# ATSC Q2 2008 Earnings Call Script

## OPENING OF CALL/OPERATOR:

**OPERATOR:** Welcome to the ATS Corporation Second 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.

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 second quarter 2008 results. With us this afternoon from ATS Corporation are Dr. Edward Bersoff, Chairman, President and Chief Executive Officer, and Ms. Pamela Little, Executive Vice President and Chief Financial 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, Dr. Bersoff will offer opening remarks.
- Next, Ms. Little will briefly review ATS Corporation's second 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 afternoon and thank you all for joining us today to review ATS Corporation's second quarter 2008 financial and operational performance.

Before I discuss those results, I would like to first comment on our announcement this afternoon to enhance our senior management team with the addition of a highly experienced Chief Operating Officer. Effective next Monday, George Troendle will join ATSC in that role. George has served as a board member for us since June of 2007. George has extensive government contracting business experience, as he was the founder, Chief Executive Officer and Director of Resource Consultants, Inc., a government services company he grew to over $300 million before it was acquired by Serco Group in 2005. George went on to serve as President of Serco North America, a $500 million division of Serco Group. We are very excited to welcome George as a part of our leadership team and believe that his industry experience and familiarity with our company as a board member will have an immediate impact on the positive growth and development of our organization.

Now we would like to turn to our second quarter results. This was a quarter of mixed results for us. We continued to meet our profitability targets and we continued to perform well on all our existing contracts; however, we have experienced weakness in our commercial business unit, resulting in lower than forecasted revenue for the quarter.

I will further discuss our operational accomplishments and challenges for the quarter and outline our continued initiatives for 2008, after Pamela Little provides the financial details of the second 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 June 30, 2008, we recorded $33.8 million in revenue. Revenue for the quarter increased by approximately 29% over the second quarter of 2007 revenue of $26.2 million. Acquisitions in 2007 strongly influenced the second quarter revenue growth. Revenue from commercial contracts grew by 11% and revenue from government contracts increased by 30% over the second quarter of 2007.

Operating income and net income for the quarter was $1.0 million and $67,000, respectively, or a break-even diluted earnings per share compared to operating income of $280,000 and net income of $125,000 for the second quarter of 2007.

The year over year operating margin increase in the second 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 related to the acquisitions. Going forward, we will continue to focus on ways to keep our operating costs in line with our current revenue run rate. For example, our move into a new building in June will save us approximately $1.5 million annually. While we saw a small portion of those savings in the second quarter, we will have the benefit of a full quarter of savings beginning in the third quarter.

It is also important to note in this quarter that gross margin, as a percentage, was unfavorably affected by larger than normal equipment purchases of $950,000 we made on behalf of a few of our customers, resulting in a 32% gross margin for the quarter. A gross margin of 34 to 35% is more typical and what we would anticipate for the rest of the year.

The decline in quarterly year over year net income is a result of the interest expense on our line of credit and promissory notes. Our current line of credit was put in place in June of last year and not drawn on significantly until the funding for the acquisitions of Potomac Management Group and Number Six Software in September and November, respectively, of 2007.

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 $1.0 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 $742,000 was related to our acquisitions of Number Six Software, Potomac Management Group, and Reliable Integration Services. Subtracting other expenses of $5,000, interest of $945,000 and taxes of $9,000 and the $2 million of depreciation and amortization to our operating income results in an EBITDA of $3.1 million and an associated EBITDA margin of 9.0%. Net income adjusted for the amortization of Advanced Technology Systems-related intangibles was $1.0 million, or $0.05 per diluted share. When combined with our first quarter results, Revenue and EBITDA for the first six months was $68.7 million and $6.3 million, respectively, resulting in an EBITDA margin of 9.1%. Net income for the first six months adjusted for the amortization of Advanced Technology Systems-related intangibles was $2.2 million, or $0.11 per diluted share.

In accordance with Reg G, I would like to take a moment to walk you through a reconciliation of the second quarter EBITDA. Our GAAP net income was reported at $67,000. To this amount, we add taxes of $9,000 and add an interest expense of $945,000. Further adding back our depreciation and amortization expense of $2.0 million results in a second quarter EBITDA of $3.1 million.

Other measures of performance that we monitor regularly include backlog and days sales outstanding, or DSO. Our contract backlog at June 30 was $187.1 million, of which $77.1 million was funded.

Our DSO at the end of the quarter was at 86 days. This metric was adjusted by approximately $3.6 million in receivables from one of our largest and typically prompt paying customers who recently changed their contracting procedures, causing a payment delay that was resolved shortly after the close of the quarter. While our DSO only modestly decreased from 87 at the end of our first quarter, we have seen significant collections in July and have been able to address many of the accounts receivable-related issues we inherited from the Number Six Software acquisition.

As of June 30, 2008, the balance on the revolving credit facility was $43.8 million and we had approximately $5.9 million in promissory notes, both related to the acquisitions we made in 2007. The resolution of the earlier mentioned accounts receivable collection has allowed us to further pay down our revolving credit facility to a current balance of $39.4 million.

As Ed mentioned earlier, our results today show revenues that were lower than our expectations and a further decline in our backlog. Our weakness in revenue is primarily driven by less than expected new business from our commercial business unit. Despite the issues with our revenue performance, our EBITDA margin of 9.0% for the second quarter was in line with our target margin for that time period. As I mentioned earlier, we have been able to reduce our expenses as necessary to maintain our target margins and plan to continue to do so as necessary. 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. Despite our disappointing revenue for the quarter, I would like to take the opportunity to highlight several bright spots and accomplishments achieved this quarter and our priorities for the rest of the year. These include:

1. Exceeding our targeted EBITDA margin of 9% even with increasing investment in business development.

2. Completing our program to diminish our warrant overhang, resulting in a reduction of our outstanding warrants by 92%.

3. Sustaining revenue with Fannie Mae, one of our largest clients, in the midst of their very public issues.

4. While subsequent to the end of the quarter, adding a highly regarded industry veteran to our senior management team.

And

5. Also while after the end of a quarter, notification of several new awards in our defense and homeland security business unit. These included several single awards in our public safety business that will immediately add backlog, and a new contract vehicle with one of our largest customers, the U.S. Coast Guard, that we think will provide a strong avenue for sizeable tasks in the future. Furthermore, one of these awards represents a new area of work for our public safety business in records management which we believe will open a new and expanding market opportunity for us specific to information sharing.

As I stated in earlier calls, 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 a 9% EBITDA margin.

3. Taking steps toward a listing on a national exchange.

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

And

5. Although we have previously announced the desire to pursue an additional acquisition in 2008, we appreciate that the current volatility in the capital markets makes it unlikely that such an acquisition would be in our best interests at this moment in time.

**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 afternoon. While we have been encouraged by continued profit margin performance, we are concerned about ongoing sluggishness in our commercial business unit. As a result, we are revising our revenue guidance for the year to $129 million to $135 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 dollar guidance to $11.5 million to $13.0 million, which is still within the range of our earlier guidance, but shifted to be more in line with the updated revenue forecast.

We continue to remain confident in our ability to achieve our long term growth strategy. Realizing 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.