

ATS Q1 2008 Earnings Call Script

OPENING OF CALL/OPERATOR:

OPERATOR: Welcome to the ATS Corporation First Quarter 2008 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 2008 results. With us this morning from ATS Corporation are Dr. Edward Bersoff, Chairman, President and Chief Executive Officer and Ms. Pamela Little, Senior Vice President and Chief Financial Officer.

Before I review the structure of this evening'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' 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, Dr. Bersoff will offer opening remarks.
- Next, Ms. Little will briefly review ATS Corporation's first quarter financial results.
- Finally, Dr. Bersoff will review operating results and 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 2008 financial and operational performance. As you all know, last year was our first year as the operating public company resulting from the merger of Advanced Technology Systems, Inc. with Federal Services Acquisition Corporation and a year where we experienced significant growth and change within our organization. We're pleased to start this year as a fully integrated company focused on continued growth to build on the solid platform established in 2007.

Before highlighting our operational accomplishments for the quarter and outlining our initiatives for 2008, I'd like Pamela Little to provide the financial details of the first quarter.

Pamela?

FINANCIAL RESULTS:

P. LITTLE: 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, 2008, we recorded \$34.9 million in revenue. Revenue for the quarter increased by approximately 48% over the first quarter of 2007 revenue of \$23.5 million. Acquisitions in 2007 strongly influenced the first quarter revenue growth. Additionally, the full three month quarter in 2008 of operations compared to two and one half months in 2007 contributed to the increase. Revenue from commercial contracts grew by 36% and revenue from civilian and defense contracts increased by 53% over the first quarter of 2007.

Operating income and net income for the quarter was \$1.1 million and \$275,000 or \$0.01 per diluted share, respectively, compared to operating income of \$116,000 and a net loss of \$6.7 million for the first quarter of 2007. Margin increase in the first quarter was driven by several factors, including, the non recurrence of the extraordinary charges we identified in 2007, the higher margin commercial and defense business acquired in 2007 and the realization of cost savings from the acquisitions. It is also important to note that revenue was favorably affected by a one time \$400,000 positive adjustment related to a change in revenue recognition methodology on a contract transitioning from a development contract to a maintenance and support contract, resulting in a 1% improvement to gross margin. There were several increases to operating expenses in the first quarter worth highlighting, including approximately \$230,000 in nonrecurring legal expenses and a significant investment in building out our business development team. We believe that except for the revenue-related adjustment, the margins achieved in the first quarter are indicative of the anticipated margins for the rest of the year.

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 operating income was \$1.1 million for the quarter. We incurred depreciation and amortization expenses of approximately \$2.0 million of which \$930,000 was related to our acquisition of Advanced Technology Systems, Inc., and approximately \$740,000 was related to our acquisitions of Number Six Software, Potomac Management Group, and Reliable Integration Services. Adding other income of \$71,000, interest of \$804,000 and taxes of \$104,000 and the aforementioned depreciation and amortization to our operating income results in an EBITDA of \$3.2 million and an associated EBITDA margin of 9.3%. Net income adjusted for the amortization of Advanced Technology Systems-related intangibles was \$1.2 million or \$0.06 per diluted share.

In accordance with Reg G, I would like to take a moment to walk you through a reconciliation of the first quarter EBITDA. Our GAAP net income was reported at \$275,000. To this amount, we add taxes of \$104,000 and add an interest expense of \$804,000. Further adding back our depreciation and amortization expense of \$2.0 million results in a first quarter EBITDA of \$3.2 million.

Other measures of performance that we monitor regularly include days sales outstanding or DSO and contract backlog. At March 31, our DSO was at 87 days. Our DSO was at a higher level this quarter due to integration-related issues with the companies acquired in 2007, which have been mostly resolved and our DSO should normalize over the next two quarters. Our contract backlog at March 31 was \$205.4 million, of which \$87.3 million is funded.

Additionally, as of March 31, 2008, the balance on the revolving credit facility was \$45.5 million and we had approximately \$6.5 million in promissory notes, both related to the acquisitions we made in 2007.

Our results today show revenues that were in line with our expectations but backlog lower than expected due to delays in several contract awards and reductions in the expected expansion of ongoing contract assignments. Despite the concerns over revenue, our EBITDA margin of 9.3% for the first quarter exceeded our target margin for that time period. This concludes my review of the financials and I would now like to turn the call back over to Ed.

Ed?

OPERATING RESULTS

E. BERSOFF: Thank you, Pamela. I would like to take this opportunity to highlight several of our accomplishments achieved in the first quarter. We are pleased to have begun to realize several of the priority initiatives we stated on our last call. These include:

1. Exceeding our targeted EBITDA margin of 9% even with investment in business development and extraordinary legal expenses for the quarter.
2. Completing the integration of the acquisitions we made in 2007, which contributed to the favorable margin performance.
3. Launching a new website and marketing materials to reflect our integrated corporate structure and broad spectrum of service offerings and addressable markets.

And

4. While subsequent to the close of the quarter, we launched a program to address our warrant overhang.

As I stated in our fourth quarter earnings call in March, we have outlined the following additional priority initiatives for 2008:

1. Supporting the efforts of our business development organization and continuing to increase our bid pipeline and backlog.
2. Maintaining at least 9% EBITDA margins.
3. Completing our warrant program and pursuing a listing on a national exchange.
4. Completing at least one additional acquisition later this year.

And,

5. Continuing to achieve successful Sarbanes-Oxley compliance testing.

As we did in 2007, we feel confident that we will achieve these priority initiatives.

GUIDANCE AND CONCLUDING REMARKS:

E. BERSOFF: Before we open the call to questions, I'd like to go over our revised guidance for 2008 that we reported in our earnings release this morning. While we have been encouraged by our profit margin improvements, we are concerned about several new contract and task order delays we have experienced. Additionally, we have not had sufficient time to realize significant new bookings from our recently established business development team, that includes our new Senior Vice President of Business Development who joined us last December. As a result, we are revising our revenue guidance for the year to \$142 million to \$150 million to be more in line with our current contract base and pipeline. Furthermore, while we remain confident with our EBITDA margin

guidance, we are revising our EBITDA guidance to \$12.5 million to \$13.5 million, to reflect the lower anticipated revenue levels.

We continue to remain confident in the fundamentals of our business and our ability to achieve our long term growth strategy. And despite the revised revenue guidance, achieving profitable top-line growth remains our number one priority.

This concludes my 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.