SI International, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Cai von Rumohr from Cowen & Company. Please proceed, sir.

Cai von Rumohr - Cowen & Company

Yes. Thank you. Ted, you mentioned those three write-offs; PTO, EPM and Arrowpoint termination. Could you just give us some color on how much of that is expected to be incurred in the second half, obviously, I know all of the Arrowpoint is, and the pretax impact?

Ted Dunn

Sure. PTO contract losses are spread about 50-50 between the front half and the back half. EPM ramp-up effects that we're talking about are mostly Q2, Q3, a little bit into Q4 effects. And of course, Arrowpoint is entirely a Q3 effect.

Cai von Rumohr - Cowen & Company

Okay. And the tax rate you are assuming this year for all of this?

Ted Dunn

40%.

Cai von Rumohr - Cowen & Company

40% tax rate, okay. Just standing back here, we had this miss on the PTO. We kind of have this ramp-up situation on EPM. Any thoughts about why we have these, why we missed on these?

Brad Antle

Yes, I think, let's start with PTO. I believe we were executing the plan. As I had mentioned on the last call, we expected to achieve a level of profitability coming out of the quarter which we achieved. We were above our breakeven in terms of productivity. The sudden drop in quantities was not expected and not predicted by our customer. So therefore, we didn't have visibility into that.

Should we have predicted it? Well, we didn't have the information to predict that. So, that was obviously something we couldn't plan for, but we adjusted our staffing to accommodate. We obviously have fixed costs associated with that facility that are being carried, and hence, the loss in the back half of the year. But believe we have a path forward with the customer to get back on even footing.

So, turning to EPM, we had a transition plan that took 90 days that would have allowed an orderly migration of clearances and people from existing contracts to ours with the transfer of those clearances that would not have impacted our bottom line. As a result, though, because of the delay in the award and the desire for the customer to get this contract moving, eliminated that 90-day transition plan.

We were forced to – we found ourselves faced with the need to bring people on board, and it was taking over 30 days to get their clearances, which they were already cleared; it was a matter of just getting clearances transferred from one company to another within the agency. But it posed a tremendous backlog for our customer in trying to move that many people that quickly.