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Affiliated Computer Services, Inc. F3Q09 (Qtr End 3/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

Bryan Keane of Credit Suisse, you may ask your question.

Bryan Keane Credit Suisse

Good afternoon. I guess some of the onetimers, the projects in consulting, I guess it's more shortterm work, that was the big negative surprise in the quarter. Can you talk about that going forward? Are we vulnerable for misses in that business in the fourth quarter and then looking into fiscal year '10?

Lynn Blodgett

What we're looking at is that they are shortterm. These are projects that, as you pointed out, it was the area of the biggest miss for the quarter. We're not expecting that those projects are going to come back in the fourth quarter. We do think they will. We think that these are projects that need to be done, but as people have been a little more careful on their discretionary budgets, some of these things have moved to the right. We expect to see it, but we're not optimistic to think that it's going catch all up in the fourth quarter.

Bryan Keane Credit Suisse

And then, my second question, Kevin, on government margins, or I guess, Tom, either one can answer. Just on government margins, quite a bit down yearoveryear, I think almost a little over 200 basis points. It says federal solutions is part of the reason for the margin decrease but maybe you can give us a little color there.

Tom Burlin

The noncompete with Lockheed Martin expired last quarter, so we saw the impact of that yearoveryear in this quarter. That's pretty direct. As you look at the operating margins, those things that we can affect, we actually saw pretty consistent margins yearoveryear and sequentially in our government portion, if you will, the state and local and federal piece of that.

While we grew that business pretty healthy, the impact was fairly well isolated to our transportation market. Two things impacted us there. We saw some incremental decline in the volumes, the transaction volumes which tend to operate at a little better margin than the norm. Then projects naturally operate at a higher margin than the average; so while they impacted revenue, they had a disproportionate impact on our margin.

Bryan Keane Credit Suisse

And on those margins going forward, is this kind of the right run rate to think about?

Tom Burlin

Clearly, the Lockheed Martin component won't come back to it. But I would expect that as we see those projects come back and we see the volumes pick up in the transportation segment in particular, that we should see some pick up, but I think in the near term, this is pretty close to right.

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