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SRA International Inc. F1Q09 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from William Loomis – Stifel Nicolaus.

William Loomis – Stifel Nicolaus

On the Era business, I guess I'm not sure why the revenue reductions are having such a big impact on EPS. If we looked Era and assumed originally $65 million of revenues for this year and a generous 10% net margin of $6 million net income contribution, why are these so called temporary delays creating such a huge impact on EPS and loss in the Era business?

Stephen Hughes

Let me reset where we were. We'll start with Era plan levels because we didn't really give quarterly guidance. In our September guidance we had Era revenues of $70 million. I believe we told you on the call we'd have at least $65 million, so those two numbers are consistent.

So if we assume that these orders that were mentioned on the call slipped one quarter, we take $15 million as a revenue base and the Era revenue would be $55 million. If you look at the gross margin effect on that that's about $7 million of gross margin. Because of the situation, we decided to adopt a generally more conservative gross margin and reduce that gross margin six or seven points which had about a $4 million effect.

Going from $70 million of revenue to $55 million of revenue basically took $11 million added to the operating income level plus the deal costs and the IPR, the in process research and development costs of $2 million in total, so the net of that is $7 million from volume, $4 million from the change in rate on gross margin and $2 million for deal costs is about $0.13 which is about $13 million.

If then you say, if the low end would happen, well revenues would go from, remember they were at $70 million in the plan to $55 million with the one quarter slip, and then if we assume that those orders slip all the way to the right into 2010, fiscal year 2010, that takes another $9 million out of revenue, at a little bit lower gross margin, about $4 million out of gross margin and the overall reduction in the gross margin as I mentioned a moment ago, about $1 million.

The net of that is about another $5 million or $0.05. So the $13 million slip from the one quarter slip plus the $5 million for the two quarter slip gives you $18 million or about $0.18. We would expect those orders to come at some point in time, but given the uncertainty of the economic situation, the liquidity crisis, and political instability, we feel like it makes sense to factor the worst case into the low end of the guidance and then in another case at the high end.