

SAIC, Inc.  
Form 10-Q  
December 09, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended October 31, 2009

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

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**SAIC, Inc.**

(Exact name of registrant as specified in its charter)

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**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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10260 Campus Point Drive, San Diego, California 92121

(Former name, former address and

former fiscal year, if changed since last report)

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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 November 27, 2009, the registrant had 395,913,231 shares of common stock, \$.0001 par value per share, issued and outstanding.

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## SAIC, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	October 31		October 31	
	2009	2008	2009	2008
	(in millions, except per share amounts)			
Revenues	\$ 2,765	\$ 2,631	\$ 8,163	\$ 7,552
Costs and expenses:				
Cost of revenues	2,378	2,277	7,042	6,529
Selling, general and administrative expenses	154	149	463	455
Operating income	233	205	658	568
Non-operating income (expense):				
Interest income	1	4	2	18
Interest expense	(19)	(19)	(57)	(59)
Other income (expense), net	2	(16)	5	(5)
Income from continuing operations before income taxes	217	174	608	522
Provision for income taxes	(82)	(56)	(231)	(194)
Income from continuing operations	135	118	377	328
Discontinued operations (Note 1):				
Loss from discontinued operations before income taxes	(1)	(12)	(5)	(20)
Benefit for income taxes	1	14	2	24
Income (loss) from discontinued operations		2	(3)	4
Net income	\$ 135	\$ 120	\$ 374	\$ 332
Earnings per share (Note 2):				
Basic:				
Income from continuing operations	\$ .34	\$ .29	\$ .94	\$ .80
Income from discontinued operations		.01		.01
	\$ .34	\$ .30	\$ .94	\$ .81
Diluted:				
Income from continuing operations	\$ .34	\$ .29	\$ .93	\$ .79
Income from discontinued operations				.01
	\$ .34	\$ .29	\$ .93	\$ .80

See accompanying notes to condensed consolidated financial statements.

## SAIC, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	October 31, 2009	January 31, 2009
	(in millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 991	\$ 936
Receivables, net	2,156	1,889
Inventory, prepaid expenses and other current assets	281	385
Assets of discontinued operations		7
Total current assets	3,428	3,217
Property, plant and equipment (less accumulated depreciation and amortization of \$370 million and \$329 million at October 31, 2009 and January 31, 2009, respectively)	392	357
Intangible assets, net	92	88
Goodwill	1,353	1,249
Deferred income taxes	73	86
Other assets	70	51
	<b>\$ 5,408</b>	<b>\$ 5,048</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,212	\$ 1,178
Accrued payroll and employee benefits	631	487
Notes payable and long-term debt, current portion	3	17
Liabilities of discontinued operations		1
Total current liabilities	1,846	1,683
Notes payable and long-term debt, net of current portion	1,103	1,099
Other long-term liabilities	180	182
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 1.5 billion shares authorized, 181 million and 196 million shares issued and outstanding at October 31, 2009 and January 31, 2009, respectively		
Common stock, \$.0001 par value, 2 billion shares authorized, 215 million and 210 million shares issued and outstanding at October 31, 2009 and January 31, 2009, respectively		
Additional paid-in capital	2,061	1,950
Retained earnings	260	183
Accumulated other comprehensive loss	(42)	(49)
Total stockholders' equity	2,279	2,084
	<b>\$ 5,408</b>	<b>\$ 5,048</b>

See accompanying notes to condensed consolidated financial statements.

## SAIC, INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

## AND COMPREHENSIVE INCOME

(UNAUDITED)

	Shares		Additional paid-in capital	Retained earnings (in millions)	Accumulated comprehensive loss	Total	Comprehensive income
	Common stock	Preferred stock					
Balance at January 31, 2009	210	196	\$ 1,950	\$ 183	\$ (49)	\$ 2,084	
Net income				374		374	\$ 374
Other comprehensive income, net of tax					7	7	7
Issuances of stock		13	130			130	
Repurchases of stock	(17)	(6)	(115)	(297)		(412)	
Conversion of preferred stock to common stock	22	(22)					
Excess tax benefits from stock-based compensation			16			16	
Stock-based compensation			80			80	
Balance at October 31, 2009	<b>215</b>	<b>181</b>	<b>\$ 2,061</b>	<b>\$ 260</b>	<b>\$ (42)</b>	<b>\$ 2,279</b>	<b>\$ 381</b>

See accompanying notes to condensed consolidated financial statements.

## SAIC, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended	
	October 31	
	2009	2008
	(in millions)	
Cash flows from operations:		
Net income	\$ 374	\$ 332
Loss (income) from discontinued operations	3	(4)
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	68	65
Stock-based compensation	80	69
Excess tax benefits from stock-based compensation	(16)	(52)
Impairment losses	1	16
Other items	(2)	(6)
Increase (decrease) in cash and cash equivalents, excluding effects of acquisitions and divestitures, resulting from changes in:		
Receivables	(212)	(112)
Inventory, prepaid expenses and other current assets	63	(59)
Deferred income taxes	2	
Other assets	4	(7)
Accounts payable and accrued liabilities	7	100
Accrued payroll and employee benefits	136	46
Income taxes payable	12	35
Other long-term liabilities	2	7
Total cash flows provided by operations	522	430
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(46)	(45)
Acquisitions of businesses, net of cash acquired of \$7 million in 2009 and \$5 million in 2008	(157)	(201)
Net receipts (payments) for purchase price adjustments related to prior year acquisitions	8	(4)
Other	8	15
Total cash flows used in investing activities	(187)	(235)
Cash flows from financing activities:		
Payments on notes payable and long-term debt	(17)	(112)
Sales of stock and exercises of stock options	46	64
Repurchases of stock	(331)	(429)
Excess tax benefits from stock-based compensation	16	52
Other		(1)
Total cash flows used in financing activities	(286)	(426)
Increase (decrease) in cash and cash equivalents from continuing operations	49	(231)
Cash flows from discontinued operations:		
Cash used in operating activities of discontinued operations	(1)	(33)
Cash used in investing activities of discontinued operations		(8)
Decrease in cash and cash equivalents from discontinued operations	(1)	(41)
Effect of foreign currency exchange rate changes on cash and cash equivalents	7	(12)
Total increase (decrease) in cash and cash equivalents	55	(284)
Cash and cash equivalents at beginning of period	936	1,096
Cash and cash equivalents at end of period	\$ 991	\$ 812

See accompanying notes to condensed consolidated financial statements.



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SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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**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 to all branches of the U.S. military, agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security 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), including Science Applications International Corporation. All intercompany transactions and accounts have been eliminated in consolidation. The Company recognized revenues of \$8 million and \$19 million on sales to unconsolidated affiliates during the three and nine months ended October 31, 2009, respectively. The Company recognized revenues of \$7 million and \$16 million on sales to unconsolidated affiliates during the three and nine months ended October 31, 2008, respectively.

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, 2009. 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 October 31, 2009 and for the three and nine months ended October 31, 2009 and 2008 reflects all adjustments, which consist of normal recurring adjustments, necessary for a fair presentation thereof. Operating results for the three and nine months ended October 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2010, 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, 2010 is referred to as "fiscal 2010" in these notes to condensed consolidated financial statements.

*Stock Reclassification*

As of October 31, 2009, the Company had shares of common stock and Class A preferred stock issued and outstanding. Shares of common stock contained the same economic rights as shares of Class A preferred stock; however, holders of Class A preferred stock were entitled to 10 votes per share while holders of common stock were entitled to one vote per share. Subsequent to October 31, 2009, the Company completed a reclassification in which each share of Class A preferred stock was automatically converted into one share of common stock. The proposal to automatically convert each share of Class A preferred stock into one share of common stock was previously approved by the Company's stockholders at the Company's annual meeting of stockholders in June 2009. This conversion did not impact the Company's consolidated financial position or results of operations, other than increasing the number of common shares outstanding and reducing the number of preferred shares outstanding to zero.

*Discontinued Operations*

In October 2008, management committed to a plan to sell or dispose of a non-strategic component of a business within the Government segment and classified its operating results as a discontinued operation for all periods presented. The Company completed the sale in March 2009.





## SAIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The operating results of this discontinued operation prior to sale for the periods noted were as follows:

	Nine Months Ended October 31	
	2009	2008
	(in millions)	
Revenues	\$ 1	\$ 6
Costs and expenses:		
Cost of revenues	1	5
Impairment of goodwill, intangible assets and other assets		9
Selling, general and administrative expenses		5
Loss before income taxes	\$	\$ (13)

In addition to the operating results presented above, the Company's results of discontinued operations included pre-tax losses of \$1 million and \$5 million for the three and nine months ended October 31, 2009, respectively, and pre-tax losses of \$3 million and \$7 million for the three and nine months ended October 31, 2008, respectively, for certain tax and litigation matters related primarily to Telcordia Technologies, Inc. (Note 10).

*Supplementary Cash Flow Information*

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

	Nine Months Ended October 31	
	2009	2008
	(in millions)	
Stock exchanged upon exercise of stock options	\$ 81	\$ 128
Stock issued for settlement of accrued employee benefits	\$ 3	\$ 3
Decrease in accrued stock repurchases	\$	\$ (6)
Fair value of assets acquired in acquisitions	\$ 198	\$ 223
Cash paid in acquisitions, net of cash acquired of \$7 million in 2009 and \$5 million in 2008	(157)	(201)
Accrued acquisition payments, net		(9)
Liabilities assumed in acquisitions	\$ 41	\$ 13
Cash paid for interest	\$ 35	\$ 43
Cash paid for income taxes	\$ 185	\$ 206

*Accounting Standards Updates Adopted*

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP, except for rules and interpretive releases of the SEC. This statement was adopted and was effective for the Company's condensed consolidated financial statements for the three and nine months ended October 31, 2009. This statement does not change GAAP and it will not impact the Company's consolidated financial position and results of operations. In the descriptions of Accounting Standards Updates that follow, references to descriptive titles in *italics* relate to the FASB Accounting Standards Codification Topics and Subtopics, and their descriptive titles, as appropriate.



## SAIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

On February 1, 2009, the Company adopted an accounting standard regarding earnings per share (EPS). In accordance with this accounting standard, the Company is required to designate its unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents as participating securities, which requires an allocation of earnings to the participating securities in calculating EPS using the two-class method. The accounting standard is required to be applied retrospectively to adjust previously reported basic and diluted EPS for all prior periods presented. The adoption of this accounting standard reduced previously reported EPS for the periods noted as follows:

	Three Months Ended	
	October 31, 2008	Nine Months Ended October 31, 2008
	(in millions)	
Basic EPS continuing operations	\$ (.01)	\$ (.03)
Basic EPS	\$ (.01)	\$ (.03)
Diluted EPS continuing operations	\$	\$ (.02)
Diluted EPS	\$ (.01)	\$ (.02)

During the nine months ended October 31, 2009, the Company also adopted accounting standards issued by the FASB related to the following topics, none of which had a material effect on the Company's consolidated financial position and results of operations:

revised accounting rules related to business combinations;

accounting and disclosure for non-controlling interests in consolidated subsidiaries;

disclosures related to derivative financial instruments;

interim disclosures about fair value of financial instruments;

determining fair value when the volume and level of activity for an asset or liability have significantly decreased and identifying transactions that are not orderly; and

accounting and disclosures for subsequent events.

*Accounting Standards Updates Issued But Not Yet Adopted*

In December 2008, the FASB issued an accounting standard which updates existing accounting standards to require additional disclosure in the sponsor's financial statements about pension plan assets, obligations, benefit payments, contributions and net benefit cost and other postretirement benefits. The disclosure requirements of this accounting standard are effective for the Company's annual financial statements for the fiscal year ending January 31, 2010. Since this statement only pertains to disclosures in the notes to consolidated financial statements, it will not impact the Company's consolidated financial position and results of operations.

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In October 2009, the FASB issued an update to *Revenue Recognition Multiple-Deliverable Revenue Arrangements*. This update removes 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, replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. This update is effective for the Company beginning February 1, 2011 and can be applied prospectively or retrospectively. The Company is currently evaluating the effect that adoption of this update will have, if any, on the Company's consolidated financial position and results of operations when it is adopted.

In October 2009, the FASB issued an update to *Software Multiple-Deliverable Revenue Arrangements*. This update amends 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 provides guidance on how a vendor should allocate consideration to deliverables in an arrangement that includes both tangible products and software and enhances the disclosure requirements related to these arrangements. This update is effective for arrangements entered into or materially modified by the Company after January 31, 2011. The Company is currently evaluating the effect that adoption of this update will have, if any, on the Company's consolidated financial position and results of operations when it is adopted.

Other new accounting standards and updates issued but not effective until after October 31, 2009, are not expected to have a significant effect on the Company's consolidated financial position or results of operations.

## SAIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

*Subsequent Events*

The Company has evaluated subsequent events that have occurred through December 8, 2009, which is the date of issuance of these financial statements, and has accounted for and disclosed material subsequent events in these condensed consolidated financial statements as appropriate.

**Note 2 Earnings per Share:**

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. Basic EPS is computed by dividing income less earnings allocable to unvested stock awards 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 awards.

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2009	2008	2009	2008
	(in millions)			
Basic EPS:				
Income from continuing operations, as reported	\$ 135	\$ 118	\$ 377	\$ 328
Less: allocation of undistributed earnings to unvested stock awards	(4)	(4)	(12)	(10)
Income from continuing operations, for computing basic EPS	\$ 131	\$ 114	\$ 365	\$ 318
Net income, as reported	\$ 135	\$ 120	\$ 374	\$ 332
Less: allocation of undistributed earnings to unvested stock awards	(4)	(4)	(12)	(10)
Net income, for computing basic EPS	\$ 131	\$ 116	\$ 362	\$ 322
Diluted EPS:				
Income from continuing operations, as reported	\$ 135	\$ 118	\$ 377	\$ 328
Less: allocation of undistributed earnings to unvested stock awards	(4)	(4)	(12)	(9)
Income from continuing operations, for computing diluted EPS	\$ 131	\$ 114	\$ 365	\$ 319
Net income, as reported	\$ 135	\$ 120	\$ 374	\$ 332
Less: allocation of undistributed earnings to unvested stock awards	(4)	(4)	(12)	(10)
Net income, for computing diluted EPS	\$ 131	\$ 116	\$ 362	\$ 322

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2009	2008	2009	2008
	(in millions)			
Basic weighted average number of shares outstanding	384	392	387	396
Dilutive common share equivalents stock options	4	6	4	7
Diluted weighted average number of shares outstanding	388	398	391	403



SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2009	2008	2009	2008
Basic:				
Income from continuing operations	\$ .34	\$ .29	\$ .94	\$ .80
Income from discontinued operations		.01		.01
	\$ .34	\$ .30	\$ .94	\$ .81
Diluted:				
Income from continuing operations	\$ .34	\$ .29	\$ .93	\$ .79
Income from discontinued operations				.01
	\$ .34	\$ .29	\$ .93	\$ .80

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2009	2008	2009	2008
Antidilutive stock options excluded	(in millions)			
	11			