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Abstract: EDS broadcasted its quarterly earnings webcast with securities analysts on Thursday, 24 April 2008 at 8 a.m. Central Time (9 a.m. Eastern), following the release of its first quarter 2008 earnings.

[Operator turned the call over to Dave Kost]

**DAVE KOST (EDS – Vice President, Investor Relations):** Thank you very much, Teresa. Good morning everybody and welcome to our first quarter 2008 earnings call. With me today on the call are our Chairman, President and CEO, Ron Rittenmeyer, and our CFO, Ron Vargo. You should have received an email from me with a copy of our press release along with the presentation that will be used today. I'd like to remind you that the presentation, along with the webcast, are available on our website and will be archived there for the next 30 days.

The information covered on today's call, which is not historical in nature, including statements regarding financial condition, guidance or future financial performance and the value of our new contract signings, constitutes forward-looking statements within the meaning of the federal securities laws. These statements are subject to numerous risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such statements. For information concerning these risks and uncertainties, see the risk factors section in our most recent Form 10-K. We disclaim any intention or obligation to update these forward-looking statements, whether as a result of subsequent events or otherwise, except as required by law. In addition, we refer you to the slides posted on eds.com that accompany this call. Among other information, these slides and our earnings release present a reconciliation of the non-GAAP financial information to be discussed today and should be reviewed in connection with this discussion. With that, let me turn the call over to Ron.

**RON RITTENMEYER (EDS – Chairman, President, and CEO):** All right. Thanks, David. Good morning. Let me take you through our business highlights. Turning to slide three we had a very good first quarter. And I'm pleased to report that we've made steady progress. Our revenue was up 3%, \$5.4 billion, which exceeded our guidance. EPS was \$0.12, again, exceeding our guidance of \$0.05 and we'll talk about how that's split up. So Ron Vargo will go through some of that. Free cash flow, very typical in our first quarter. We came in at a \$126 million use of cash. Remember, in first quarter we did have the Verizon payment of \$225 million. So year-over-year it makes it a little tougher to compare. First quarter signings, TCV production was very good, \$5.6 billion, that's up 66% versus first quarter of '07. I think there are a couple of highlights that are important. We did close 12 contracts over \$100 million each in total contract value. And I'm pleased to report we did close most of the deals that were material that we said had been delayed. And as I said before, you know, these things




do slip quarter to quarter. It's kind of a moving thing, but when you look at our year-over-year increases, even excluding that we had -- our first quarter was up well over 33%.

So compared to first quarter of '06 I think, even if you take out these onetime GM and NMCI odd bookings, those very, very high bookings, we had an excellent quarter, almost 80% up. So we feel very good about our signings. We had strength in all geographic regions. Asia-Pacific came in very strong. And with the strong second half '07 bookings and the strong Q1, our trailing 12-month book-to-bill ratio is back near the 1:1 level which we established as one of our targets. And finally industry sectors were very good. Strong bookings in government and energy. Let's go to slide 4. When you look at our first quarter signings, the geographic mix is pretty well balanced. Americas 43%, EMEA 37%, Asia-Pacific about 20% of the total. That \$1.2 billion deal signed in Asia-Pacific represents a record level of quarterly production, obviously, for that region.

Service line, ITO again represents a majority of our bookings. But what's interesting is in absolute dollar volume, applications bookings have increased as well, so that's good news from our standpoint. From an industry pie chart on the right side of the page, government and energy, as I've already said were the strong industry sectors and those were really led by the two large marquee deals we signed with Singapore government and Royal Dutch Shell. We're extremely pleased with the achievement of signing 12 deals with TCV greater than a hundred. It's a level of performance early in the year, in the first quarter, that we haven't seen for the last five years. So we feel very, very good about that and it obviously continues to help our revenue. About 40% of our TCV, this is a very important point, was with new logo clients, which is actually double the average of what we typically book. So in terms of new business out there and getting new deals, this is a very important point. A high level of revenue that's incremental and very good. So all in all, I'd say we're very pleased with the level of signings. It's the third quarter in a row with strong bookings, particularly in view of the economy which we're still very sensitive to and watch very closely.

I would comment that while I can't announce the name, we just completed the signing of another \$1 billion contract that's going to be booked in Q2. So we just closed that deal. While I can't disclose the name, it's a government contract, and it's obviously a very large contract. Annualized contract value, we showed that to you slide 5 in the security analyst meeting. Other people use this. In the first quarter, we continued the upward trend. Annual contract value is up 18% year-over-year. Our longer term trend is up. We expect that to continue as we sell a greater proportion of project based work. We track this metric now in addition to TCV, because we expect to have an increasing percentage of our bookings come from shorter-term duration contracts, especially in the applications area as we expand more into these project services. So, I guess, as measured by both ACV and TCV, sales efficiency and production overall are improving.

Let's move to slide six, the pipeline, which would be the other part of the bookend. We've seen a solid increase in our pipeline, sharp increase in the U.S. and EMEA is also up very nicely. Opportunities with our existing client portfolio are up 8%. And given the strategic importance of expanding our applications business, our applications deals less than \$10 million in size, are up 21% versus a year ago. So that's an important metric for us to follow. The total pipeline up about 7% in total, and given the level of signings we've had that have obviously drained the pipeline, we're pleased with the production in that area. For the full year, we've gotten off to a good start from a sales perspective. The second quarter, as I said, already looks pretty good. I did mention that deal we just signed that, it's not a down-select -- it's a signed deal, so we've got it. We're confirming the full-year TCV




guidance of greater than \$20 billion, and our new logo production started off nicely. We expect 2008 to have a higher level of new logo signings compared to the past years. So very good overall.

Let's move to slide 7, which talks about applications. We continue to build the foundation for an enhanced applications business augmenting the strong management maintenance business with project-oriented services, specifically ERP implementations, modernization and development work. As I said, first quarter bookings in the segment were up 19% versus a year ago, and embedded in the TCV, we had a significant increase in number of application projects versus first quarter of '07. We've seen a 32% increase in transactions under \$10 million representing project service markets. So as a measure of future growth, applications pipeline expanded by 17% versus a year ago. We're very pleased with that.

Returning to the growth update in our applications segment, the establishment of the SAP practice continues to make very healthy progress. We've hired experienced veteran SAP leaders to run our practice in each of our large regions. They're building the teams. We continue to ramp up. We now have over 3,000 experienced SAP resources in our business. We have built some initial success stories with existing clients and we continue to refine and build our market differentiation and messaging in this space as we've said. We've also begun the rollout now of the Oracle practice. That practice will be organized under the industry alignment we've established. We're starting with a government tax practice that services tax and revenue agencies around the world, and we're going to leverage our 2007 acquisition of Saber Government Solutions to enhance and grow that business. So we continue to invest in this important area, and I think we're now beginning to see some very positive early momentum.

Slide 8, Best Shore, as you can see by the bar graph, we're now at about 43,000 employees in our Best Shore locations and driven by the recent contract with Shell, we'll be doubling our Malaysian center this quarter, which provides primarily ITO related services and will give us another outstanding Best Shore ITO location in the right part of the world in the right price point. Our plan this year is to target approximately 8,000 more resources on Best Shore. Half of that head count will come from migration of current on shore head count, and the other half will be to support new business signaled during the year, so people hired directly into Best Shore. Our current target is to drive at least 60,000 resources in the Best Shore location. And we obviously anticipate that over the next couple of years. We'll do it sooner if we can, but we have to balance that with the cost of doing it. We have size and scale. We're getting closer to the desired labor mix we're targeting. Quality work has been excellent, and I guess I'd say overall, we're ensuring that the process of coordination and delivery is seamless on a global basis.

Slide 9, our growth update. We made two key acquisitions. I'd like to briefly talk about those. Vistorm was an acquisition in the United Kingdom focused on provisioning information assurance and managed security services on a global basis. The business serves organizations of all sizes, all industries and specializes in financial services. So we're going to combine our existing capabilities in IT security in the U.K. into the new Vistorm entity. We think that combination of resources will create an organization with about 400 information security specialists in the EMEA market and will make it a very, very formidable European provider of information security services as well as having industry leading tools, software platforms and methodologies in IT security. So good acquisition.



Nexagent was an asset acquisition that will strengthen our network management capabilities and offering. Leveraging their software tools will allow us to automate, accelerate the design, transition and operation of enterprise service delivery. And we think it sets a standard for higher availability connection of clients to our global services network. So it fits right in with what we're doing from a global services network standpoint. And it's obviously very valuable for network connections that span multiple carriers and multiple regions, something that we're trying to take a leadership in offering. Looking at our marquee signings, our contract with Singapore government was very exciting -- \$1 billion over eight years. We're going to deliver end-user services to and link 60,000 workstations across 74 agencies. We'll also integrate voice, video and data communications in Singapore and around the globe.


The significance of that deal to us is extending what we do for -- what we do best -- and we do this very well for a number of clients, and it now brings us into a very prominent position in this area in the Asia-Pacific markets. It's also allowing us to provide an integrated role for clients and serving as the general manager for a consortium of suppliers, which is something that we've been offering, and this gives us even further credibility and strength.

The new contract with Shell has very strategic importance. It's a \$1 billion deal, but it's over five years. We're going to be delivering end-user services to 150,000 employees in 150 countries. When we sign a marquee client in a new industry, we're able to leverage that and build a stronger industry presence with valuable industry skills. We believe that transaction is going to do that for us in the energy sector. We structured the deal with a much lower capital structure, which will enhance our cash metrics. And compared to the historical mega-deals we've signed, we expect improved financial metrics, actually, on both of these deals. So we feel very good about these.

Slide 10, looking ahead, we clearly are in an uncertain economic environment. We're very sensitive to that. We spend a lot of time looking at that and trying to think about that. We believe we're executing the plan. We're pleased with the results. We've had some impact from economic conditions, through volume or where other certain clients had to look at cut backs and delays, but overall, we've also had other clients where we're finding opportunities. So on balance, we feel pretty good about things right now. The net impact is limited. As I said, it's in line with our expectations. We continue to see opportunities, so we've begun investing in our sales engine. We're going to continue to do that primarily in 2008. We've begun a new extensive sales training and development for our sales resources. This is a two-week program that's very intense, and it's starting to pay off already. And we continue to execute it, and we think it's going to really make a difference.

We've organized our industry practices to more effectively sell applications, and we expect that structure is going to continue to enhance our add-on sales with existing clients, and we are going to continue with work-force reductions. The company will continue to realign, and we will continue to adjust our work-force globally and continue to seek lower costs, higher-quality locations. So we expect more than half of our planned number is going to be done in the first half, and that should help drive our second-half improvements, which we're projecting in margin, EPS, and free cash flow. So overall a good quarter, and I'm going to pass it on to Ron Vargo now to get specific about the financials. Ron?

**RON VARGO (EDS – Executive Vice President and CFO):** Thanks, Ron, and good morning. I'll be covering the results for the quarter and providing an EPS outlook for the second quarter as well as updated full-year 2008 guidance. So let's go to slide 12, summary results. As we look at our first




quarter results and compare it to 2007, you will see that on a year-over-year basis, we are impacted by the effects of the Verizon termination in 2007. We've been reporting this now for over a year, so of course, this should not be news to anyone. Total revenues in the quarter were approximately \$5.4 billion, up 3% as reported and 2% down on an organic basis. Excluding the recognition of \$100 million of revenue related to the Verizon termination payment in the first quarter of '07, organic revenues were flat year-over-year. Adjusted and reported EPS were \$0.12 versus \$0.31 in 2007. And free cash flow was a use of \$126 million versus a use of \$8 million in the first quarter of 2007. The Verizon termination contributed \$225 million of cash and \$0.13 of earnings in the first quarter of 2007, and TCV signed was approximately \$5.6 billion, 66% over last year's first quarter.

In summary, an outstanding signings quarter, and we exceeded our own financial guidance, and we knew this would be a tough quarter to compare against first quarter 2007's financial results. Slide 13, this detailed slide actually contains summary line items from our income statement, again, adjusted to include certain items and a walk from GAAP is included in the slides in the appendix on page 26. Key highlights include revenue, up by \$141 million compared to the first quarter of '07, resulting from currency effects, the ramp-up of sales from '07 signings, the impact of acquisitions, offset by the impact of the Verizon contract termination of \$100 million, price reductions, which we discussed with you in prior calls, and other contract runoff. SG&A increased by \$22 million year-over-year, driven by investments in our sales channel as we added capacity and investments in our applications business. Corporate overhead actually was down year-over-year. Operating income was down \$168 million due to the impact of the Verizon termination payment, as well as the net effect of price adjustments and runoff, and higher workforce and capacity management spending on a year-over-year basis.

Interest and other actually contributed \$6 million in the quarter and was favorable \$13 million versus the first quarter of 2007. A major driver of the first quarter interest and other was a revaluation of our interest rate swaps as a result of lower interest rates during the quarter. And we had a 39% tax rate in the quarter, mainly because legislation renewing the R&D tax credit has not yet passed in 2008. We continue to forecast a 36% tax rate for the full year. This assumes that the R&D tax credit is passed. But in our second quarter guidance, which we'll get to shortly, we continue to expect a 39% effective rate, because we are planning on the credit to pass in the second half of the year retroactive to January 1st. Of course, we hope it passes earlier.

Diluted shares outstanding declined by 32 million on a year-over-year basis for two primary reasons. During the quarter, we purchased 11.5 million shares at a cost of \$213 million, which helped drive the average share count down on a year-over-year basis. And the impact of our convertible debt was such that it is not dilutive unless earnings are in the \$0.23 or \$0.24 cent area, and, therefore, the 20 million shares associated with that convertible debt come out of the share count, and the interest expense goes into the earnings. On a full-year 2008 weighted average basis, we continue to expect the share count to be about 530 million shares, which includes the full effect of the convertible notes.

So let's go to an EPS walk now, taking you through the first quarter of 2008. This is a slide which will walk you from our 2007 \$0.31 per share to our guidance of \$0.05 per share and then to the \$0.12 per share that we reported in the quarter. So the first bar is the Verizon contract termination payment, which contributed \$0.13 to first quarter '07 earnings. Next, as we begin to ramp up our workforce and capacity management spending in the first quarter of 2008, we expected to incur an additional \$0.05 of cost in the first quarter of '08, or \$0.08 total compared to first quarter of '07. The impact of interest and other and the tax rate was expected to be a \$0.01 worse year-over-year. And finally, the




combination of strong first quarter 2007 contract performance, plus first quarter '08 contract price adjustments and runoffs, net of productivity, was expected to impact our first quarter by \$0.07, resulting in the guidance of \$0.05 per share.

So in the second half of this chart, I'll now walk you through the drivers of EPS that enabled EDS to exceed guidance. So moving to the walk from \$0.05 to \$0.12. We actually did an effective job in the first quarter of managing contractor-related head count down, and did not spend as much on work-force capacity management, resulting in a \$0.03 improvement. However, we do plan on carrying over this spending into the second quarter of 2008. The combination of interest and other and taxes was \$0.02 better than we had expected, as we benefited from lower rates. And again, we did expect a 39% tax rate in the quarter. And finally the impact of productivity and operational performance netted to a positive contribution of \$0.02 per share. So we came in better than expected due to operational performance, lower below-the-line costs and timing of our work-force costs.

Now we'll go to cash flow. Total free cash flow for the quarter was a use of \$126 million, and the short story is that the operating cash flow, small improvement on a year-over-year basis was more than offset by an increase in net capital expenditures. However, key variations are worthy of some further explanation. Cash flow from earnings declined by \$13 million due primarily to earnings down, partially offset by higher D&A and other. The change in working capital had a number of pluses and minuses, including the impact of the \$225 million Verizon settlement payment in the first quarter of '07 that resulted in recording \$125 million of deferred revenue and working capital. This was partially offset by a financing of lease receivables in the first quarter of '08, a \$150 million financing that was part of our overall 2008 financing plan. In the quarter it had a net effect of about \$110 million of net financing of lease receivables.

We also had a lower level of cash severance payments in the quarter. Recall that in 2007, we had a high level of funding of severance that had been incurred in the fourth quarter of 2006. Similar to the first quarter of 2007, we experienced an increase in our DSO from prior year-end levels. First quarter 2008 DSO ended at 63 days. Some of this was anticipated due to structural terms that will result in a step-up in DSO from the fourth quarter to the first quarter. We continue to expect that by year-end 2008, we'll get back to year-end 2007 levels or better. Net capital increased by \$127 million. However, this was due to the timing of certain software related expenditures and data center facility expenditures that will not recur. The data center expenditures are actually expected to be part of a larger data center financing that we'll do later in the year. The total of those two items was \$70 million in the quarter.

We continue to expect \$900 million of free cash flow for the year, but like 2007 and prior years, it will be second half weighted. And we continue to expect the mix of free cash flow during the year to be roughly in line with the categorization that we discussed at the securities analyst meeting in terms of the split between cash flow from earnings, working capital and capital expenditures. Slide 16, balance sheet movements, a few highlights here. Cash and marketable securities down by \$381 million, primarily driven by the free cash flow in the quarter and share buy-backs and dividends. Accounts receivable increased by \$193 million. Again the higher DSO, which is seasonal primarily, and again, to repeat, we expect to reduce DSO to a level in the mid-50s, comparable to year-end '07 by the end of the year. Deferred contract costs grew by \$101 million. This was due to a continued planned ramp up for certain clients as we roll out future state IT environments, and accrued liabilities down \$126 million. This is driven in large part by seasonal compensation payments.




Shareholder's equity declined by \$73 million due to the share repurchases offset by increased earnings and foreign currency effects. Again, in the quarter we bought 11.5 million shares, and year-to-date 11.5 million shares, program-to-date 14.2 million shares, at a cost of \$270 million. So we've bought \$270 million of the \$1 billion authorization that the board provided in December. The balance sheet obviously continues to remain strong, with a relatively low level of debt. The debt to total capital ratio is in the 25% area. You'll note that during the quarter, we did receive two credit rating upgrades, Fitch Ratings upgraded our long-term debt to BBB flat, and Moody's upgraded us to Baa3, taking us back to investment grade.

So let's now go to second quarter earnings per share outlook. For the second quarter of 2008, we expect EPS in the range of \$0.24 to \$0.27. Key earnings per share drivers for the second quarter are expected to be first the negatives, workforce management. As I mentioned, we're carrying over the \$0.03 that we did not spend in the first quarter, and we will be stepping up work-force management generally in the quarter to a level of approximately \$80 million - \$100 million of work-force management costs incurred in the second quarter of 2008. Second, a higher tax rate. Again, 39% and in 2007, we got some benefits and had a tax rate below 30%. The impact of contract price adjustments and runoff. Again, as we discussed late last year, a large U.S. government contract has a price adjustment, and there's some higher runoff during the year from contracts generally. We expect these price adjustments and runoff to have much less of an impact going forward beyond the second quarter of 2008 when comparing on a year-over-year basis.

The positives in the quarter will be the continued productivity benefits that we're getting from the early retirement program that was taken in the fourth quarter of last year, as well as incremental productivity and expense management reductions as well as contract performance and growth. We expect the second quarter revenues to be in the range of \$5.6 billion - \$5.8 billion. And finally, full year 2008 guidance, we're taking our revenue guidance up and revising it to a range of \$22.5 billion - \$23 billion. This reflects the impact of revenue from the recent acquisition of Vistorm, a company we acquired in April, plus some expectation that the dollar will continue to remain weak and impact revenues on a going-forward basis. Adjusted earnings per share are revised from \$1.35 approximately to \$1.35 to \$1.39, and free cash flow remains at \$900 million and TCV at greater than \$20 billion. The key driver for 2008 free cash flow continues to be expected improvements in working capital compared to 2007. Many of our working capital balances, prepaids, accounts payable and accrued balances are expected to drive meaningful year-over-year improvement. So with that, finally, let me turn it back to you, Ron.

**RON RITTENMEYER:** All right. Thanks, Ron. Let me just summarize. We had a great quarter with bookings. I think everybody would agree with that. The highlight of the quarter, obviously, was the two large bookings, and the new logo wins overall for us were clearly important to us, especially in a sluggish economy. Service lines, every one of them has initiatives and actions that are improving their businesses. We are very driven in those areas. We talked about the importance of the applications business. This business is clearly trending positively. So very good about that. Some exciting developments in our service offerings. To highlight one, we have been chosen as the partner of choice with Microsoft as they take their Dynamics CRM product to the enterprise market. We're going to provide all the implementation and support services in this very important and growing area. I just attended Microsoft's big program in Florida, and was on stage with Steve Ballmer announcing the partnership. So from my standpoint, it's a very good thing for EDS.



And I'd like to emphasize that we have a solid and predictable business model. We do have a lot of defensive characteristics as the economies of the world potentially slow down. A large percentage of the revenue comes from our contractual backlog. The service we provide is predominantly tied to running clients' most critical, core systems. So I think that's pretty important, and we do have discretionary work tied to our revenue. But it's holding up so far, and it's generally tied to the core systems that we're running. So I feel strong about that. And our sales are strong. We are very sensitive to the economy. I don't want people to think that we don't worry about that at night, we don't worry about that during the day. We think about it all the time. But the facts are we are sensitive and we anticipate and hopefully we are ready for that. So overall, I think we've had a good quarter. So Dave, I'm going to turn it back to you now to for questions.

**DAVE KOST:** Okay. So we can open up now for questions. I would ask that you limit your questions, being mindful of the others that are in the queue.

## QUESTION AND ANSWER SESSION

**GEORGE PRICE (Stifel Nicolaus, Analyst):** The work-force reduction expenses in 1Q '08 of \$0.02, was that around \$20 million?

**RON VARGO:** In first quarter of '08, it was approximately \$37 million.

**GEORGE PRICE:** \$37 million.

**RON VARGO:** First quarter of '07, about \$25 million. So year-over-year about a \$12 million increase, about \$0.02.


**GEORGE PRICE:** Okay. And are you still -- any changes to the work-force reduction expectations for the full year?

**RON VARGO:** No. We're still in that range we talked about of \$200-\$250 million. If we do the \$80-\$100 million in the second quarter, we're kind of \$117-\$137 million for the half year. So we're still kind of expecting more than half of the spending to be incurred in the first half of the year, and we've got to get on it in the second quarter to get those benefits.

**RON RITTENMEYER:** Yes. We're also focused obviously on managing the contractor supply, tighter. We're also focused on performance as -- employee performance, which we should be focused on any way, and we're also focused on attrition, in terms of reengineering jobs before we replace every single person in the company voluntarily. So we've got a lot of things in play here, and I think we're hitting it from all angles. But for now I agree with Ron. We're staying focused on the number, because at this time that just makes the most sense to me, to do as much as we can for the dollars that we've planned.

**GEORGE PRICE:** And just to be clear, the share-count guidance for the second quarter, given where EPS is, that will add back in and convert?

**RON VARGO:** Yes, it does. That's correct.



**GEORGE PRICE:** Last thing, where does the share repo stand right now? What do you have implied in guidance? What's the timeline you think that you use, given where the stock is now?

**RON VARGO:** Yes. As I mentioned, we've done \$270 million of the \$1 billion and the guidance assumes that the billion dollars will play out over the next year to a year and a quarter.

**GEORGE PRICE:** Okay. Thank you.

**JULIO QUINTEROS (Goldman Sachs, Analyst):** Real quickly, Ron Rittenmeyer, on the Americas side, can you just walk us through the decline in the year-over-year number? I think it's constant currency. I just want to make sure I'm not missing anything there. It was about 9% decline? How much of that was Verizon related potentially?

**RON RITTENMEYER:** The comment I'd make about that is when you look at --we clearly have had a little higher runoff. When you look at the overall move, the Verizon termination clearly had an impact on that. So that's probably the biggest thing we had. Some renewals, one of the things, as you guys know, when we do Best Shore increases in existing contracts -- last year was a big renewal year in the Americas. So you're seeing some price adjustments as we made that. We're through the majority of those now, so I feel less concerned about that going forward. We had historic contracts that as we re-competed on those and won them, that was the good news. The unintended consequence of that of course is that you start putting some of that offshore. So as we grew this offshore business on re-competes, you tend to take a greater amount of what we classify as runoff, but it's not really runoff, it's price adjustments. So however you want to call it, it's an adjustment. But when I look at total contract signings, we're still in good shape from the Americas standpoint. So bottom line, I think that I feel positive about the overall strength of the Americas. So the pipeline is clearly up in the Americas, as I said earlier. So I think when you think about it in total, a lot of it has to do with the re-competes and where we are now. And as I said, I don't see that as strong of an issue for this year.

**JULIO QUINTEROS:** Okay. And then Ron Vargo. Can you just help us understand sort of the timing on the ramp-ups of the government of Singapore contract and the Dutch Shell contract just from a Cap Ex perspective, a financing perspective? How do we think about this as we go through the next couple of months here, as you guys begin to ramp that stuff up, what kind of outflows should we expect? And what are the payback periods you're looking for there?


**RON VARGO:** First I would say it's all included in our guidance. Secondly, I would say that the way that we structured these contracts really mitigates the capital impact that we're going to see from both contracts in terms of either suppliers taking on some of the capital responsibilities or the actual customer owning the capital. So I think the majority of the cash impact is going to be, as these start ramping up, working capital impact and less impact on the Cap Ex. So I would answer you by saying it's not going to have a material impact as we go through the year, and it's already in the guidance.

**JULIO QUINTEROS:** In the \$900 million?

**RON VARGO:** Yes.

**JULIO QUINTEROS:** Got it.

**RON VARGO:** Okay. Thanks.



**BRYAN KEANE (Credit Suisse, Analyst):** Yeah. Good morning. Ron Rittenmeyer, when you were talking about volume declines and delays due to the economy, is that new this quarter, and can you talk about what industries you're seeing that? I'm just trying to get an overall economy picture.

**RON RITTENMEYER:** I would say that clearly we've seen some pullback in general when you think about manufacturing. We've probably seen some add-on business slow down a bit. Consumer we've seen some add-on business slow down a bit. Obviously energy's been good for us, and so on balance, I think that I'd probably put them in those sectors, but I don't think it's -- again, from our standpoint, we haven't seen it as a critical issue. But, we're trying to separate that from projects that have been completed, too. So, we're completing some projects, for example, in the GM sector, which allows us to now free up some people to go do some other manufacturing stuff. But I would put it probably more in consumer and manufacturing as the two primary sectors from an overall economic perspective.

**BRYAN KEANE:** And is it just delays, or are there some cancellations in some contracts as well?

**RON RITTENMEYER:** No. There've not been any real cancellations. I would say it's slower, and I think we've seen some projects just take a little bit longer to get booked out, and it's mostly add-on project work. But again, from a macro standpoint, we haven't felt as much pressure as I was worried about. So I feel pretty good about the signings. When you think about the number of contracts I mentioned that we signed in applications for the smaller than \$10 million stuff, if you recall when I talked about that, I think the key there is that we've seen those contracts continue, a 32% increase. Granted we came from a different base, but in contracts under \$10 million, I think that's a very positive sign. So there is business out there. And from our standpoint, I think the rule of large numbers, we're able to manage that. So I mean, having a business that can move globally has really allowed us to do that. And government is good, too, and financial services is still pretty strong for us.


**BRYAN KEANE:** Okay. And then Ron Vargo. In EMEA, the profit was down a little bit. One of the impacts there was price adjustments. I'm just trying to get -- is that the move in Best Shore, or what happened there?

**RON RITTENMEYER:** This is Ron Rittenmeyer. I would say EMEA stuff is a couple things. One is we've invested in some stuff over there, which competitively I'll just say that, and so that was part of it. The other reason was we talk about price adjustments. We have government contracts that are still very profitable, very positive, but we do adjustments in those, and some of that is, as they run longer, you tend to make some adjustments. So nothing that we see as a critical issue, and not that it can't be recovered. Again, we've had other signings.

**BRYAN KEANE:** And then just one last question. Remind us again on the free cash flow walk from 2008 to 2007, I know you expect it to be flat, but obviously margins are going to be down in '08 and we don't have the Verizon payment, but yet we're talking about the same free cash flow. So can you help us through that?

**RON VARGO:** Yes. And, again, I'll hark back to kind of a more thorough discussion that we had at the securities analyst meeting. We expect working capital to not be the significant user of cash that it was in 2007. So a little bit less coming out of cash flow from earnings on a full-year basis. A little better performance in the working capital area, and Cap Ex kind of flat to a little bit worse.

**BRYAN KEANE:** Okay. Great. Thank you very much.




**ROD BOURGEOIS (Bernstein, Analyst):** Yes, guys. A nice start to the year. You cited \$0.02 of operational upside relative to the guidance you gave us three months ago. We can harken back to the Q4 period, where you had some troubled contracts that hurt margins. The question I have is, where did the \$0.02 of operational upside come from? And does that reflect some progress with contract execution? Can you give us some more specifics on that front?

**RON RITTENMEYER:** Well, what I'd say, Rod, is that -- first of all, the choice of words of a contract execution problem is a poor choice of words. So I've learned that lesson. The important thing is, yes, it comes from execution. It comes from improved execution at the contract level. It comes from improved execution of the business. It comes from improved execution of the stuff we've said we're going to do here in terms of streamlining the company, et cetera. So on an overall balance basis, we had a very good quarter. We don't have anything that I would highlight as a concern. Contractually, we are hitting a lot of good cylinders. Quality was excellent. Our quality operations were good. Fundamentally it comes back to tight management, and we are -- in my view, that's an opportunity that will be endless, and we're going to be very focused on operationally executing this business at a much higher level every quarter than we've done in the previous quarters. So I don't want to get specific about contracts, but I would just say that I'm very comfortable with the focus that the company has gained in the last two quarters on operational excellence.

**ROD BOURGEOIS:** Yes. Can you give us some ranking of where the operational improvement came from? So if I said, one category would be improvement on the troubled deals from Q4, another category would be improvement on other deals besides the ones that were troubled in Q4, and the other one would be just benefits from the restructuring that you've done since last summer, since you started ramping up some of the restructuring activities, is the improvement coming from a balanced set of performances across those three categories, or --

**RON RITTENMEYER:** I would answer that you've kind of testified for me. Okay. Those are exactly right. Clearly, any contract that I felt was lagging, we have put a real focus on, and we've seen an improvement. Overall contract performance is sharper than it was in the past, and also, just like Ron mentioned, our G&A is down. We have a big focus here on trimming back G&A overall while we reinvest in sales. So you notice we try not to talk about SG&A, because I think sales is something that we ought to be investing in and we ought to be paying for that by tightening up the G&A part of the company, the overhead part of the company. And I still see that globally as a great opportunity. So it's all the above. It's contract performance, would be number one. Number two would be just operational improvement across the board in -- whether it's in data centers or reengineering stuff we've talked about, and number three is offsetting the sales investments with other general administrative expenses and still tightening that even further. So it's just good operational business management, and it's something we talk about every single week, along with how do we grow sales. So any way, I hope that helps.

**ROD BOURGEOIS:** It's very helpful. And then specifically now, if we look at the execution topic, you've now signed some large deals. It's very encouraging that you've got seemingly better than normal capital requirements on those contracts. But operationally, has anything been developed in the last six months on the contract execution side that will be applied on these new deals that allows you to give us more comfort that contract execution will be strong on these new deals?



**RON RITTENMEYER:** Sure. We have the Singapore deal, for example, is going to be run – our AE on that deal is coming out of the NMCI team. We already do that at NMCI. So it's actually the same project in many respects, at least the foundation of it. So the team that we've deployed to that is a team that is experienced, the core team. And we've pretty well documented the steps we take when we do these kinds of things. So you think about DWP. We do the same thing over there.

So in many respects, the teams that we're deploying are experienced teams. The Royal Dutch Shell deal is, again, a similar project to what we've done before. We already are managing a consortium of suppliers for a couple other large deals. So we're going to deploy the same tools and experiences. So we're not trying to get out there and do something in the dark that we've never done before. These are things that we have already done, and we're deploying many of the same resources, because now we're beginning -- we've worked very hard in building training things to bring new people on board to replace some of these people that we can move to these locations. So we're not starting as a greenfield. We're putting an experienced team on the ground for a period of time along with experienced leadership in each one of these. So I feel very confident that we've got our head around how we're going to execute this.

**ROD BOURGEOIS:** All right. That sounds good. Just one other quick question. You've been mentioning runoff and sort of price concessions as a bit of a headwind over the last year, and that makes sense as the business migrates offshore, that some of that is being caused by the off-shore migration, but you've now got a much higher off-shore mix today than you've had in the past. Do you expect, from now forward, that this runoff issue will attenuate as a headwind, or are you still going to be dealing with that in the same way over the next year? Is the tide starting to turn on the runoff side, is what I'm asking?


**RON RITTENMEYER:** I guess my view is that it will be less, but we're not done with it, but it's dramatically less. I think we hit the big wave already. So now we're into the smaller back waves, if you will. But there's still some of that. We're talking about 60,000 people or more. We've got 43,000. So, you've got another 20% to build over there. A lot of that will be built by new deals that are signed so you don't quite have the runoff impact. But there's still some deals out there that we can restructure and redo. The second wave of the deals as they come through, at some point you can only move people once. So at some point it's less of an issue, but I'm confident that we've gone through a lot of the big hits. Now we're into the -- we've got some stuff to clean up yet.

**ROD BOURGEOIS:** Very helpful. Thanks, guys.

**RON RITTENMEYER:** Sure, thanks.

**GREG SMITH (Merrill Lynch, Analyst):** Yes, hi. On the applications business broadly, do you feel like you're actually gaining some share at this point, or more growing with the market overall?

**RON RITTENMEYER:** Well, that's an interesting question. Number one, it's hard to know that, because you don't know the total market activity. My sense is we're gaining share in practice areas, and we're gaining share in existing clients. The overall market, I don't know whether you could mathematically come up with a formula that says we're knocking out share in the overall market at this stage. So I think what we've done is we've penetrated existing clients in a much deeper way around the project side. We're building out the practices. So I don't want to answer that, I guess, as - - I find that a hard question to answer today, because I think that we're going in -- unfortunately, this



Verizon thing also had some applications stuff in it. So it kind of distorts our numbers, but we look at - we do a report -- Charlie Feld actually developed the report called the 1:1 report, which is so granular, it goes down deep into every client. So we now know at a client level whether we're gaining or losing ground, and so far, by that type of granularity, we've been able to really get our arms around which clients we want to grow in, and which clients we don't see growth in. So within the client base that we've got, I would say we're doing much better. Within the marketplace, I would relate that more to the practice side, but overall on an macro basis, it's a little early to make that claim or to make any claim.


**GREG SMITH:** Okay. No. That's helpful. And then, just can you talk a little about the acquisition outlook and maybe specifically on the near shore side, any chance you're likely to sort of fill that gap to the 60,000 with an acquisition?

**RON RITTENMEYER:** Let me answer that two ways. On the acquisition front, we are looking at things. Clearly, with the change in the marketplace, it's interesting. Our view is that the lagging price indicator -- some prices haven't caught up with yet that the market's changed. So we still have some people out there who think their valuation ought to be the same as when the market was so heated up. So there's some realities that people are struggling through yet. We have several things that we're in the middle of working on that would supplement our business and supplement our business in the appropriate way. On the near shore question of whether or not we would do that with an acquisition, I would answer that with a yes, I would if, in fact, it makes the most sense. I think that we did the RelQ and the GEMS thing, which was very good for us. Those things have really built out well. If there are other opportunities in those spaces, we're going to go get them if we see that they fit in appropriately. But again, I have to tell you, I think we have to be sensitive to price. The last thing we want to do is spend more money than something is worth and then live with that. So organically, we're doing pretty good at adding head count, and I think we just have to watch that. But I hope that helps.

**GREG SMITH:** Yes, definitely. Thank you.

**TIEN-TSIN HUANG (JPMorgan, Analyst):** I wanted to better understand what's driving the sharp increase in the U.S. pipeline and also the increase in EMEA. What type of work is being demanded?

**RON RITTENMEYER:** It's a mix. I wouldn't say there's anything specifically that's jumping out. Obviously I don't want to get into the pipeline details. But from a competitive standpoint, I would say, generally speaking, it's pretty much what we've been talking about. We still see a fair number of ITO things. I think, there's no slowdown that we've seen. I say "no slowdown." There's not a change that we've seen in people wanting to go do things. I think the economy makes people even more interested in how do we do this and rationalize our business better, and I think our service quality, while some people have said, "Well, it can't be that big of a deal," it actually is a big deal. And our service quality is making a difference in our ability to have referenceable clients, and I hope you've seen our new ad campaign. I'll be disappointed if you haven't. And there will be some ads on CBS -- let me just plug that -- on CBS News this is week, as we do the Byron Nelson. But this whole concept about being a business ally is getting some traction, and as we've seen, we're doing ads in conjunction with major clients, which goes a long way to referenceability. So I don't think there's anything dramatically different in the next --



**TIEN-TSIN HUANG:** Is the sharp increase applied to the U.S. government business as well? And I'm curious to hear if there's any color on federal --

**RON RITTENMEYER:** Yeah. U.S. government business has a reasonable amount of pipeline. We're very comfortable with it. The IDIQ stuff. We don't report IDIQs the way some people do. We don't take credit for having signed an IDIQ, because obviously the real key is getting the deal within the IDIQ. So some people claim that as a win. But I don't know how can you do that unless you actually get a signed deal. So from an IDIQ standpoint, we're participating in a much broader group of things that we've been awarded to participate in. So the U.S. government, I'm comfortable with. We have a new leader over there, Dennis Stolkey, who is doing a great job and they're driving that pretty hard.

**TIEN-TSIN HUANG:** A couple of other quick questions. The airline industry, a lot of consolidation, bankruptcy news, any impact there with EDS?

**RON RITTENMEYER:** No. We still maintain that it's a tough business for the airlines, it's a good business for us. We were obviously involved in some of those bankruptcies, Frontier, Aloha, etc. But it's a minimum -- I mean it's a rounding error in terms of impact to us. We're sensitive to that, aware of that. But our key partners, the primary airlines that we support are absolutely great partners, and so no impact at all.

**TIEN-TSIN HUANG:** Good to know. Lastly, just I was hoping to maybe get the annual revenues for the two acquisitions that were announced in the quarter, just to get a rough idea for modeling purposes.

**RON RITTENMEYER:** Can we do that one offline? I don't think we have that one right here in front of us.

**RON VARGO:** Yes.

**RON RITTENMEYER:** Maybe Ron or Dave after --

**RON VARGO:** Yes. The Nexagent is quite small, and Vistorm is more substantial. I think on an annualized basis, it's around \$100 million. And Nexagent is a rounding error probably right now.

**TIEN-TSIN HUANG:** Got it.


**RON RITTENMEYER:** You guys can have that conversation.

**TIEN-TSIN HUANG:** Will do. Thanks a lot. Nice job on the quarter.

**DAVE KOST:** Operator, we have time for one more question, please.

**ADAM FRISCH (UBS, Analyst):** Thanks. It was worth sticking around. Two questions. Most of it has been asked already. On the timing of the workforce management initiative, if Q2 doesn't ramp as fast as he said in the \$80 million to a \$100 million range, could we see a downward revision of the free cash flow target, or does the difference between a quarter or two not really matter enough to change the full-year target?

**RON RITTENMEYER:** I mean, I'll let Ron Vargo answer that as well. I mean, my view is I don't think so, Adam. I think, at this point, I don't anticipate any downward revision. Ron?



**RON VARGO:** I agree with that. A, we expect to spend \$80 million - \$100 million, and B, if we didn't, I would not expect a downward revision.

**ADAM FRISCH:** Okay. And then the only other question I had on the free cash flow. The slide in the deck, I don't think it was in there, it was in prior presentations. But what was the total for CFTs in the quarter, and how does that compare year-over-year, and how do you think that will run for the full year '08?

**RON VARGO:** I don't have the data in front of me, but I would say CFTs will be higher year-over-year, substantially higher year-over-year, but some of the capital leases and software financing will be down substantially year-over-year. So as I think about the overall asset financing on a full-year basis, '07 to '08, I don't expect material changes year-to-year.

**ADAM FRISCH:** Okay. Great. Thanks.

**DAVE KOST:** Okay. I'd like to thank everyone for joining us on the call today. I know there are still some of you in the queue. So feel free to contact my office. We'll be glad to get to you over the course of today. Teresa, back to you.

**OPERATOR:** Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.

[END]