



ATSC Corporation Announces Financial Results for the Third Quarter Ended September 30, 2011

- Revenue of \$21.6 million
- EBITDA (1) of \$2.6 million and Adjusted EBITDA (2) of \$3.0 million
- Operating income of \$1.9 million and net income of \$1.1 million
- Fully diluted EPS of \$0.05
- Third quarter new bookings of \$42.3 million
- Backlog of \$291.8 million
- Total debt of \$4.0 million as of September 30, 2011
- DSO of 61 days as of September 30, 2011

MCLEAN, VA – (PRNEWswire) – November 14, 2011, ATSC Corporation (“ATSC” or the “Company”) (NYSE AMEX: ATSC), a leading information technology company that delivers innovative technology solutions to government and commercial organizations, today announced operating results for the third quarter ended September 30, 2011.

Third Quarter Results

ATSC reported revenue of \$21.6 million for the third quarter of 2011. Revenue for the third quarter decreased by 26.2% over third quarter 2010 revenue of \$29.2 million. Revenue from Fannie Mae, a government sponsored enterprise, decreased by \$2.6 million to \$1.7 million, or 59.9%. Revenue from civilian and defense contracts decreased by \$4.1 million to \$18.0 million, or 18.5%. Revenue from commercial contracts decreased by \$978,000 to \$1.9 million or 34.5%.

Operating income for the quarter was \$1.9 million and net income for the quarter was \$1.1 million, or \$0.05 per diluted share, compared to operating income of \$2.7 million and net income (including \$959,000 of other income) of \$2.7 million, or \$0.12 per diluted share, for the third quarter of 2010. EBITDA (1) was \$2.6 million and adjusted EBITDA (2) was \$3.0 million for the 2011 third quarter, resulting in an adjusted EBITDA margin of 13.8%, compared to EBITDA (1) of \$4.3 million and adjusted EBITDA (2) of \$3.1 million or an adjusted EBITDA margin of 10.5% for the third quarter of 2010.

Backlog as of September 30, 2011 was approximately \$291.8 million, of which \$36.4 million was funded, up 23.6% from \$236.1 million as of December 31, 2010. Days sales outstanding (“DSO”) were 61 at the end of the third quarter of fiscal year 2011.

As of September 30, 2011, ATSC’s balance sheet included debt of \$4.0 million on its revolving credit facility and \$62.0 million in stockholders’ equity.

Nine-Month Results

ATSC reported revenue of \$69.5 million for the first nine months of 2011. Revenue for the first nine months decreased by 21.9% over the first nine months of 2010 revenue of \$89.0 million. Operating income for the first nine months of 2011 was \$4.9 million and net income for the period was \$2.9 million, or \$0.12 per diluted share, compared to an operating income of \$7.0 million and net income of \$4.9 million, or \$0.22 per diluted share for the first nine months of 2010. EBITDA (1) was \$6.8 million and adjusted EBITDA (2) was \$8.3 million for the first nine months of 2011, resulting in an adjusted

EBITDA (2) margin of 12.0%, compared to an EBITDA (1) of \$10.3 million and adjusted EBITDA (2) of \$8.6 million, or an adjusted EBITDA (2) margin of 9.7%, for the first nine months of 2010.

Third Quarter Highlights and Management Comments

Third quarter new bookings totaled \$42.3 million, representing a book to bill ratio of 2.0x. New bookings in the quarter include a \$33.7 million, five-year contract with the U.S. Department of Housing and Urban Development (“HUD”), representing the continuation of the Company’s application systems support for three distinct HUD Single Family Premium Collections and Refund systems. Through effective application of system enhancements, ATSC has supported HUD in meeting exponential volume increases – in one case, a five-fold hike – in Single Family Premium Collection Systems brought on by recent dramatic spikes in mortgage applications that intensify demand for Federal Housing Authority (“FHA”) issued mortgage insurance. In addition, ATSC’s system support facilitates HUD’s collection of over \$7.3 billion in premiums and distribution of over \$56 million in FHA-mortgage insurance refunds annually.

The balance of the new bookings was from add-ons or additional funding from HUD, the Defense Logistics Agency, the Nuclear Regulatory Commission, the Federal Housing Finance Agency, the Defense Technology Security Administration, the U.S. Coast Guard and Fannie Mae.

ATSC Co-Chief Executive Officer, John Hassoun commented, “While our backlog continued to increase, we experienced revenue challenges this quarter. Of the \$7.7 million decline from the third quarter of 2010, approximately 34% was related to a downturn in our Fannie Mae business which began in the first quarter of 2011. Additionally, we reported a decrease of \$4.1 million in our government business areas in the third quarter. This decline was primarily driven by the prolonged impact we have faced this year from continued challenges with the Federal budget environment, including significant delays in awarding new contracts such as the Department of Health and Human Services CIO SP3 and Department of Commerce’s NOAA Link, while also managing the simultaneous transition of a number of re-competed contracts to new awards where in some cases funding has been delayed for new development work and in other cases our initial scope of work was at a lower level than on the predecessor contract. The \$1 million decrease in our commercial business was driven by the completion of a development contract which transitioned to a maintenance effort in 2011. Despite these challenges, we were pleased to win the \$33.7 million HUD re-compete, that represents the last of a series of major recompetes secured over the last 18 months and provides us with the ability to build on a solid, multi-year foundation of business and focus all our business development efforts on new pursuits.”

ATSC Co-Chief Executive Officer and Chief Financial Officer Pamela Little further commented on the Company’s financial performance, “We continue to manage our business to deliver above industry average profit margins and maintain strong DSO performance, and as a result, paid down our debt by another 49% since June 30, 2011.”

At this time, no conference call is scheduled.

Updated Guidance

Based on its results from the third quarter of 2011 and its updated outlook for the remainder of 2011, ATSC has revised its prior revenue forecast for fiscal year 2011 from a range of \$105 to \$115 million to \$96 to \$98 million, and has revised its prior 2011 EBITDA guidance from a range of \$14 to \$16 million to \$13 to 14 million.

Ms. Little commented, “ATSC continues to be affected by challenges associated with the federal government services market as discussed earlier, including the delays in funding of development work on newly awarded follow-on contracts and delays in the award of already submitted proposals. While these issues have shifted the expected revenues associated with such projects into fiscal year 2012, the Company continues to believe it is well-positioned to win new contracts already submitted and continues to submit proposals for additional new contracts.”

About ATS Corporation

ATSC is a leading provider of software and systems development, systems integration, infrastructure management and outsourcing, information sharing, training and consulting to the Department of Defense, federal civilian agencies, public

safety and national security customers, as well as commercial enterprises. Headquartered in McLean, Virginia, the Company has more than 450 employees at 4 locations across the country.

Additional information about ATSC may be found at www.atsc.com.

Forward-looking Statements

Any statements in this press release about future expectations, plans, and prospects for ATSC, including statements about the estimated value of the contract and work to be performed, and other statements containing the words “estimates,” “believes,” “anticipates,” “plans,” “expects,” “will,” and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including: our dependence on our contracts with federal government agencies for the majority of our revenue, our dependence on our GSA schedule contracts and our position as a prime contractor on government-wide acquisition contracts to grow our business, and other factors discussed in our latest annual report on Form 10-K filed with the Securities and Exchange Commission on February 17, 2011. In addition, the forward-looking statements included in this press release represent our views as of November 14, 2011. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to November 14, 2011.

- (1) EBITDA is a non-GAAP measure that is defined as GAAP net income plus other expense, interest expense, income taxes, and depreciation and amortization. We have provided EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. EBITDA is not a recognized term under U.S. GAAP and does not purport to be an alternative to net income as a measure of operating performance or the cash flows from operating activities as a measure of liquidity. Please refer to the table at the bottom of the statement of operations in this release that reconciles GAAP net income to EBITDA.
- (2) Adjusted EBITDA is defined as EBITDA adjusted (i) in 2010 for one-time other income associated with the adjustment of seller notes and the release of escrow from a previous acquisition not expected to be reflected in the ongoing performance of ATSC and (ii) in 2011 for expenses related to severance, the Company’s strategic evaluation, and a contract settlement reserve, none of which is expected to be reflected in the ongoing performance of ATSC. Adjusted EBITDA is not a recognized term under U.S. GAAP and does not purport to be an alternative to net income as a measure of operating performance or the cash flows from operating activities as a measure of liquidity. Please refer to the table in the financial statements that reconciles GAAP net income to adjusted EBITDA.

ATS Corporation
Consolidated Statements of Operations (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 <u>(unaudited)</u>	2010 <u>(unaudited)</u>	2011 <u>(unaudited)</u>	2010 <u>(unaudited)</u>
Revenue	\$ 21,577,564	\$ 29,246,619	\$ 69,511,146	\$ 89,004,930
Operating costs and expenses				
Direct costs	14,760,160	20,406,798	48,713,647	62,325,800
Selling, general and administrative expenses	4,250,646	5,486,690	14,046,511	17,798,821
Depreciation and amortization	629,759	626,511	1,898,221	1,903,680
Total operating costs and expenses	<u>19,640,565</u>	<u>26,519,999</u>	<u>64,658,379</u>	<u>82,028,301</u>
Operating income	1,936,999	2,726,620	4,852,767	6,976,629
Other (expense) income				
Interest, net	(74,475)	108,491	(192,520)	(1,069,551)
Other income	<u>—</u>	<u>959,440</u>	<u>—</u>	<u>1,463,332</u>
Income before income taxes	1,862,524	3,794,551	4,660,247	7,370,410
Income tax expense	<u>747,156</u>	<u>1,131,537</u>	<u>1,808,031</u>	<u>2,463,802</u>
Net income	<u>\$ 1,115,368</u>	<u>\$ 2,663,014</u>	<u>\$ 2,852,216</u>	<u>\$ 4,906,608</u>
Weighted average number of shares outstanding				
—basic	22,951,897	22,540,904	22,870,974	22,516,813
—diluted	23,167,908	22,627,723	23,099,132	22,605,726
Net income per share				
—basic	\$ 0.05	\$ 0.12	\$ 0.12	\$ 0.22
—diluted	\$ 0.05	\$ 0.12	\$ 0.12	\$ 0.22

Reconciliation of GAAP Net Income to EBITDA (1) and EBITDA (2)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 <u>(unaudited)</u>	2010 <u>(unaudited)</u>	2011 <u>(unaudited)</u>	2010 <u>(unaudited)</u>
Net income	\$ 1,115,368	\$ 2,663,014	\$ 2,852,216	\$ 4,906,608
Adjustments:				
Depreciation and amortization	629,759	626,511	1,898,221	1,903,680
Interest, net	(74,475)	108,491	(192,520)	(1,069,551)
Taxes	<u>747,156</u>	<u>1,131,537</u>	<u>1,808,031</u>	<u>2,463,802</u>
EBITDA (1)	2,566,759	4,312,571	6,750,989	10,343,641
Net Settlements	—	(1,250,000)	—	(1,745,000)
Severance	—	—	1,072,414	—
Contract Settlement Reserve	339,119	—	339,119	—
Strategic Expenses	<u>65,336</u>	<u>—</u>	<u>174,035</u>	<u>—</u>
EBITDA (2)	<u>\$ 2,971,214</u>	<u>\$ 3,062,571</u>	<u>\$ 8,336,557</u>	<u>\$ 8,598,641</u>

ATS Corporation
Consolidated Balance Sheets

	September 30, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 66,236	\$ 65,993
Restricted cash	1,327,891	1,327,245
Accounts receivable, net	14,071,032	21,219,602
Prepaid expenses and other current assets	473,203	696,174
Income taxes receivable and prepaid, net	13,291	61,477
Other current assets	25,091	25,491
Deferred income taxes, current	<u>863,412</u>	<u>698,521</u>
Total current assets	16,840,156	24,094,503
Property and equipment, net	2,341,972	2,714,164
Goodwill	55,370,011	55,370,011
Intangible assets, net	2,616,225	4,110,470
Other assets	133,314	133,314
Deferred income taxes	<u>1,475,950</u>	<u>1,407,545</u>
Total assets	<u>\$ 78,777,628</u>	<u>\$ 87,830,007</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Capital leases – current portion	\$ 80,931	\$ 79,572
Accounts payable	3,955,062	4,457,781
Other accrued expenses and current liabilities	1,369,112	2,381,941
Accrued salaries and related taxes	2,674,074	2,917,294
Accrued vacation	1,702,852	1,968,226
Deferred revenue	315,034	513,653
Deferred rent – current portion	<u>320,498</u>	<u>320,498</u>
Total current liabilities	10,417,563	12,638,965
Long-term debt – net of current portion	3,963,239	14,400,000
Capital leases – net of current portion	82,779	143,648
Deferred rent – net of current portion	<u>2,295,119</u>	<u>2,465,962</u>
Total liabilities	16,758,700	29,648,575
Commitments and contingencies		
Stockholders' equity:		
Preferred stock \$0.0001 par value, 1,000,000 shares authorized, and no shares issued and outstanding	—	—
Common stock \$0.0001 par value, 100,000,000 shares authorized, 31,849,790 and 31,561,486 shares issued, and 22,951,897 and 22,663,593 shares outstanding	3,185	3,156
Additional paid-in capital	133,789,090	132,803,839
Treasury stock, at cost, 8,897,893 shares held	(31,663,758)	(31,663,758)
Accumulated deficit	<u>(40,109,589)</u>	<u>(42,961,805)</u>
Total stockholders' equity	<u>62,018,928</u>	<u>58,181,432</u>
Total liabilities and stockholders' equity	<u>\$ 78,777,628</u>	<u>\$ 87,830,007</u>

ATS Corporation
Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended September 30,	
	2011 (unaudited)	2010 (unaudited)
Cash flows from operating activities		
Net income	\$ 2,852,216	\$ 4,906,608
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,898,221	1,903,680
Non-cash interest expense SWAP agreement	—	(354,020)
Stock-based compensation	652,823	560,863
Directors' fees paid in equity	—	103,094
Deferred income taxes	(206,060)	856,016
Deferred rent	(170,843)	(139,806)
Gain on disposal of equipment	—	(8,722)
Provision for bad debt	(109,700)	951,245
Changes in assets and liabilities:		
Accounts receivable	7,258,270	763,187
Prepaid expenses	222,971	(2,505)
Restricted cash	(646)	(2,282)
Other assets	400	20,315
Accounts payable	(470,937)	1,136,436
Other accrued expenses and accrued liabilities	(1,012,829)	(3,177,887)
Accrued salaries and related taxes	(243,220)	(946,026)
Accrued vacation	(265,374)	136,893
Income taxes payable and receivable, net	86,626	(62,838)
Other current liabilities	(198,619)	(1,087,245)
Net cash provided by operating activities	10,293,299	5,557,006
Cash flows from investing activities		
Purchase of property and equipment	(31,783)	(9,074)
Proceeds from disposals of equipment	—	10,000
Net cash (used in) provided by investing activities	(31,783)	926
Cash flows from financing activities		
Borrowings on line of credit	36,680,507	51,366,004
Payments on line of credit	(47,117,268)	(54,594,279)
Payments on notes payable	—	(2,007,900)
Payments on capital leases	(91,293)	—
Proceeds from exercise of stock options	128,750	5,587
Proceeds from stock issued pursuant to Employee Stock Purchase Plan	138,031	151,438
Payments to repurchase treasury stock	—	(454,640)
Net cash used in financing activities	(10,261,273)	(5,533,790)
Net increase in cash	243	24,142
Cash, beginning of period	65,993	178,225
Cash, end of period	\$ 66,236	\$ 202,367
Supplemental disclosures:		
Cash paid or received during the period for:		
Income taxes paid	\$ 2,006,100	\$ 1,669,146
Income tax refunds	59,895	2,258
Interest paid	223,780	1,789,871
Interest received	10,777	301,264

Company Contact:
Joann O'Connell
Vice President, Investor Relations
ATS Corporation
(571) 766-2400