

ATSC Q4 2008 Earnings Call Script

OPENING OF CALL/OPERATOR:

OPERATOR: Welcome to the ATS Corporation Fourth 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 fourth quarter 2008 and full year 2008 results. With us this afternoon from ATS Corporation are Ed Bersoff, Chairman, President and Chief Executive Officer, Pamela Little, Executive Vice President and Chief Financial Officer, and George Troendle, 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 review ATS Corporation's fourth quarter and full year 2008 financial results.
- Next, George will discuss our market positioning and views on the outlook for our business.
- Finally, Ed will review operating results and 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 fourth quarter and full year 2008 financial and operational performance.

We entered 2008 as our first full year operating as a completely integrated organization with a focused set of initiatives to strengthen our platform to enhance long-term value for our shareholders, employees and customer base. I am very pleased with what we were able to accomplish in a period of significant economic challenges. In this quarter, as well as each of the other three quarters of 2008, we met or exceeded our EBITDA targets and performed at higher than industry average margins. As a result, we increased our EBITDA by 51% over 2007. We continued to perform well on all our existing contracts and win all our recompetes. We were able to pay down over \$11 million in debt in 2008, representing 25% of our total borrowings. Despite generating revenues of \$131.5 million for the year, representing a 23% increase over 2007, we continued to experience revenue weakness in the fourth quarter, mostly in our commercial business unit. Our revenue performance for the quarter and the year was as expected and in line with our guidance. Therefore, we were able to manage our costs accordingly to deliver strong profitability.

I will further talk about our operational accomplishments and challenges for the quarter and the year and outline our priorities and initiatives for 2009, after Pamela provides the financial details and George comments on our market positioning and views on the outlook for our business.

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 December 31, 2008, we recorded \$31 million in revenue. Revenue for the quarter decreased by approximately 2% over the fourth quarter of 2007 revenue of \$32 million. Revenue from commercial contracts declined by 19% and revenue from government contracts increased by 2% over the fourth quarter of 2007.

The operating income and net income for the quarter was \$2.6 million and \$785,000, respectively, or \$0.03 per diluted share, compared to an operating loss of \$32,000 and net loss of \$259,000, or a loss of \$0.01 per diluted share, for the fourth quarter of 2007.

The quarter over quarter increase in operating margins was driven by several factors, including the non recurrence of the extraordinary charges we identified in 2007, a reduction in indirect labor costs, and savings from rent expense generated from our move into a new building.

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 \$785,000 for the quarter. We incurred depreciation and amortization expenses of approximately \$862,000. Adding back the depreciation and amortization expenses, taxes of \$1 million and interest expense of \$782,000 results in an EBITDA of \$3.4 million and an associated EBITDA margin of 11.1%.

When combined with the first three quarters in 2008, our revenue and EBITDA for the full fiscal year were \$131.5 million and \$12.2 million, respectively, resulting in an EBITDA margin of 9.3%. As we discussed in our third quarter earnings report, operating expenses in the third quarter included \$890,000 of one-time severance expenses related to the termination of three senior executives who were not replaced. Further adjusting EBITDA for the \$890,000 of one-time severance expenses, resulted in an adjusted EBITDA for the year of \$13.1 million and an associated EBITDA margin of 9.9% for the year.

As we reported last quarter, we incurred a \$56.8 million non-cash goodwill and intangible asset impairment charge in the third quarter of 2008, which had a significant impact on our earnings for the full year. The impairment resulted from an updated outlook for the businesses acquired in 2007, which led to an adjustment of the estimated fair value of goodwill and certain intangible assets. Including the impact of the impairment charge, the operating loss and the net loss for the full year was \$51.1 million and \$49.8 million, respectively, or a loss per share of \$2.35 compared to operating income of \$1.1 million and a net loss of \$6.5 million in 2008, or a loss per share of \$0.35.

Net income for the full fiscal year 2008 adjusted for the impairment charge and associated tax benefit was \$2.0 million, or \$0.09 per diluted share.

In accordance with Reg G, I would like to take a moment to walk you through a reconciliation of the fourth quarter EBITDA. Our GAAP net income was reported at \$785,000. To this amount, we add back depreciation and amortization expenses of \$862,000, taxes of \$1 million and interest expense of \$782,000, resulting in an EBITDA of \$3.4 million.

Other measures of performance that we monitor regularly include backlog and days sales outstanding, or DSO. Our contract backlog at December 31, 2008 was \$178.4 million, of which \$53.1 million was funded.

Our DSO at the end of the quarter was at 86 days. While our DSO is still at a higher level than where we would prefer, we will continue to work to bring it down over the course of 2009.

As of December 31, 2008, the balance on the revolving credit facility was \$32.6 million, down from \$35.8 million at the end of the third quarter, and we had approximately \$4.5 million of debt in the form of promissory notes, both related to the acquisitions we made in 2007.

As Ed alluded to in his opening remarks, our financial results for 2008 were mixed. Our revenue continued to show weakness in the quarter, although it was in line with our expectations and as a result, we were able to reduce our expenses as necessary to maintain our target EBITDA margins. We were very pleased in our ability to increase our EBITDA margins from 7.6% in 2007 to 9.3% for 2008. Furthermore, we were able to generate strong cash flow over the course of the year, allowing us to pay our line of credit balance down by \$11 million as of December 31, 2008.

This concludes my review of the financials and I would now like to turn the call over to George.

George?

MARKET POSITIONING

G. TROENDLE: Thank you, Pamela. I'd like to the opportunity to comment on our market positioning and offer our views on the outlook for our business.

In 2008, we generated 39% of our revenue from federal civilian agencies, 37% from defense and homeland security agencies including our public safety business which has a number of state and local government customers, and 24% from commercial customers.

Our work with two of our biggest customers, the Department of Housing and Urban Development or HUD and Fannie Mae, performed as we expected in 2008 and with no significant downturns related to the housing crisis. In fact, we won new business at HUD last year in response to the Housing and Economic Recovery Act of 2008 and one of our mortgage backed-security products is handling approximately 25% of the Federal Reserve Bank's transaction volume related to its \$500 billion MBS repurchase program.

We remain optimistic about our market positioning as we enter 2009, particularly as we see the new presidential administration's budget priorities unfolding. Our business strategy in the government markets has been to maintain a balanced base of business across civilian and defense agencies. As a result, we are encouraged with plans for increased spending in civilian agencies and we have no exposure to a decrease in spending in Iraq or for weapon systems.

Furthermore, we are also starting to see some momentum in our defense and homeland security business, particularly in the public safety arena. While we

experienced many procurement delays as a result of state and local budget concerns in 2008, we were able to book new business early this year at the federal level with our recent contract award at the Defense Security Service in the area of cybersecurity and biometrics. We're hopeful that the new administration's stimulus package will reinvigorate public-safety oriented spending, so we can pursue customers in that market area on the federal, state and local levels.

We will continue to monitor our commercial operations closely, which is the area in which we experienced the most challenges in 2008. We will make investments where we see the potential for growth and keep costs in line with top-line performance.

Finally, we will continue to focus on our priority to improve the quality of our pipeline and increase our bookings and backlog. We believe that we have the leadership, customer presence, contract vehicles, and service offerings to fuel growth in our business.

Ed?

OPERATING RESULTS

E. BERSOFF: Thank you, George. I am pleased to report that with all the challenges we faced in 2008, we were still able to meet many of the objectives we laid out at the start of the year. I would like to take the opportunity now to highlight those achievements in 2008 and outline our priorities for 2009.

Accomplishments in 2008 included:

1. Continuing to win all our recompleted contracts and therefore maintaining strong customer satisfaction.
2. Exceeding our targeted EBITDA margin of 9% in each quarter even with declines in revenue and continued investment in business development. Our margin improvement over last year of 170 basis points is attributed to the reorganization of our business units with more streamlined infrastructure support that occurred in the latter half of 2007, the integration of the acquisitions we made in 2007, and the realization of further cost cutting initiatives in 2008 including significant savings by moving into a new headquarters facility.
3. Paying down our debt by 25%.
4. Adding depth to our management team by recruiting George Troendle to join us as Executive Vice President and Chief Operating Officer. George came to us with extensive experience as the founder, Chief Executive Officer and Director of Resource Consultants, a government services

company he grew to over \$300 million before it was acquired by Serco Group in 2005.

5. Adding a new board member, Jack Tomarchio, to replace George Troendle, who resigned as a director upon becoming our Chief Operating Officer. Jack is a former Department of Homeland Security executive and we look forward to benefiting from his experience in security and intelligence matters to contribute to our expanding information-sharing capabilities, where we continue to see strong growth opportunities.
6. Receiving ISO-9001:2000 certification for our quality management system, demonstrating our commitment to high quality standards to meet or exceed our customer's expectations.
7. Completing a rebranding effort which included the launch of a new website and marketing materials to better reflect our integrated corporate structure, and
8. Retiring 92% of our warrants to simplify our capital structure.

Now to talk about some of the challenges we faced in 2008 and objectives that will still be on our priority list for 2009.

- First, our year end backlog did not meet our target goal. Not surprisingly in a presidential election year, bookings in the fourth quarter were light. In addition, you may have seen in our earnings release that we reported a net bookings number for the first time of \$1 million where we offset our actual bookings of \$4 million by \$3 million due to an adjustment we felt was necessary to our backlog to more accurately reflect our total booked business. Regarding our Q4 bookings, a slow fourth quarter is not abnormal for us in our business, as it is the first quarter of the government fiscal year and includes several holidays. This past quarter was further impacted by the election, causing contract award delays due to transitioning personnel with the administration change. We've already seen an increase in bookings and in bid activity as key government agency positions are filled. Along those lines, we reported two contract wins early in 2009 totaling \$17 million. Our number one priority for 2009 is supporting the efforts of our business development organization and continuing to increase our bid pipeline and backlog.
- Second, we were unable to list on a national exchange due to our depressed stock price and inability to meet minimum market capitalization requirements. We will pursue a listing as soon as we meet the relevant listing requirements.

and

- Finally, we had also hoped to pursue an additional acquisition in 2008, but determined that with the challenging credit environment it made more sense for us to use our cash flow generation to pay down debt and preserve our operating flexibility. We will continue to opportunistically look at acquisition opportunities in 2009.

Other initiatives for us in 2009 include:

- Continuing to maintain at least a 9% EBITDA margin, and
- Initiating a stock repurchase program, to the extent we have sufficient cash flow, as we believe that the current market value of our shares does not accurately reflect the underlying value of the company.

GUIDANCE AND CONCLUDING REMARKS:

E. BERSOFF: Before we open the call to questions, I'd like to reaffirm our guidance for 2009 of revenue for the year to be \$129 million to \$135 million and EBITDA of \$11.5 million to \$13.0 million.

We 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.