ATSC Q4 2010 Earnings Call Script

<u>OPENING OF CALL/OPERATOR:</u>

OPERATOR: Welcome to the ATS Corporation 2010 Fourth Quarter and Full Year 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 fourth quarter 2010 and full year 2010 results. With us this afternoon from ATS Corporation are Co-Chief Executive Officer and Chief Financial Officer, Pamela Little, Co-Chief Executive Officer, John Hassoun, and Chairman, Dr. Edward H. Bersoff.

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, Pamela will offer opening remarks and review ATS Corporation's fourth quarter and full year 2010 financial results.
- Next, John will review operating results and comment on the Company's performance for the year.
- Finally, Pamela will further comment on the Company's outlook for our business as well as offer concluding remarks.
- At the completion of Pamela's remarks, the Company will open the call to take your questions.

At this time, I would like to turn the call over to Pamela Little, Co-Chief Executive Officer and Chief Financial Officer.

Pamela?

OPENING REMARKS:

P LITTLE: Thank you, Joann. Good afternoon and thank you all for joining us today to review ATS Corporation's fourth quarter and full year 2010 financial and operational performance.

We are pleased to report a 121% increase in fully diluted EPS from 2009 to 2010, an increase in backlog of 41.5% since the end of 2009, and total bookings of $186 million in 2010, resulting in a book to bill ratio of 1.6x. We delivered adjusted EBITDA for the year within our guidance of $13.1 million, representing an EBITDA margin of 11.3%, well above industry norms. Finally, we paid down another $6.8 million of debt during 2010, representing a 32.1% decline since December, 31, 2009. On the top-line, we experienced some decline in our government business primarily due to the transition of several recently recompeted 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. However, we do not anticipate any decline in our overall profitability. Our commercial and government sponsored businesses, however, continued to show strong recovery achieving 13.8% and 32.5% year over year growth, respectively.

FINANCIAL RESULTS:

P. LITTLE: Turning to the details of our financial results, 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 December 31, 2010, we recorded $27.7 million in revenue. Revenue for the quarter decreased by approximately 5.1% from fourth quarter 2009 revenue of $29.2 million.

The operating income and net income for the quarter was $3.5 million and $2.2 million, respectively, or $0.10 per diluted share, compared to an operating income of $1.3 million and net loss of $461,000, or loss of $0.02 per diluted share, for the fourth 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 $2.2 million for the quarter. We incurred depreciation and amortization expenses of approximately $637,000. Adding back the depreciation and amortization expenses, interest expense of $88,000, and taxes of $1.2 million results in an EBITDA of $4.1 million and an associated EBITDA margin of 14.9%.

The quarter over quarter increase in operating and EBITDA margin was driven primarily by an increase in gross margins from 30% to 32% from the fourth quarter of 2009 to the fourth quarter of 2010, combined with a 28.9% decrease in selling, general and administrative expenses related to cost savings associated with labor utilization and administrative process improvements.

Our revenue and EBITDA for the full 2010 year were $116.7 million and $14.5 million, respectively. Adjusting EBITDA for non-recurring other income, net of related legal expenses, associated with the resolution of acquisition-related indemnification claims, results in an adjusted EBITDA of $13.1 million and associated adjusted EBITDA margin of 11.3% for the full year 2010, compared to an adjusted EBITDA of $13.1 million in 2009, or an adjusted EBITDA margin of 11.0%

The operating and net income for the full 2010 year were $10.5 million and $7.1 million, respectively, or $0.31 per fully diluted share compared to an operating income of $9.6 million and a net income of $3.1 million in 2009, or $0.14 per fully diluted share.

The year over year decrease in revenue is primarily driven by a drop in revenue associated with our defense and homeland security government and state and local contracts related to several factors. These factors include the impact of a number of new starts on recompeted contracts at lower revenue levels, a decrease in scope on several contracts, the largest of which were subcontracts with the U.S. Coast Guard and the U.S. Air Force as end customers, and the near completion of two large state and local development contracts.

Other measures of performance that we monitor regularly include backlog and days sales outstanding, or DSO. Our contract backlog at December 31, 2010 increased by 41.5% from the 2009 year to $236.1 million, of which $36.7 million was funded.

Our DSO at the end of the quarter was 68 days. As of December 31, 2010, the total debt balance was $14.4 million, all on our revolving credit facility as the promissory notes related to the acquisitions we made in 2007 were fully repaid as of September 30, 2010. Total debt is down 32.1% from $21.2 million at December 31, 2009, which included approximately $2.5 million in promissory notes.

This concludes my review of the financials and I would now like to turn the call over to John to discuss the operating results.

John?

OPERATING RESULTS

J. HASSOUN: Thank you, Pamela. I am pleased to participate on my first earnings call for the Company and will be discussing our operating results for the quarter and year.

I would like to start by commenting on our performance by market segment, first highlighting the strong performance delivered by our commercial and government sponsored enterprise or Fannie Mae business this year. As Pamela mentioned earlier, our commercial business achieved revenue growth of 13.8% year over year growing to $12.3 million and our Fannie Mae business increased by 32.5% growing to $15.5 million. Our civilian government contracts generated revenue of $55.3 million in 2010 which was in line with 2009 revenue. The increases were offset by a drop in revenue from defense and homeland security government contracts and state and local contracts of $7 million to $33.6 million. As Pamela discussed earlier, some of this drop is attributed to the short-term impact of recompetes where we experienced lower near-term 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. We also experienced a decrease in scope on several contracts, the largest of which were subcontracts with the U.S. Coast Guard and the U.S. Air Force as end customers. For the Coast Guard, we were impacted by the conversion of one of our contracts to a small business set-aside, where we shifted from a prime to subcontractor role, resulting in lower revenue base. For the U.S. Air Force, the contract staff was reduced as the Air Force chose to in-source a number of positions previously filled by Company staff. Finally, our state local revenue declined as a result of two large development contracts nearing completion.

Now turning to bookings, we are encouraged by our strong bookings this quarter of $45.2 million, reflecting a book to bill ratio of 1.6.

Bookings from the quarter included two sizeable awards.

- First, we won a $19.5 million, five-year contract with the Department of Homeland Security or DHS Science and Technology division to support DHS initiatives that test technologies for detecting, tracking, classifying, and responding to border threats such as smuggling, illegal trafficking and terrorism. This contract represents a recompete or follow-on for work we had been providing to DHS, but under a new contracting vehicle with a broader scope and higher contract value.
- Second, we won a $22.7 million, five-year subcontract with a civilian agency as the end customer to provide comprehensive information technology services. We expect to announce more details on this work in the coming weeks.

The balance of the bookings came from add-ons or additional funding from existing clients including the Department of Housing and Urban Development or HUD and the Defense Technology Security Administration or DTSA. Additionally ATSC won an indefinite delivery, indefinite quantity or IDIQ contract with the U.S. Army to provide human resources solutions and services in the mission area of Recruiting and Retention, referred to as the "Army R&R." This multiple-award contract has a ceiling value of $238 million over a five-year term. ATSC is one of fourteen awardees that can compete for upcoming tasks on this IDIQ. While we have not booked material business yet on this IDIQ contract, we believe it will be an important growth vehicle.

The majority of the bookings this quarter came from recompeted or follow-on government contracts, which has now secured much of our business for the next four to five years. As we have discussed on earlier calls, we faced a very heavy contract follow-on schedule in 2010, where in most cases the new awards resulted in a change in scope and required skill sets for delivery. We won twelve of those follow-on contracts by the end of 2010, with two still outstanding, but expected to be awarded by the end of the first quarter of 2011. We are very pleased with our strong follow-on track record in 2010, particularly in a highly competitive market environment.

Now turning to our business development initiatives, our pipeline as of the end of the fourth quarter stood at a total of $2.1 billion, of which $315.4 million are qualified opportunities. As of December 31, 2010 we had approximately $43 million in qualified opportunities representing submitted proposals or pending awards. We are also aggressively pursuing a number of IDIQs, similar to the Army R&R mentioned earlier; none of which are reflected in these numbers, but we believe will be critical vehicles to support our growth plans. Business development remains our number one priority and we will continue to invest in the necessary resources in winning new contract vehicles to build our pipeline and backlog.

I would like to conclude with a summary of our operational and financial accomplishments achieved this quarter and year:

1. We increased backlog by 41.5% since December 31, 2009, providing strong momentum as we enter 2011.

2. We achieved a book to bill ratio of 1.6 for the quarter and year, representing 2010 bookings of $186 million and fourth quarter bookings of $45 million.

3. We maintained our strong track record of winning our follow-on contracts in a highly competitive market.

4. We continued the recovery of our commercial and government sponsored enterprise business areas, with 13.8% and 32.5% year over year growth, respectively.

5. We exceeded our targeted EBITDA margin of 9.5% by 180 basis points.

6. We realized year over year EPS growth of 121%.

7. We paid down $6.8 million of debt this year, reducing our total outstanding debt by 32.1% since December, 31, 2009.

and

8. We achieved recertification of CMMI Level 3, demonstrating our continued commitment to high quality standards to meet or exceed our customers' expectations.

And now I will turn the call back over to Pamela.

GUIDANCE AND CONCLUDING REMARKS:

P. LITTLE: Thank you, John. Before we open the call to questions, I'd like to outline the guidance we issued in our earnings release today. We provided a range for 2011 revenue for the year of $120 million to $125 million and EBITDA of $15 million to $17 million.

We are pleased with the strong increase in backlog we experienced in 2010 and the resulting solid foundation of multi-year business as we start the year. In 2011, we will continue to focus on our top priority to improve the quality of our pipeline and build our bookings and backlog.

Finally, I would like to briefly comment on an earlier announcement. As you may have seen, on January 7th, 2011, we announced a process to evaluate strategic alternatives. There are a number of alternatives that the Board of Directors is reviewing. We have engaged Sagent Advisors to assist us in this review of strategic alternatives. We have not set a definitive timetable for completion of its evaluation and there can be no assurance that this process will lead to the approval or completion of any transaction. We do not intend to disclose developments regarding the consideration of strategic alternatives unless and until the Company's Board of Directors has approved a transaction or otherwise concludes its review of strategic alternatives.

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

AFTER Q&A:

P. LITTLE: 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.