

ATSC Q3 2010 Earnings Call Script

OPENING OF CALL/OPERATOR:

OPERATOR: Welcome to the ATS Corporation Third 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.

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 afternoon and thank you for joining us to review our third quarter 2010 results. With us this afternoon from ATS Corporation are Dr. Edward Bersoff, Chairman, President and Chief Executive Officer, Ms. Pamela Little, Executive Vice President and Chief Financial Officer, and Mr. Sidney Fuchs, Executive Vice President and Chief Operating Officer.

Before I review the structure of this 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' 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' 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, Ed will offer opening remarks.
- Next, Pamela will briefly review ATS Corporation's third quarter financial results.
- Next, Sid will review operating results for the quarter.
- Finally, Ed will further comment on the Company's performance and outlook for our business as well as offer concluding remarks.
- At the completion of Ed'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 afternoon and thank you all for joining us today to review ATS Corporation's third quarter 2010 financial and operational performance.

We are pleased to report record earnings this quarter, with fully diluted EPS up 38% over year to date 2009, an increase in bookings of 52% over the second quarter of 2010 which resulted in a book to bill ratio of 1.6x, and an increase in our backlog of 31% since December 31, 2009. We also continued to exceed our target EBITDA margins achieving 14.7% for the quarter and paying down another \$2 million of debt. On the top-line we experienced some decline in our government business primarily due to the transition of several recently recompleted and awarded contracts where we were pleased to retain the business and book multi-year backlog, but faced significant pricing pressure from our competitors. This shift caused us to reduce our total price, thereby lowering our monthly revenue run-rate. Our commercial business, however, continued to show strong recovery achieving 10% quarter over quarter growth.

As you may have seen, on October 19, 2010 we announced that I will be transitioning to a Chairman only role on January 1, 2011 consistent with our long-term management succession plan. Our current Executive Vice President and Chief Operating Officer, Sid Fuchs will assume the role of President and Chief Executive Officer on January 1. Sid was also appointed to our board of directors, effective on October 19, 2010. He joined us last April and has already made a significant contribution to our operations. I look forward to continuing to work with him to ensure a seamless transition.

And now I will turn the call over to Pamela to provide the financial details of the third quarter and then Sid will further discuss our operational accomplishments and challenges for the quarter.

Pamela?

FINANCIAL RESULTS:

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

For the quarter ended September 30, 2010, we recorded \$29.2 million in revenue. Revenue for the quarter decreased by 9% from the third quarter of 2009 revenue of \$32.1 million. Revenue from commercial contracts increased by 10% and revenue from government contracts decreased by \$3.5 million over the third quarter of 2009. The quarter over quarter decrease in revenue in our government business areas is due to reduced equipment purchases from us in

the third quarter of 2010 compared to the third quarter of 2009 and the conversion of several recently recompleted and awarded contracts to new procurements.

Operating income and net income for the third quarter of 2010 was \$2.7 million and \$2.7 million, or \$0.12 per diluted share, respectively, compared to operating income of \$3.9 million and net income of \$2.0 million, or \$0.09 per diluted share for the third 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 \$2.7 million for the quarter. We incurred depreciation and amortization expenses of approximately \$627,000, net interest income of \$108,000, and taxes of \$1.1 million. Adding these expenses and subtracting the net interest income to our net income results in an EBITDA of \$4.3 million and an associated EBITDA margin of 14.7%.

Quarter over quarter decreases in operating income and EBITDA were driven by the decline in revenue and further impacted by a softening in gross margin due to a shift in contract mix and the effect of new awards that were competitively bid with lower margins than existing contracts. EBITDA and net income were favorably impacted by \$959,000 of other income in the quarter due to the resolution of an acquisition-related indemnification claim. Offsetting the decline in our gross margin, our selling, general, and administrative or "SG&A" expenses declined by 10% quarter over quarter due to further reduction in various indirect costs, while also continuing to invest in business development resources. Our net interest expense declined significantly quarter over quarter due to the lower debt balance, a resulting decrease in the interest rate, the termination of our swap arrangement on September 30, 2010, and the interest income associated with the indemnification settlement.

When combined with first and second quarter results, revenue and EBITDA for the first nine months of 2010 was \$89.0 million and \$10.3 million, respectively, resulting in an EBITDA margin of 11.6%. In comparison, revenue and EBITDA for the first nine months of 2009 were \$89.5 million and \$10.7 million, respectively, resulting in an EBITDA margin of 11.9%. Operating income for the first nine months of 2010 was \$7.0 million and net income was \$4.9 million, or \$0.22 per diluted share, compared to an operating income of \$8.3 million and net income of \$3.6 million, or \$0.16 per diluted share for the first nine months of 2009.

Other measures of performance that we monitor regularly include backlog and days sales outstanding, or DSO. Our contract backlog at September 30, 2010 was \$218.6 million, of which \$48.6 million was funded, an increase of 43% over our backlog at September 30, 2009 and an increase of 31% from our backlog at December 31, 2009.

Our DSO at the end of the third quarter was at 63 days, in line with our performance in the first and second quarters of the year and better than industry average for our peer group.

As of September 30, 2010, the balance on the revolving credit facility was \$16.0 million and we had no outstanding balance on the promissory notes related to the acquisitions we made in 2007, as those notes were paid in full as of September 30, 2010.

As Ed mentioned earlier, our financial results today are mixed. We are pleased with our consistent track record of delivering above industry average profit margins and record earnings for this quarter, despite a modest decline in revenue. We have further reduced our debt by \$5.2 million or 25% since December 31, 2009. Furthermore, the strong bookings last quarter and increase in backlog gives us a solid multi-year foundation to continue to build on in 2011 and beyond. This concludes my review of the financials and I would now like to turn the call over to Sid.

Sid?

OPERATING RESULTS

S. FUCHS: Thank you, Pamela. I would like to take the opportunity to comment on our operating results for the quarter. We are encouraged by our strong bookings this quarter of \$45.7 million. As Ed mentioned, the bookings this quarter reflect an increase of 52% over second quarter 2010 bookings and a book to bill ratio of 1.6x.

Bookings from the quarter include three sizeable awards.

- First, we won a \$12.0 million, five-year contract with the U.S. Department of Housing and Urban Development or “HUD” Multifamily Housing organization. Under this contract, we will continue to provide application systems support for HUD’s Integrated Real Estate Management System. We have developed and supported financial systems for HUD for over 30 years.
- Second, we won a \$13.5 million, four-year contract with the U.S. Defense Logistics Agency or “DLA” Information Operations Philadelphia organization, where we will continue to provide full life cycle support for the Subsistence Total Order and Receipt Electronic System or “STORES”. STORES is the primary system used by the military for the ordering and receipt of food and other subsistence items which processes transactions exceeding \$4 billion annually. The system handles comprehensive supply chain management from military dining facilities to commercial food vendors worldwide.
- Third, we won a \$13.3 million, five-year contract with the National Cancer Institute or “NCI”. Under this contract, we will continue to provide software

development services for the NCI Center for Biomedical Informatics and Information Technology in support of its grants management systems.

We were additionally awarded contracts totaling \$4.9 million to support the U.S. Air Force, the Defense Technology Security Administration, and other State government and commercial accounts. The balance of the new bookings came from increased funding from customers such as HUD and DLA.

The majority of the bookings this quarter came from recompleted government contracts. As we have discussed on earlier calls, we faced a very heavy recompile schedule this year. We have now won nine of those recompleted contracts so far this year, with several still outstanding, but expected to be awarded by year end. We remain very confident in continuing our strong recompile track record this year which has now secured much of our existing business for the next four to five years. As we have stated earlier, the short-term impact of recompetes is generally lower revenue levels due to competitive pricing and requirement modifications, however we expect those awards to escalate in size and scope over their multi-year period as is common in our sector. In any case, we do not anticipate any decline in our overall profitability.

On the strategic hiring front, we recruited another key executive to the team this past quarter. John Hassoun joined us as our Senior Vice President of Federal Programs on September 1. John has a distinguished 20-year record of corporate experience in leading and managing operations, strategy, and business development for organizations, including Global Strategies Group, Olive Group, Veridian Corporation, and General Dynamics.

Before commenting on our business development initiatives, I wanted to highlight the strong performance delivered by our commercial business this quarter. As Pamela mentioned earlier, our commercial business achieved revenue growth of 10% quarter over quarter. Within our commercial business revenue by market metrics, we classify our work with Fannie Mae, which is one of our largest and longest standing customers that has continued to perform strongly this year. We are pleased that Fannie Mae just recently extended our contract for another two years as one of its preferred vendors. Additionally, while subsequent to the end of the third quarter, a leading insurance regulatory agency awarded a \$700,000 contract to ATSC for our commercial consulting practice to deliver application development services.

Now turning to our business development initiatives, our pipeline as of the end of the third quarter stood at a total of \$2.3 billion, an increase of 48% since the end of the second quarter. Of the \$2.3 billion, \$263 million are qualified opportunities. Of the total qualified opportunities, approximately 46% include submitted and pending proposals where we expect awards in the next several months. Business development remains our number one priority and we will continue to invest in the necessary resources to build our pipeline and backlog.

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 would like to take the opportunity to summarize our financial and operational accomplishments achieved this quarter and for the first nine months of 2010 as well as review our priorities for the rest of the year. Our achievements include:

1. Increasing backlog by 31% since December 31, 2009.
2. Realizing year to date EPS growth of 38%.
3. Achieving a book to bill ratio of 1.6x this quarter and increasing our new bookings by 52% over the second quarter of 2009.
4. Exceeding our targeted EBITDA margin of 9.5%.
5. Maintaining our strong track record of winning our recompetes and booking \$46 million in new awards in the third quarter from many of our largest and longest standing customers, including HUD, DLA, and NCI.
6. Continuing the recovery of our commercial division, with 10% quarter over quarter growth and a two-year renewal of our contract with Fannie Mae as one of its preferred vendors.
7. Paying down another \$2.0 million of debt this quarter, totaling \$5.2 million for the first nine months.

and

8. Recruiting John Hassoun as our Senior Vice President of Federal Programs. John has a proven track record of executing new strategies to grow and build business and expand into new markets at several leading corporations.

As I stated in earlier calls, we have outlined the following additional priority initiatives for 2010:

1. Continuing our investment in our business development organization 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 to pursue accretive acquisitions, which has always been an important element of our longer term growth strategy.

and

4. Finally, working closely with Sid as he transitions to the CEO role on January 1.

GUIDANCE AND CONCLUDING REMARKS:

E. BERSOFF: Before we open the call to questions, I'd like to go over our revised guidance for 2010 that we reported in our earning release this afternoon. As a result of our success in exceeding our target EBITDA and EBITDA margins, we have increased our EBITDA guidance for the year to be in the range of \$13.0 million to \$14.0 million. We are lowering our revenue guidance for the year to between \$118 million to \$121 million.

We have consistently met or exceeded our target EBITDA and EBITDA margins and expect to end the year with EBITDA margins for the full year in excess of industry norms, despite lower than expected revenue. We believe our increase in bookings and backlog in the third quarter as well as our continued performance in delivering strong EBITDA margins will provide a solid foundation for growth and increasing shareholder value as we end the year and set our targets for 2011.

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 today. While this will be my last earnings call in the role of Chief Executive Officer, I am very excited about the future potential for ATSC under Sid's leadership and I look forward to continuing my commitment and service to the company and its shareholders as Chairman of the Board.