quarter of 2009 representing expansion in both our government and commercial business areas and a well diversified mix across civilian and defense government agencies and commercial customers. As Pamela mentioned earlier, our commercial business grew by 48% over the first quarter of 2009, primarily driven by increases at Fannie Mae. Overall, revenue for our commercial contracts totaled \$6.5 million in the first quarter of 2010, compared to \$4.5 million in the first quarter of 2009.

Within our government business areas, we also experienced year over year growth, primarily driven by increases at the Department of Housing and Urban Development or HUD. Overall, revenue from our civilian and defense contracts totaled \$24 million in the first quarter of 2010, compared to \$22.7 million in the first quarter of 2009. As we discussed on last quarter's call, we did

experience some negative impact from the weather-related Government shutdown in Washington in February; however in many cases we were able to make some of that work up over the course of the quarter.

Turning to our bookings for the quarter, we delivered new awards totaling \$65 million, translating to a book to bill ratio greater than two and an increase in backlog by 21% over where our backlog stood at the end of 2009. Of these bookings, the two largest were with the Department of Defense and the Nuclear Regulatory Commission. An agency within the Department of Defense awarded us a \$27.5 million, four-year contract to provide project management support, IT infrastructure operations and maintenance, information assurance and application software development and maintenance. The Nuclear Regulatory Commission awarded us a \$21.4 million, five-year contract to support the agency's Program Management Methodology, the major program offices, and to maintain the agency's Rational tools suite. Both of these awards reflect important recompetes wins for us and further highlight our ability to foster our long standing customer relationships with high end solution offerings and reliable program execution capabilities.

While these two contracts represent our largest awards this quarter, we won a number of additional new commercial engagements as well as increased funding from existing government customers, such as HUD, the Defense Logistics Agency, and the Pension Benefit Guaranty Corporation.

We believe that the recent increase in procurement activity we've seen in the first quarter will continue. With the investments we've made in business development, our current pipeline and bid activity is very robust. We are also optimistic in a number of potential new awards in the next few months which should help continue this strong organic growth momentum during 2010.

This concludes my comments on the operating results and I will now turn the call back over to Ed.

Ed?

CONCLUDING REMARKS:

E BERSOFF:

Thank you Sid. I'd like to take this opportunity to provide a summary of our financial and operational accomplishments achieved this quarter and our priorities for the rest of the year. Our accomplishments this quarter include:

1. Quarter over quarter revenue growth of 12.4%;
2. Quarter over quarter EPS growth of 150%;
3. Achieving a book to bill ratio greater than 2;

4. Exceeding our targeted EBITDA margins of 9.5%;
5. Increasing our backlog by 21% from the end of the year and 12% since the end of the first quarter of 2009;
6. Paying down another \$2 million in debt;
7. Purchasing 152,000 shares of our common stock;
8. Reaching general agreement on the terms to extend our credit facility under favorable terms; and
9. Recruiting Sid to join as our Chief Operating Officer. His industry experience is relevant to each of our markets and we particularly look forward to leveraging his extensive background in the defense and intelligence markets to pursue new avenues of growth in those areas.

As I stated in our fourth quarter 2009 earnings call in March, we have outlined the following additional priority initiatives for 2010:

1. Investing in business development to increase the resources necessary to build our bid pipeline and backlog;
2. Maintaining at least 9.5% EBITDA margins;
3. Reinitiating our M&A efforts later in the year to pursue accretive acquisitions, which has always been an important element of our longer term growth strategy;
4. Repurchasing our stock to the extent we have sufficient cash flow, as we believe the current market value of our shares does not accurately reflect the underlying value of the Company; and
5. Achieving recertification of our CMMI Level 3 certification, demonstrating our continued commitment to high quality standards to meet or exceed our customer's expectations.

CONCLUDING REMARKS:

E. BERSOFF: Before we open the call to questions, I'd like to just reaffirm our guidance for the year of \$124 million to \$128 million of revenue and \$11.8 million to \$13 million of EBITDA. We're very pleased with our results for the quarter and are highly optimistic that our growth trajectory will continue to improve over the course of the year.

This concludes my prepared remarks. At this point, we would like to open the call to questions.

AFTER Q&A:

E. BERSOFF: Thank you for your time and attention. We look forward to speaking with each of you over the coming months and thank you again for your support.