

SAIC, Inc.
Form 10-Q
September 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-33072

SAIC, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3562868
(I.R.S. Employer
Identification No.)

1710 SAIC Drive, McLean, Virginia
(Address of principal executive offices)

22102
(Zip Code)

(703) 676-4300

(Registrant's telephone number, including area code)

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N/A

(Former name, former address and

former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 12, 2011, the registrant had 340,995,694 shares of common stock, \$.0001 par value per share, issued and outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2011	2010	2011	2010
	as adjusted		as adjusted	
	(in millions, except per share amounts)			
Revenues	\$ 2,596	\$ 2,749	\$ 5,284	\$ 5,376
Costs and expenses:				
Cost of revenues	2,258	2,351	4,615	4,656
Selling, general and administrative expenses	129	126	230	242
Operating income	209	272	439	478
Non-operating income (expense):				
Interest income		1	1	1
Interest expense	(28)	(19)	(56)	(37)
Other income (expense), net	1	(2)	5	(2)
Income from continuing operations before income taxes	182	252	389	440
Provision for income taxes	(70)	(95)	(147)	(159)
Income from continuing operations	112	157	242	281
Discontinued operations (Note 1):				
Income from discontinued operations before income taxes	115	54	117	54
Provision for income taxes	(49)	(21)	(50)	(20)
Income from discontinued operations	66	33	67	34
Net income	\$ 178	\$ 190	\$ 309	\$ 315
Earnings per share (Note 2):				
Basic:				
Income from continuing operations	\$.32	\$.42	\$.68	\$.73
Income from discontinued operations	.19	.08	.19	.09
	\$.51	\$.50	\$.87	\$.82
Diluted:				
Income from continuing operations	\$.32	\$.42	\$.68	\$.73
Income from discontinued operations	.18	.08	.19	.09
	\$.50	\$.50	\$.87	\$.82

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	July 31, 2011	January 31, 2011
	as adjusted	
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,336	\$ 1,367
Receivables, net	2,124	2,069
Inventory, prepaid expenses and other current assets	307	382
Assets of discontinued operations		49
Total current assets	3,767	3,867
Property, plant and equipment (less accumulated depreciation and amortization of \$421 million and \$398 million at July 31, 2011 and January 31, 2011, respectively)	354	359
Intangible assets, net	196	211
Goodwill	1,674	1,664
Deferred income taxes	31	51
Other assets	91	71
	\$ 6,113	\$ 6,223
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,222	\$ 1,205
Accrued payroll and employee benefits	453	511
Income taxes payable	20	
Notes payable and long-term debt, current portion	553	3
Liabilities of discontinued operations		29
Total current liabilities	2,248	1,748
Notes payable and long-term debt, net of current portion	1,299	1,849
Other long-term liabilities	143	135
Commitments and contingencies (Notes 9 and 10)		
Stockholders' equity:		
Common stock, \$.0001 par value, 2 billion shares authorized, 342 million and 362 million shares issued and outstanding at July 31, 2011 and January 31, 2011, respectively		
Additional paid-in capital	1,989	2,090
Retained earnings	437	408
Accumulated other comprehensive loss	(3)	(7)
Total stockholders' equity	2,423	2,491
	\$ 6,113	\$ 6,223

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AND COMPREHENSIVE INCOME

(UNAUDITED)

	Shares of common stock	Additional paid-in capital	Retained earnings as adjusted	Accumulated other comprehensive loss as adjusted (in millions)	Total	Comprehensive income
Balance at January 31, 2011	362	\$ 2,090	\$ 408	\$ (7)	\$ 2,491	
Net income			309		309	\$ 309
Other comprehensive income, net of tax				4	4	4
Issuances of stock	7	31			31	
Repurchases of stock	(27)	(164)	(280)		(444)	
Adjustments for income tax benefits from stock-based compensation		(12)			(12)	
Stock-based compensation		44			44	
Balance at July 31, 2011	342	\$ 1,989	\$ 437	\$ (3)	\$ 2,423	\$ 313

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended	
	July 31	
	2011	as adjusted
	(in millions)	
Cash flows from continuing operations:		
Net income	\$ 309	\$ 315
Income from discontinued operations	(67)	(34)
Adjustments to reconcile net income to net cash provided by continuing operations:		
Depreciation and amortization	55	51
Stock-based compensation	43	50
Excess tax benefits from stock-based compensation		(13)
(Gain) loss on sale of assets	(28)	1
Other items	1	1
Increase (decrease) in cash and cash equivalents, excluding effects of acquisitions and divestitures, resulting from changes in:		
Receivables	(48)	10
Inventory, prepaid expenses and other current assets	33	(16)
Deferred income taxes	1	(4)
Other assets	(18)	1
Accounts payable and accrued liabilities	2	(96)
Accrued payroll and employee benefits	(55)	(22)
Income taxes payable	(17)	2
Other long-term liabilities	(1)	(5)
Total cash flows provided by continuing operations	210	241
Cash flows from investing activities of continuing operations:		
Expenditures for property, plant and equipment	(30)	(35)
Acquisitions of business, net of cash acquired of \$1 million in fiscal 2011	(26)	(140)
Net payment for purchase price adjustments related to prior year acquisitions	(3)	
Proceeds from sale of property, plant and equipment	78	1
Total cash flows provided by (used in) investing activities of continuing operations	19	(174)
Cash flows from financing activities of continuing operations:		
Payments on notes payable and long-term debt	(2)	(1)
Sales of stock and exercises of stock options	14	22
Repurchases of stock	(417)	(445)
Excess tax benefits from stock-based compensation		13
Other items	(2)	
Total cash flows used in financing activities of continuing operations	(407)	(411)
Decrease in cash and cash equivalents from continuing operations	(178)	(344)
Cash flows from discontinued operations:		
Cash provided by (used in) operating activities of discontinued operations	(20)	8
Cash provided by investing activities of discontinued operations	166	81
Increase in cash and cash equivalents from discontinued operations	146	89
Effect of foreign currency exchange rate changes on cash and cash equivalents	1	(2)
Total decrease in cash and cash equivalents	(31)	(257)
Cash and cash equivalents at beginning of period	1,367	861
Cash and cash equivalents at end of period	\$ 1,336	\$ 604

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See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 Summary of Significant Accounting Policies:

Nature of Operations and Basis of Presentation

SAIC, Inc. is a provider of scientific, engineering, systems integration and technical services and solutions in the areas of defense, health, energy, infrastructure, intelligence, surveillance, reconnaissance and cybersecurity to all agencies of the U.S. Department of Defense (DoD), the intelligence community, the U.S. Department of Homeland Security (DHS), and other U.S. Government civil agencies, state and local government agencies, foreign governments and customers in select commercial markets.

The condensed consolidated financial statements include the accounts of SAIC, Inc. and all majority-owned and 100%-owned subsidiaries (collectively referred to as the Company). All intercompany transactions and accounts have been eliminated in consolidation.

The accompanying financial information has been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2011. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Estimates have been prepared by management on the basis of the most current and best available information at the time of estimation and actual results could differ from those estimates.

In the opinion of management, the financial information as of July 31, 2011, January 31, 2011 and for the three and six months ended July 31, 2011 and 2010 reflects all adjustments, which consist of normal recurring adjustments, necessary for a fair presentation thereof. Operating results for the three and six months ended July 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2012, or any future period.

Unless otherwise noted, references to years are for fiscal years ended January 31. For example, the fiscal year ending January 31, 2012 is referred to as "fiscal 2012" in these notes to condensed consolidated financial statements.

Pension Accounting Change

The Company sponsors a defined benefit pension plan in the United Kingdom for plan participants that primarily performed services on a specific customer contract, which expired. On June 10, 2011, the Company sold certain components of the business, including the component of the business that contained this pension and employed the pension plan participants. The Company has classified the operating results of this business component, including pension expense through the date of sale, as discontinued operations for all periods presented. Pursuant to the definitive sale agreement, the Company retained the assets and obligations of this defined benefit pension plan. As a result of retaining the pension obligation, the remaining components of ongoing pension expense, primarily interest costs and assumed return on plan assets are recorded in continuing operations for periods following the sale.

On February 1, 2011, the Company elected to change its method of recognizing pension expense. Immediately prior to the change, net actuarial gains or losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans' projected benefit obligation (which is referred to as the corridor) were recognized over the average remaining life expectancy of the plan participants. Under the newly adopted accounting method, the Company recognizes all net actuarial gains or losses in excess of the corridor annually in the fourth quarter of each fiscal year and whenever the plan is remeasured. While the historical method of recognizing pension expense was acceptable, the Company believes that the new method is preferable as it eliminates the delay in recognizing actuarial gains and losses in excess of the corridor, resulting in a more timely reflection of the effects of economic and interest rate conditions on plan obligations, investments and assumptions.

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This change in accounting was reported through retrospective application of the new method to all periods presented, which have been designated as adjusted. The effect of the change from inception of the plan to January 31, 2010 resulted in a \$26 million decrease in both retained earnings and net unrecognized actuarial loss on the defined benefit plan, net of tax (a component of accumulated other comprehensive loss). The effect of the change on the previously reported balances as of January 31, 2011 was a \$25 million decrease in both retained earnings and net unrecognized actuarial loss on the defined benefit plan, net of tax (a component of accumulated other comprehensive loss). The accounting change did not have a material impact on the condensed consolidated statements of income for the three and six months ended July 31, 2011 and 2010.

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Discontinued Operations

On June 10, 2011, in order to better align its business portfolio with its strategy, the Company sold certain components of the business, which were historically included in the Company's Commercial segment, primarily focused on providing information technology (IT) services to international oil and gas companies. As described above under Pension Accounting Change, the Company has classified the operating results of these business components, including pension expense through the date of sale, as discontinued operations for all periods presented.

The pre-sale operating results of the business sold for the periods presented were as follows:

	Six Months Ended	
	July 31	
	2011	2010
	(in millions)	
Revenues	\$ 69	\$ 103
Costs and expenses:		
Cost of revenues	54	84
Selling, general and administrative expenses	8	17
Operating income	\$ 7	\$ 2

During the three and six months ended July 31, 2011, the Company received proceeds of \$169 million resulting in a preliminary gain on sale before income taxes of \$109 million related to this sale, subject to contractual adjustments. During the three and six months ended July 31, 2010, the Company recorded a pre-tax gain of \$52 million related to the settlement of an arbitration proceeding brought against Telkom South Africa by the Company's former subsidiary, Telcordia Technologies, Inc. Income from discontinued operations also includes other activity that is immaterial and not reflected above.

Supplementary Cash Flow Information

Supplementary cash flow information, including non-cash investing and financing activities, for the periods presented was as follows:

	Six Months Ended	
	July 31	
	2011	2010
	(in millions)	
Stock exchanged upon exercise of stock options	\$ 14	\$ 30
Vested stock issued as settlement of annual bonus accruals	\$ 3	\$ 4
Increase (decrease) in accrued stock repurchases	\$ 13	\$ (24)
Fair value of assets acquired in acquisitions	\$ 29	\$ 167
Less: cash paid in acquisitions, net of cash acquired of \$1 million in fiscal 2011	(26)	(140)
Liabilities assumed in acquisitions	\$ 3	\$ 27
Cash paid for interest	\$ 52	\$ 35

Cash paid for income taxes

\$ 121 \$ 157

Accounting Standards Updates Adopted

In the descriptions of accounting standards updates that follow, references to descriptive titles in *italics* relate to the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topics and Subtopics, and their descriptive titles, as appropriate.

In October 2009, the FASB issued an update to *Revenue Recognition Multiple-Deliverable Revenue Arrangements*. This update removed the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaced references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provided a hierarchy that entities must use to estimate the selling price, eliminated the use of the residual method for allocation, and expanded the ongoing disclosure requirements. This update was effective for the Company beginning February 1, 2011 and was applied prospectively. The adoption of this accounting standard update did not have a material impact on the Company's consolidated financial position and results of operations.

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In October 2009, the FASB issued an update to *Software Multiple-Deliverable Revenue Arrangements*. This update amended the existing accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are excluded from the scope of software revenue guidance. In addition, this update provided guidance on how a vendor should allocate consideration to deliverables in an arrangement that includes both tangible products and software and enhanced the disclosure requirements related to these arrangements. This update was effective for arrangements entered into or materially modified by the Company after January 31, 2011 and was applied prospectively. The adoption of this accounting standard update did not have a material impact on the Company's consolidated financial position and results of operations.

Accounting Standards Updates Issued But Not Yet Adopted

Other accounting standards and updates issued but not effective for the Company until after July 31, 2011, are not expected to have a material effect on the Company's consolidated financial position or results of operations.

Note 2 Earnings Per Share (EPS):

In calculating EPS using the two-class method, the Company is required to allocate a portion of its earnings to its unvested stock awards containing nonforfeitable rights to dividends or dividend equivalents (participating securities). Basic EPS is computed by dividing income less earnings allocable to participating securities by the basic weighted average number of shares outstanding. Diluted EPS is computed similar to basic EPS, except the weighted average number of shares outstanding is increased to include the dilutive effect of outstanding stock options and other stock-based awards.

A reconciliation of the income used to compute basic and diluted EPS for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	July 31	2010	July 31	2010
	2011	as adjusted	2011	as adjusted
	(in millions)			
Basic EPS:				
Income from continuing operations, as reported	\$ 112	\$ 157	\$ 242	\$ 281
Less: allocation of undistributed earnings to participating securities	(4)	(5)	(9)	(10)
Income from continuing operations, for computing basic EPS	\$ 108	\$ 152	\$ 233	\$ 271
Net income, as reported	\$ 178	\$ 190	\$ 309	\$ 315
Less: allocation of undistributed earnings to participating securities	(7)	(7)	(11)	(11)
Net income, for computing basic EPS	\$ 171	\$ 183	\$ 298	\$ 304
Diluted EPS:				
Income from continuing operations, as reported	\$ 112	\$ 157	\$ 242	\$ 281
Less: allocation of undistributed earnings to participating securities	(4)	(5)	(9)	(10)
Income from continuing operations, for computing diluted EPS	\$ 108	\$ 152	\$ 233	\$ 271
Net income, as reported	\$ 178	\$ 190	\$ 309	\$ 315
Less: allocation of undistributed earnings to participating securities	(7)	(7)	(11)	(11)
Net income, for computing diluted EPS	\$ 171	\$ 183	\$ 298	\$ 304

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A reconciliation of the weighted average number of shares outstanding used to compute basic and diluted EPS for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2011	2010	2011	2010
		(in millions)		
Basic weighted average number of shares outstanding	338	363	342	369
Dilutive common share equivalents stock options and other stock awards	1	2	1	2
Diluted weighted average number of shares outstanding	339	365	343	371

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Basic and diluted EPS for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2011	2010	2011	2010
	as adjusted		as adjusted	
Basic:				
Income from continuing operations	\$.32	\$.42	\$.68	\$.73
Income from discontinued operations	.19	.08	.19	.09
	\$.51	\$.50	\$.87	\$.82
Diluted:				
Income from continuing operations	\$.32	\$.42	\$.68	\$.73
Income from discontinued operations	.18	.08	.19	.09
	\$.50	\$.50	\$.87	\$.82

The following stock-based awards were excluded from the weighted average number of shares outstanding used to compute basic and diluted EPS for the periods presented:

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2011	2010	2011	2010
	(in millions)			
Antidilutive stock options excluded	22	20	22	20
Performance-based stock awards excluded	1	1	1	1

Note 3 Stock-Based Compensation:

Total Stock-Based Compensation. Total stock-based compensation expense for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2011	2010	2011	2010
	(in millions)			
Stock options	\$ 5	\$ 5	\$ 10	\$ 11
Vesting stock awards	17	20	35	36
Performance-based stock awards	(3)	2	(2)	3
Total stock-based compensation expense	\$ 19	\$ 27	\$ 43	\$ 50

Stock Options. Stock options granted during the six months ended July 31, 2011 and 2010 have terms of seven years and five years, respectively, and a vesting period of four years, except for stock options granted to the Company's outside directors, which have a vesting period of one year.

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The fair value of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average grant-date fair value and assumptions used to determine the fair value of stock options granted for the periods presented were as follows:

	Six Months Ended	
	July 31	
	2011	2010
Weighted average grant-date fair value	\$ 4.21	\$ 3.96
Expected term (in years)	4.9	3.8
Expected volatility	23.4%	25.1%
Risk-free interest rate	2.2%	2.1%
Dividend yield	0%	0%

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Stock option activity for the six months ended July 31, 2011 was as follows:

	Shares of stock under stock options (in millions)	Weighted average exercise price \$	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in millions) \$
Outstanding at January 31, 2011	25.0	17.31	2.1	11
Options granted	3.9	16.92		
Options forfeited or expired	(2.0)	15.94		
Options exercised	(4.4)	14.69		8
Outstanding at July 31, 2011	22.5	17.88	2.6	
Exercisable at July 31, 2011	10.3	18.09	1.6	

Vesting Stock Awards. Vesting stock award activity for the six months ended July 31, 2011 was as follows:

	Shares of stock under stock awards (in millions)	Weighted average grant- date fair value \$
Unvested stock awards at January 31, 2011	11.7	18.03
Awards granted	5.6	16.91
Awards forfeited	(0.7)	17.81
Awards vested	(3.6)	17.93
Unvested stock awards at July 31, 2011	13.0	17.58

The fair value of vesting stock awards that vested during the six months ended July 31, 2011 and 2010 was \$61 million and \$53 million, respectively.

Performance-Based Stock Awards. Performance-based stock award activity for the six months ended July 31, 2011 was as follows:

	Expected number of shares of stock to be issued under performance- based stock awards (in millions)	Weighted average grant- date fair value \$
Outstanding at January 31, 2011	1.0	17.89
Awards granted	0.5	16.92

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Adjustments to expected number of shares of stock to be issued	(0.3)	18.33
Outstanding at July 31, 2011	1.2	17.32

Adjustments to the expected number of shares of stock to be issued are due to changes in the expected level of achievement of the performance goals over the life of the awards. As of July 31, 2011, there have been no vesting events for performance-based stock awards.

Note 4 Acquisitions:

Patrick Energy Services, Inc. On May 13, 2011, the Company acquired all of the outstanding equity interests of Patrick Energy Services, Inc., a provider of performance-based transmission and distribution power system solutions, for a preliminary purchase price of \$25 million paid in cash, subject to contractual adjustments. This acquisition enhances the Company's energy and smart grid services portfolio by adding additional transmission and distribution engineering services to its existing capabilities. The preliminary purchase price allocation resulted in goodwill of \$14 million (all of which is tax deductible) and identifiable finite-lived intangible assets of \$7 million (amortizable over a weighted average life of seven years). The Company has not yet obtained all of the information required to complete the purchase price allocation related to this acquisition. The final purchase price allocation will be completed after the information identified by the Company has been received.

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Vitalize Consulting Solutions, Inc. Subsequent to July 31, 2011, the Company acquired all of the outstanding equity interests of Vitalize Consulting Solutions, Inc., a provider of clinical, business and information technology services for healthcare enterprises for a preliminary purchase price of \$190 million paid in cash, subject to contractual adjustments. This acquisition expands the Company's capabilities in both federal and commercial markets to help customers better address electronic health record implementation and optimization demand.

These acquisitions, which individually and in the aggregate were not material business combinations, were both in the Health, Energy and Civil Solutions segment.

Note 5 Goodwill and Intangible Assets:

Effective February 1, 2011, the Company redefined its Government and Commercial reportable segments into the following: Defense Solutions (DS); Health, Energy and Civil Solutions (HECS); and Intelligence and Cybersecurity Solutions (ICS) (see Note 8). The carrying value of goodwill by segment at January 31, 2011 has been recast to give effect to the change in reportable segments and for discontinued operations (\$14 million).

The changes in the carrying value of goodwill by segment for the six months ended July 31, 2011 were as follows:

	DS	HECS	ICS	Total
	(in millions)			
Goodwill at January 31, 2011	\$ 405	\$ 634	\$ 625	\$ 1,664
Acquisitions		14		14
Adjustments		1	(5)	(4)
Goodwill at July 31, 2011	\$ 405	\$ 649	\$ 620	\$ 1,674

Goodwill adjustments for the six months ended July 31, 2011 resulted from the finalization of purchase price allocations related to prior year acquisitions.

Intangible assets, including those arising from preliminary estimates of assets acquired relating to acquisitions, for the periods presented consisted of the following:

	July 31, 2011			January 31, 2011		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
	(in millions)					
Finite-lived intangible assets:						
Customer relationships	\$ 127	\$ 76	\$ 51	\$ 121	\$ 65	\$ 56
Software and technology	169	48	121	157	37	120
Other	2	1	1	2	1	1
Total finite-lived intangible assets	298	125	173	280	103	177
Indefinite-lived intangible assets:						
In-process research and development	19		19	30		30
Trade names	4		4	4		4
Total indefinite-lived intangible assets	23		23	34		34

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Total intangible assets \$ 321 \$ 125 \$ 196 \$ 314 \$ 103 \$ 211
Amortization expense related to finite-lived intangible assets was \$11 million and \$22 million for the three and six months ended July 31, 2011, respectively, and \$8 million and \$17 million for the three and six months ended July 31, 2010, respectively.

There were no goodwill or intangible asset impairment losses during the three and six months ended July 31, 2011 and 2010.

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The estimated annual amortization expense related to finite-lived intangible assets as of July 31, 2011 was as follows:

Fiscal Year Ending January 31	(in millions)
2012 (remainder of the fiscal year)	\$ 20
2013	36
2014	32
2015	23
2016	19
2017	14
2018 and thereafter	29
	\$ 173

Actual amortization expense in future periods could differ from these estimates as a result of future acquisitions, divestitures, impairments, the outcome and timing of completion of in-process research and development projects (the assets of which will become amortizable upon completion and placement into service, or will be impaired if abandoned), adjustments to preliminary valuations of intangible assets and other factors.

Note 6 Financial Instruments:

The Company's cash equivalents were primarily comprised of investments in several large institutional money market funds that invest primarily in bills, notes and bonds issued by the U.S. Treasury, U.S. Government guaranteed repurchase agreements fully collateralized by U.S. Treasury obligations, U.S. Government guaranteed securities and investment-grade corporate securities that have original maturities of three months or less. There are no restrictions on the withdrawal of the Company's cash and cash equivalents. The Company's cash equivalents are recorded at historical cost which equals fair value based on quoted market prices (Level 1 input as defined by the accounting standard for fair value measurements).

The Company utilizes foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers, payments to suppliers and certain intercompany transactions denominated in currencies other than the Company's (or one of its subsidiaries') functional currency. As of July 31, 2011, outstanding foreign currency forward contracts had an immaterial aggregate notional amount and an immaterial fair value, which is estimated using an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount (Level 2 input). Since the foreign currency forward contracts do not qualify as cash flow hedges in accordance with the accounting standard for derivative and hedging instruments, gains and losses are recognized in earnings immediately. During the three and six months ended July 31, 2011 and 2010, the Company recognized net gains from foreign currency forward contracts (included in other income (expense), net) of less than \$1 million. The Company does not use derivatives for trading or speculative purposes.

During the first quarter of fiscal 2012, the Company amended and restated its revolving credit facility. The amended and restated revolving credit facility provides for \$750 million in unsecured borrowing capacity at interest rates determined, at the Company's option, based on either LIBOR plus a margin or a defined base rate through fiscal 2016. As of July 31, 2011 and January 31, 2011, there were no borrowings outstanding under the revolving credit facility.

The revolving credit facility contains certain customary representations and warranties, as well as certain affirmative and negative covenants. The financial covenants contained in the revolving credit facility require that, for a period of four trailing fiscal quarters, the Company maintains a ratio of consolidated funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA) adjusted for other items as defined in the credit facility of not more than 3.0 to 1.0 and a ratio of EBITDA adjusted for other items as defined in the credit facility to interest expense of greater than 3.5 to 1.0. The Company was in compliance with these financial covenants as of July 31, 2011.

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Other covenants restrict certain of the Company's activities, including among other things, its ability to create liens, dispose of certain assets and merge or consolidate with other entities. The revolving credit facility also contains certain customary events of default, including, among others, defaults based on certain bankruptcy and insolvency events, nonpayment, cross-defaults to other debt, breach of specified covenants, Employee Retirement Income Security Act (ERISA) events, material monetary judgments, change of control events and the material inaccuracy of the Company's representations and warranties.

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company's notes payable and long-term debt consisted of the following:

	Stated interest rate	Effective interest rate	July 31, 2011	January 31, 2011
			(\$ in millions)	
Senior unsecured notes:				
\$550 million notes issued in fiscal 2003, which mature in July 2012	6.25%	6.50%	\$ 550	\$ 550
\$450 million notes issued in fiscal 2011, which mature in December 2020	4.45%	4.59%	448	448
\$250 million notes issued in fiscal 2003, which mature in July 2032	7.13%	7.43%	248	248
\$300 million notes issued in fiscal 2004, which mature in July 2033	5.50%	5.78%	296	296
\$300 million notes issued in fiscal 2011, which mature in December 2040	5.95%	6.03%	300	300
Capital leases and other notes payable due on various dates through fiscal 2017	0-3.1%	Various	10	10
Total			1,852	1,852
Less: current portion			553	3
Notes payable and long-term debt, net of current portion			\$ 1,299	\$ 1,849
Fair value of notes payable and long-term debt			\$ 2,010	\$ 1,930

The fair value of long-term debt is determined based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements (Level 2 input as defined by the accounting standard for fair value measurements).

The senior unsecured notes contain customary restrictive covenants, including, among other things, restrictions on the Company's ability to create liens and enter into sale and leaseback transactions. The Company was in compliance with all covenants as of July 31, 2011.

Note 7 Comprehensive Income and Accumulated Other Comprehensive Loss:

The components of comprehensive income for the periods presented were as follows:

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2011	2010	2011	2010
			(in millions)	
Net income	\$ 178	\$ 190	\$ 309	\$ 315
Other comprehensive income (loss):				
Foreign currency translation adjustments	6	1	7	