

## ATSC Q2 2009 Earnings Call Script

### OPENING OF CALL/OPERATOR:

**OPERATOR:** Welcome to the ATS Corporation Second Quarter 2009 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 2009 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 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 briefly review ATS Corporation's second quarter financial results.
- Next, George 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 second quarter 2009 financial and operational performance.

We are pleased to report solid financial performance this quarter, with revenue increasing 11% from the first quarter and EBITDA margins of 11.5 %, well exceeding our target margins. We experienced increases across all of our business units, including positive developments in our commercial business areas, where we had faced the most challenges in previous quarters. As a result of our strong cash flow, we were able to continue to pay down our debt which totaled \$28 million as of the end of the quarter, compared to \$50 million at the end of the second quarter in 2008.

George will further discuss our operational accomplishments and challenges for the quarter and I'll later outline our continued initiatives and outlook for the rest of the year, after Pamela 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, 2009, we recorded \$30.3 million in revenue. Revenue for the quarter decreased by approximately 10.4% over the second quarter of 2008 revenue of \$33.8 million. Revenue from commercial contracts decreased by 16.8% and revenue from government contracts decreased by 9.7% over the second quarter of 2008.

Operating income and net income for the quarter was \$2.7 million and \$1.2 million or \$0.05 per diluted share, respectively, a significant increase from operating income of \$1.0 million and net income of \$67,000 for the second quarter of 2008.

The year over year operating margin increase in the second quarter was driven by several factors, including cost savings from our headquarters' office move into a new building in June of 2008, the realization of other cost reduction initiatives implemented in 2008, and a lower amortization expense as a result of the impairment charge incurred in the third quarter of 2008.

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 \$1.2 million for the quarter. We incurred depreciation and amortization expenses of approximately \$768,000, net interest of \$793,000, and taxes of \$756,000. Adding these expenses to our net income results in an EBITDA of \$3.5 million and an associated EBITDA margin of 11.5%.

When combined with our first quarter results, revenue and EBITDA for the first six months was \$57.4 million and \$6.0 million, respectively, resulting in an EBITDA margin of 10.4%. In comparison, revenue and EBITDA for the first six months of 2008 were \$68.7 million and \$6.3 million, respectively, resulting in an EBITDA margin of 9.1%. Operating income for the first six months of 2009 was \$4.4 million and net income was \$1.6 million or \$0.07 per diluted share, compared to operating income of \$2.1 million and net income of \$342,000 or \$0.02 per diluted share for the first six months of 2008.

Other measures of performance that we monitor regularly include backlog and days sales outstanding, or DSO. Our contract backlog at June 30, 2009 was \$156.1 million, of which \$49.5 million was funded.

Our DSO at the end of the June quarter was at 67 days, down from 79 days at the end of March of this year.

As of June 30, 2009, the balance on the revolving credit facility was \$24.8 million and we had approximately \$3.4 million in promissory notes related to the acquisitions we made in 2007.

As Ed mentioned earlier, our results today show solid financial performance this quarter, with very strong profit margins. We're also pleased that we've been able to improve our DSO again this quarter, further contributing to cash flow and our ability to continue to pay down our debt balance. This concludes my review of the financials and I would now like to turn the call over to George.

George?

## **OPERATING RESULTS**

**G. TROENDLE:** Thank you, Pamela. I would like to take the opportunity to comment on our operating results for the quarter. We were pleased to see the growth in revenue this quarter over the first quarter; particularly because this increase represents expansion across all of our business areas. We also continued to manage through some of the challenges we've discussed on earlier calls.

As we reported in our earnings release this afternoon, our overall revenue for the first six months is down 16.4% from the first six months of 2008. Much of the year over year decline has come from our commercial business areas. As

we discussed in last quarter's call, we experienced a significant, but temporary downturn in our Fannie Mae business in the first quarter, as it reorganized to operate under government conservatorship. We've seen that business recover in the second quarter and we expect continued improvement in the third and fourth quarters. Furthermore, with the economy now stabilizing compared to earlier periods, we were able to expand our business with a number of our commercial customers in the second quarter, such as Blue Cross Blue Shield of Kansas, AIG, WellPoint, and the South Carolina Home Builders Self Insurance Fund. In addition, we won several new commercial contracts with the State of Kansas and the American European Insurance Group. In total, these new commercial contracts exceed \$1 million in value. Overall, revenue from our commercial contracts totaled almost \$6 million for the second quarter, compared to \$4.5 million in the first quarter.

Within our government business areas, we also experienced year over year declines in revenue for 2009's second quarter and first six months. As we have reported earlier, this drop was within our expectations due to the conversion of one of our Coast Guard contracts to a small business set-aside, where we shifted from a prime to subcontractor role. Our government business as a whole grew in revenue from the first quarter to the second quarter, primarily through expanded work at the Pension Benefit Guarantee Corporation, Defense Logistics Agency, and the Defense Technology Security Administration. Overall, revenue from our civilian and defense contracts totaled \$25 million for the second quarter, compared to \$23 million in the first quarter.

We remain committed to increasing our bookings and backlog, in order to continue the positive momentum we have experienced this year. Our bookings of \$7.2 million for the second quarter were not as high as we would like to see them. We do, however, have a number of imminent recompetes that have been recently extended. While the extensions are to our immediate benefit and we are very pleased that our customers continue to value our work, it has not allowed us to achieve the growth in backlog that we expected at this point in the year. We remain confident that we can continue our strong track record of winning our recompetes which will bolster our backlog when the time comes.

## **CONCLUDING REMARKS**

**E. BERSOFF:** Thank you, George. I would like to take the opportunity to summarize our financial and operational accomplishments achieved this quarter and our priorities for the rest of the year. Our accomplishments achieved in the second quarter include:

1. Growing our revenue by 11% in the second quarter versus the first quarter.
2. Exceeding our targeted EBITDA margin of 9% even with increasing investment in business development including several strategic hires. In fact, we have increased our investment in business development by

approximately 15% in the first six months of this year, compared to the same period last year.

3. Winning our U.S. Air Force re-compete at the end of the quarter, valued at \$5 million over the next year.
4. Stabilizing many of the issues we faced in the commercial division, including the recovery of our business at Fannie Mae and the new award activity George discussed.
5. Paying down another \$3.4 million of debt.

And

6. Adding a new board member, Kevin Flannery, to replace Ginger Lew, who resigned due to her assuming a position in the Obama administration. Kevin brings significant operational and financial experience to our Company from the numerous executive roles he has held.

As I stated in earlier calls, we have outlined the following additional priority initiatives for 2009:

1. Supporting the efforts of our business development organization and continuing to increase our bid pipeline and backlog.
2. Continuing to maintain at least 9% EBITDA margins.
3. Commencing our stock repurchase program, as we believe the current market value of our shares does not accurately reflect the underlying value of the Company.
4. Taking steps toward a listing on a national exchange.

and

5. Retiring the remainder of our warrants that expire in October.

#### **GUIDANCE AND CONCLUDING REMARKS:**

**E. BERSOFF:** Before we open the call to questions, I'd like to go over our revised guidance for 2009 that we reported in our earnings release this afternoon. While we have seen signs of recovery in our commercial business and growth across each of the business units in the second quarter, we are concerned that we cannot make up for the revenue weakness we experienced in the first quarter. As a result, we are revising our revenue guidance for the year to \$121 million to \$125 million to be more in line with our current contract base and pipeline. We, however, are not revising our EBITDA guidance of \$11.5 million to

\$13.0 million, as we believe we can manage the business to deliver the same profit, even with a slightly lower revenue base.

We do expect an increase in award activity in the second half of the year which will provide strong momentum for further growth as we enter 2010.

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.