

INTERVIEW

Dr. Edward H. Bersoff

Chairman, CEO & President
ATS Corp.



**DM&A: How active do you expect
ATS to be in the acquisition market?**

EB: Very much so. Our targets are to reach revenue of \$300 million in three years and \$500 million in five years. While we project 10% organic growth (higher than industry average, says Bersoff), acquisition will be key in filling the revenue gaps on the way to those two targets. Our guidance for fiscal year 2007 is for \$115-\$120 million in revenue, so, by definition, M&A must play a strong role in our strategy.

**DM&A: In which areas will ATS be
looking to acquire?**

EB: ATS revenues currently approximate the following—50% in federal civilian, 25% in defense and homeland security and 25% in commercial markets. Our target is IT services firms in the defense sector, though we'd be willing to look at other federal properties outside of DoD.

DM&A: Any preferred size requirements in your acquisition plan.

A notable name in federal/defense circles, Dr. Ed Bersoff has assumed the leadership of ATS Corporation (ATCT.OB), McLean, VA, the result of money raised in 2005 by a Special Purpose Acquisition Corporation (SPAC). As the name of its founding entity implies, ATS is committed to growth via acquisition.

Bersoff founded and became President of publicly traded BTG, Inc., a company acquired by the Titan Corporation in 2001. He also sits on the Boards of ICF Consulting and E.F. Johnson, both public companies in the sector.

The SPAC is a Wall Street instrument that allows funds to invest in a group of prominent executives, with the intent to exploit those persons' industry sector experience. Bersoff and his team launched as Federal Services Acquisition Corporation (FSAC), raising \$126 million in an IPO in October 2005.

FSAC was intent on finding private companies to acquire that might be ready to operate in the public markets, though not necessarily with current management. On January 16, 2007, FSAC completed the acquisition of Advanced Technology Systems, Inc., becoming the first (and to date the only) federal services SPAC to have completed an M&A transaction.

Minuteman Ventures' Paul Serotkin caught up with Dr. Bersoff to gain his views on SPACs, ATS, and the industry sector.

EB: Yes, we'd be most comfortable with firms in the \$25-\$75 million range, though we are prepared to go larger and have already gone smaller.

**DM&A: Where does ATS sit in the IT
market?**

EB: We break down into three business areas. As an IT company, ATS writes applications deployed in operational systems. Our network group helps design, install and manage IT infrastructure. Both are heavily weighted to the federal market. The third piece, under our Appix subsidiary, delivers financial software to primarily commercial customers (e.g. Fannie Mae, Freddie Mac, and others).

**DM&A: What is your view on
future IPOs in the federal/defense
sector?**

EB: I think the market is over-concerned about conditions in the sector [Ed.: referring to the recent downturn at press time in valuation of public federal services companies.]

I don't believe the federal government's fiscal 2008 will experience the same upheaval in budget approvals as it did this year. Further, the government will continue to increase outsourcing to the private sector. While growth rates in federal IT pure-plays have slowed, there is still upside to be gained in earnings per share—for us and others.

**DM&A: How will the new SBA rule
effect the M&A valuation of smaller
private federal contractors? [Ed.:
The rule, to take effect June 30, 2007,
requires acquired companies to recertify as a small business within 30 days
after the transaction.]**

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Paul Serotkin is President of Minuteman Ventures LLC, an investment bank focused on sell- and buy-side M&A for defense, federal, intelligence and homeland security companies. Reach him at: paulserotkin@minutemanventures.com; tel: (781) 750-8065.

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EB: We will certainly be assigning greater risk to a company that has small set aside contracts. This rule can't but help to depress valuations for companies with too much set aside work. It really is unfair to the entrepreneur. My advice at this time to business owners: transfer as much set aside work to full and open contracts as possible.

DM&A: What resources does ATS have to use for acquisitions?

EB: It depends on the size. The smaller the deal, the more likely we would use cash and bank debt. We may use ATS stock as consideration, though that would not be our first choice. ATS has a built-in source of capital over time. The shares issued in the FSAC IPO came with warrants that could be converted into significant amounts of cash in 2009. If the ATS shares between now and that date stay higher than \$8.50 for 20 days in any 30 day cycle, ATS can call the warrants earlier.

DM&A: How helpful is it to have been a public company CEO?

EB: Between BTG and two director positions (both as audit committee chair), the experience brought to bear has smoothed the transition of ATS from private to public. It doesn't hurt to have a seasoned CFO with public company experience either.

DM&A: Once the SPAC completed the transaction with ATS and converted to an operating company, have there been differences between it and non-SPAC public companies and private companies in that size range?

EB: Really not. Our characteristics are similar to firms our size, although we are projecting stronger organic growth in 2007 relative to our peers.

DM&A: Is it likely we will see more federal IT SPACs in the near term?

EB: Doubtful. It took FSAC a year to complete the ATS transaction from the first time we met its management. It was similar timing for another federal IT SPAC, TAC Corporation, which had planned to acquire Aviel, Inc. [*Ed.: a deal that did not close*]. The length of time to close makes it very hard for a private company to concentrate on its operations. Other would-be SPAC investors in the sector now understand that and may shy away from another industry SPAC. ❖