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PRESENTATION

Operator

Good day, ladies and gentlemen. My name is Melanie and I will be your conference facilitator today. Welcome to SAIC's fourth quarter fiscal year 2011 earnings conference call. At this time all participants are in a listen only mode. (Operator instructions). I would now like to turn the presentation over to your host for today's call, Paul Levi, Senior Vice President of Investor Relations. Please proceed.

Paul Levi - *SAIC, Inc. - SVP, IR*

Thank you, Melanie, and welcome, everyone. Here on today's call we have Walt Havenstein, our CEO; Mark Sopp, our CFO; and other members of our leadership team.

During this call we will make forward-looking statements to assist you in understanding the Company and our expectations about its future financial and operating performance. These statements are subject to a number of risks that could cause actual events to differ materially, and I refer you to our SEC filings for a discussion of these risks.

In addition, the statements represent our views as of today. We anticipate that subsequent events and developments will cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically discount any obligation to do so.

I would now like to turn the call over to Walt Havenstein, our CEO.

Walt Havenstein - *SAIC, Inc. - CEO*

Thank you, Paul, and good afternoon, everyone. You can see from our press release that we turned in a solid performance in the fourth quarter of fiscal 2011. For the full year, we delivered strong earnings per share growth and operating cash flows while we continue to see delays in converting awards to revenue. Despite market head winds, we are continuing to grow our pipeline of opportunities, grow the value of significant proposals and grow backlog, each increasing at double-digit rates during this fiscal year.

On the call today, I will cover market conditions, highlight recent business development results, talk briefly about acquisitions and share a couple of special recognitions (technical difficulty). Next, Mark will provide the financial details, and I will close with a long-term view of our business strategy.

Regarding the government solutions and services market, operating under a continuing resolution and budget uncertainty has been challenging and has impacted us. [CR] contributed to the unpredictable nature of converting our recent bookings into revenue. The appropriations spending bill, though, will be resolved by the end of the year, resulting in a more stable and normal operating environment. Therefore, I am actually more optimistic than I was 12 months ago that there will be improved market predictability for the future.

My view is that we are headed for a new normal in operating (inaudible). I believe that, while the overall market will contract, those portions of the market around our strategic growth areas -- ISR, cyber security, logistics readiness and sustainment, energy and health IP, are enduring and will continue to grow.

Regarding our business development results, bookings totaled $3.8 billion in the fourth quarter and produced a net book-to-bill ratio of 1.4. This ratio reflects higher new awards, especially our exceptional win on the State Department's Vanguard 2 contract, which added $2.3 billion to our bookings. We ended the year with $12.8 billion in bookings, a book-to-bill ratio of 1.2 and $17.3 billion in total backlog, of which $5.5 billion was funded. Solid bookings all year supported a total backlog increase of 11% as compared to last year. Our book-to-bill ratio and backlog growth numbers reflect SAIC's success in anticipating and reacting to the market environment.

In addition to growing bookings and backlog, we also maintained high win rates and continue to grow our submittals for future awards. In FY 2011, we achieved a 67% total dollar win rate on business opportunities pursued and awarded. This win rate is higher than a year ago despite a more aggressive pace of bids submitted and increasing competition. Year-to-date submittals for defined delivery contracts which are non-IDIQ were off $5 billion or 21% compared with last year. We had more than $19 billion of submitted proposals awaiting decision at the end of the fourth quarter, which is $3 billion or about 20% higher than last year and provides a strong basis for continued growth in bookings in fiscal year 2012.

We have also been successful in building our pipeline of qualified business opportunities. On a year-over-year basis, our pipeline is up over 20%. Our focus on winning larger opportunities continues to yield good results. We won 26 opportunities valued at more than $100 million each in fiscal year 2011. The combined value of our $100 million plus wins in FY 2011 was $2.3 billion higher than it was in FY 2010.

So far in FY 2012 we are off to a good start, winning nine $100 million plus opportunities in just the first two months of our new fiscal year.

Let me highlight a key award, the Vanguard 2 program -- this is a 10-year contract including all options with the US Department of State to engineer, design, secure, operate and maintain its critical enterprise-wide IT network infrastructure in support of the Bureau of Information Resource Management. The contract has a total value of $2.5 billion if all options are exercised. The IRM Bureau provides IT infrastructure, systems and services in support of the department's foreign policy missions. Under the task order, SAIC will serve as the lead integrator and business partner for all Vanguard 2 program components and will assist in streamlining services, realizing economies of scale and providing improved service delivery.

The key areas in which SAIC will provide support include program management, operations of servers, network devices, antivirus engineering, biometric authentication, encryption, monitoring tools, telephony, mobile computing platform, virtual environment and enclave security design.

Moving onto acquisitions and divestitures, during the fourth quarter we purchased intellectual property assets from Aptech Partners and its affiliates. We continue an active and disciplined M&A program to identify strategic properties. On the divestiture side we are conducting a process to sell portions of our commercial business focused on specialized IT services to oil and gas companies. We grow our oil and gas services business -- to grow our oil and gas services business would have required substantial investment and management time and an attention in areas outside our strategic growth areas with significant focus on increasing our offshore capabilities.

Although a sale is not certain at this point, we believe that when completed the employees and customers associated with these operations will have an owner that has a strategic focus in multinational commercial IT services and substantial offshore capabilities. Although the operations we intend to sell involve services to oil and gas companies, we remain committed to several energy and critical infrastructure verticals. We will retain elements of our commercial IT business focused on domestic utilities and have integrated those operations into our environment, energy and infrastructure unit. Selling the oil- and gas-related operations will enable SAIC to better focus on our strategic market segments in the energy sector, such as smart grid, renewable energy implementation and energy efficiency, where we have successfully built our business both through organic growth and via acquisitions.

Each of these market segments represents opportunities for SAIC to invest, to generate profitable growth and to offer innovative solutions where energy, environment and infrastructure intersect.

Before I turn the discussion over to Mark, I want to close by sharing two special recognitions that SAIC has received. SAIC again has been included in Fortune's list of America's largest companies in the information technology service industries. The list identified companies with the strongest reputations based on feedback from executives, directors and financial analysts. We also once again received the US Department of Defense Nunn-Perry Award for mentor protege excellence. Named in honor of former Senator Sam Nunn and former Secretary of Defense William Perry, the award recognizes outstanding efforts to form mentor protege teams, enhancing the ability of mentored organizations to increase their participation in government contracts and service engines for economic growth.

Mark will now cover financial details for fiscal 2011 and our financial outlook for fiscal 2012, and then I will conclude with our forward-looking strategy.

Mark Sopp - *SAIC, Inc. - CFO, EVP*

Thanks, Walt. I am first going to summarize our full-year fiscal 2011 performance, then I will hit some of the financial highlights of Q4, then I will finish up with guidance for fiscal 2012, which began on February 1.

Expanding on some of the areas Walt mentioned, while revenue growth was indeed below our initial expectations for fiscal 2011, we finished the year with strong performance on the key metrics of operating margin, earnings per share growth, operating and free cash flow and new business awards. These results demonstrate the strength and agility of our Company in a challenging market environment.

Our revenues for fiscal 2011 grew 2% in total to $11.1 billion with internal growth below 1%. Operating margin finished at 8.6% for the year, up 60 basis points over fiscal 2010. Diluted earnings per share from continuing operations grew 22% to $1.51, reflecting a combination of revenue growth, margin improvement, a lower effective tax rate and EPS lift from a significant amount of share repurchases made during the year. Finally, operating cash flow held strong all year, finishing at $737 million, up 19% over fiscal 2010. This translated into excellent free cash flows as well, exceeding $660 million for the year. Days sales outstanding was reduced by a day versus last year, finishing at 68 days.

Back to revenues -- while we reversed trend by posting some growth in the second half, we continued to see the adverse effects from the lengthening of the government procurement cycle and other market conditions. However, we did have the discipline to invest more in business development in these market conditions, demonstrated by the significant increase in the value of bids submitted this year over last year. This generated fruit during the year, as demonstrated by our 1.2 book to bill and will be beneficial for longer-term growth prospects as well. Indicatively, total contract backlog during fiscal 2011 grew by over 11% to about $17 billion while, importantly, as Walt said earlier, the new business pipeline grew by about 20%.

Our operating margin improvement of 60 basis points for the year was positively impacted by the royalty payment we received in the second quarter, but it also reflected a number of other favorable factors, including consistently strong contract performance, high award fees, good returns on fixed-price contracts and a lack of troubled programs and unprofitable contracts. As part of this, we effectively controlled and allocated our indirect costs throughout the year, redirecting spend towards business development, which enabled us to post a healthy book to bill and also grow our pipeline in an increasingly competitive environment.

For other P&L items, we had a lower tax rate this year from favorable resolution of tax contingencies and uptick to bid on interest expense toward the end of the year from our recent bond offering. I will cover more on that transaction in a moment. Rolling up the P&L elements, the year-over-year earnings per share growth of 22% was comprised of the following contributors -- 12 percentage points from revenue and margin growth, 7 percentage points from a lower share count and 3 percentage points from a lower effective tax rate.

Strong operating cash flows and the strength of our balance sheet enabled considerable cash deployments during the year. Acquisitions totaled about $380 million while share repurchases totaled about $600 million. That sums up the entire fiscal year highlights. Let me just hit a few items for the fourth quarter. We operated within most of our -- I'm sorry. We operated within our most recent expectations although performed a little better on operating profitability, driven by strong program performance and overhead cost reductions. Our effective tax rate was particularly low, reflecting a catch-up for the full year from the December extension of the federal research and development tax credit.

The combination of our increased operating income, reduced tax rate and the reduced share count from ongoing share repurchases resulted in diluted EPS of $0.36 for the fourth quarter, a 16% increase over the prior-year quarter. There were two other recent developments that better positioned SAIC for the future. First, as Walt just mentioned, we are conducting a process to sell a portion of our commercial business focused on specialized IT services to oil and gas companies. This planned divestiture allows us to more sharply focus on our core markets of critical infrastructure, health, national security, environment and renewable energy and energy efficiency. There is an impact to guidance from this action that I will cover in a moment.

Secondly, we completed a successful debt offering of $750 million of senior unsecured notes which had a combination of 10-year and 30-year maturities at attractively low fixed interest rates. These transactions provide for increased capital to pursue our shareholder value creation priorities and overall lower weighted average cost of capital. With the bond transaction and our $650 million plus of free cash flow for the year, we exited the year with almost $1.4 billion of cash, representing net debt of just under $500 million and we retained the same A-minus stable outlook credit rating.

In addition to this and importantly, we leveraged the bond transaction to renew our revolving credit facility just about a week ago, which provides for the same $750 million of borrowing capacity for a fresh four-year period going forward. The old facility would have otherwise expired in June of next year, so we took care of that one well in advance. The strong bookings, a beefed-up balance sheet and a more focused business portfolio, the team is energized and optimistic and starting the new fiscal year.

That covers my remarks on our financial performance for fiscal 2011 and Q4. Let me turn now to guidance for fiscal 2012, again starting in February 1. We provided our initial guidance for fiscal 2012 in our December call. As a reminder, our guidance only covers our forward view on results from continuing operations.

The total revenue estimate for the year was $11.2 billion to $11.7 billion. This estimate included roughly $200 million in revenues from the portion of our commercial IT business which we are now in the process of selling. This business will be reported in discontinued operations starting in the first quarter and thereafter. As a result of this moving to discontinued operations, we are appropriately adjusting our revenue guidance for fiscal 2012 down by this $200 million to the new range of $11.0 billion to $11.5 billion.

For diluted earnings per share from continuing operations, the range estimate remains unchanged at $1.35 to $1.46. This EPS range reflects the business divestiture I just mentioned, the continued assumption of operating margins in the low 8% range, nominal share repurchases and a tax rate of 37.5%, which includes the benefit of the federal R&D tax credit approved by Congress back in December.

For operating cash flows, we are adjusting our guidance upward to reflect improved visibility of working capital sources and uses for fiscal 2012. We now expect to attain or exceed $600 million for the year.

CapEx is expected to be roughly the same as it was in the 2011 -- fiscal 2011; that was $75 million, roughly. Given our strong balance sheet and expected cash flow, our business strategy is to deploy our excess cash for acquisitions and/or share repurchases subject, of course, to meeting our long-term strategic and economic criteria. Our EPS guidance does not yet reflect the effects of any future acquisitions.

As before, our guidance still excludes the impact of special charges related to the termination of the Scottish Power contract. Also, this guidance does not consider the effect of a potential government shutdown. Risk of a government shutdown is today difficult to predict, and the magnitude of any effects will depend upon a variety of factors, including the length of the shutdown, how specific customers will react and so on. We would rather provide a more accurate assessment of any effects of any shutdown after it occurs, which we will do if so and when appropriate.

That sums up guidance. I would like to give you a heads up on a reporting change to take effect for fiscal 2012 which we think will be a positive for the investment community. To reflect our more focused strategy and business portfolio and the maturity of our three operating groups, reporting will be expanded to now include separate segments for the Defense Solutions Group, led by Deb Alderson; the Intelligence, Surveillance And Reconnaissance Group, led by Stu Shea; the Health, Energy and Civil Solutions Group, led by Joe Craver; and we will still have a Corporate segment to cover similar items, as in the past. We expect this change will result in even more insight and transparency into the operational components of SAIC.

With that, I'll turn it back over to Walt for the concluding remarks on our forward strategy.

Walt Havenstein - *SAIC, Inc. - CEO*

Thank you, Mark. I would like to conclude our prepared remarks today by discussing SAIC's forward strategy.

First, I want to reaffirm that our organic growth strategy today is essentially unchanged. This element of our strategy is centered on delivering high performance in all aspects of our business, deploying new business resources to higher-growth areas that include ISR, cyber security, logistics readiness and sustainment, energy and health IT, delivering strong cash flow and deploying it to further increase shareholder value. Delivering high performance in all aspects of our business means flawless execution on contracts for our customers, better leveraging our differentiators across the Company, expanding our operational efficiency efforts for additional business process improvement opportunities, executing strategic M&A activities and monetizing our real estate portfolio.

Deploying new business resources to higher-growth areas of our market means that we will focus our discretionary resources, including selling costs and technical talent, over the next several years, and improve our ability to leverage those investments. By zeroing in on these growth areas and by integrating the outstanding talent and technology we have across this Company, we can grow faster than the market. We believe that internal growth offers the highest return to our shareholders, and we intend to emphasize it by doing an even better job selling the best SAIC has to offer to each of our customers.

I believe aggressive cross-selling and development of integrated offerings can expand our market share and drive internal growth. Going forward, our acquisitive growth strategy will change and become a bit older. We believe the new market environment will give rise to more fragmentation as well as consolidation within our industry. This is likely to produce acquisition opportunities in our high-growth areas, where SAIC can function as a consolidator. We expect these opportunities to generally be larger in size than the bolt-on acquisitions that characterized our earlier strategy.

This approach to acquisitions may necessarily cause us to reshape and improve our portfolio of offerings in the high-growth areas we're emphasizing. We believe that our strategy will deliver solid financial performance. Even in the tough market that lies ahead, we think that through a combination of internal and acquisitive growth and continued sound working capital management, we will continue to grow free cash flow on a per-share basis. We will carefully evaluate how we use that cash flow to drive long-term shareholder value.

For returning cash to shareholders, our preferred method will be via share repurchases.

With that, we will turn it over for questions. Melanie, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Michael Lewis, Lazard Capital Markets.

Michael Lewis - *Lazard Capital Markets - Analyst*

If we look at the Vanguard win, how much of the $2.5 billion was included in funded backlog? And also -- I think this is probably the more important question -- how much of the revenue that will be generated by direct labor to SAI on that contract going forward?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

The funding level as of the end of the year was zero. There were some loose ends that cleared up in the first quarter, and so that will come through the funded backlog at that time. But $2.3 billion of the $2.5 billion went into total backlog, but the funded piece was zero at 1/31.

With respect to DL, I'm not sure I have the precise number, but I believe it's in the 20% to 30% range, if I recall correctly.

Michael Lewis - *Lazard Capital Markets - Analyst*

Okay. And if I could just have another follow-up real quickly, and Walt, specifically, I'm sure you've had conversations with your customers in the event that we did see a government shutdown. And if you were to look at your revenue mix, the DoD versus Fed civ versus intel, how would you classify the funding environment if you were to stack those three verticals? Are you seeing more delays in DoD versus Fed civ? How is that working right now? Could you give us some clarity?

Walt Havenstein - *SAIC, Inc. - CEO*

Yes. Mike, right now I don't see a tremendous difference between what we are seeing in Fed civ and what we are seeing in DoD. Okay? They are similarly constrained by the continuing resolution. And frankly, notwithstanding all the discussion around both the continuing resolution and the FY 12 budget, we haven't seen big distinctions between our Fed civ customers and our DoD customers.

Michael Lewis - *Lazard Capital Markets - Analyst*

Got you, thank you so much.

Operator

Cai von Rumohr, Cowen and Company.

Cai von Rumohr - *Cowen and Company - Analyst*

Could you give us color on the expected ramp on Vanguard?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

We are hoping to do in the $50 million to $100 million range in year one and we expect that to commence shortly here. Where we fall in that range will depend on, of course, a variety of factors as you normally have in a ramp up. And we are pleased to be running that over the next 10 years.

Cai von Rumohr - *Cowen and Company - Analyst*

And then you mentioned you had [$900] wins so far. How many of those were IDIQs?

Walt Havenstein - *SAIC, Inc. - CEO*

Cai, let us check up on that and get you an answer. Okay?

Cai von Rumohr - *Cowen and Company - Analyst*

Okay. And the last one, you mentioned $600 million in cash flow, but also consistent growth in cash flow per share. Should we take it, therefore, the $600 million is free cash flow?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

The $600 million guidance number for fiscal 2012 is an operating cash flow minimum number expected.

Cai von Rumohr - *Cowen and Company - Analyst*

How do you get to growth in cash flow per share if you have nominal share repurchase? The numbers don't work.

Mark Sopp - *SAIC, Inc. - CFO, EVP*

We have a long-term strategy to grow cash flow per share (technical difficulty) remarks Walt made wasn't specific for fiscal 2012 in terms of comparing to a guidance number.

Cai von Rumohr - *Cowen and Company - Analyst*

Okay, thank you very much.

Walt Havenstein - *SAIC, Inc. - CEO*

Hey, Cai, the answer to your other question is, of the $900 million plus wins so far this fiscal year -- and, oh, by the way, that's just the first two months of this fiscal year -- is six IDIQs and three contract awards.

Cai von Rumohr - *Cowen and Company - Analyst*

Thank you very much.

Operator

Joseph Vafi, Jefferies.

Joseph Vafi - *Jefferies & Company - Analyst*

Hi, guys, good afternoon and good quarter. I was wondering if you could just talk a little on the oil and gas divestiture. Just noodling with the numbers here, it doesn't look like that business really was too profitable, or maybe not profitable currently. And would we expect this divestiture to boost the ongoing margins of the business here?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

This business area is a component of the commercial segment, as we've reported in our SEC filings, and so you can see the margins of the whole business, if you will. This area has had much more volatility in margins over the years. It's had some good quarters, it had number of bad quarters. You can generally expect that this will have a slightly favorable impact to the margins of the rest of the enterprise, but it's not that big; it's only $200 million.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay, that's helpful, thanks Mark. And then, Walt, talking about this more bold acquisition strategy, we haven't really seen anyone in this sector really acquire anything other than private companies. Would you go so far as to say that you may be looking at public acquisitions moving forward instead of just privates and tuck-ins here?

Walt Havenstein - *SAIC, Inc. - CEO*

I wouldn't discount public acquisitions if it makes strategic sense and, frankly, fits our economic criteria.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay, great, thanks a lot, guys.

Operator

Rob Spingarn, Credit Suisse.

Rob Spingarn - *Credit Suisse - Analyst*

First I'd like to ask about the book to bill. You've talked a bit about this, but you did 1.2 on the funded bookings this year. So why does that not translate into organic growth in the coming year?

Walt Havenstein - *SAIC, Inc. - CEO*

The 1.2 book to bill is net book to bill. It includes funded and unfunded bookings. So not everything is funded, and not everything delivers in the first year of the booking. Good example of that is the Vanguard program. It's a 10-year program. Mark gave you a ramp rate as we transition that contract from anywhere from $50 million to $100 million in the first year, which actually will extend beyond our current fiscal year. And so the balance of the $2.3 billion is out over the next 8 to 9 years. So it's -- our bookings, both funded and unfunded, often extend well beyond the instant year in which they are won.

Rob Spingarn - *Credit Suisse - Analyst*

So, Walt, in that vein, do you feel like you have somewhat improved visibility into the following year?

Walt Havenstein - *SAIC, Inc. - CEO*

Yes -- well, I think we have improved -- I think, yes, we have improved our visibility in the out years. I think the real point to be made here is that the number of bids that we are making, the number of very large bids that we are making, has continued to increase. The pipeline has continued to increase. And yet, in that very, very competitive environment we are continuing to win at an extraordinary win rate of 67% (multiple speakers) and I believe that's best in class.

Rob Spingarn - *Credit Suisse - Analyst*

And I find this interesting, because I do see in your win rate that is improving, so clearly that jibes. How is the pipeline itself getting larger in a constrained federal spending environment? Are you simply throwing non- -- the commercial growth lanes?

Walt Havenstein - *SAIC, Inc. - CEO*

Well, we put in place over the last couple of years an account management process that takes a much bigger view of our customers through those accounts and, at the same time, applies a much bigger view of SAIC and our capabilities into those markets. So where a few years ago or even last year, where our visibility into the various market segments was good, we have improved it significantly. And at the same time, we are ganging our capabilities more effectively, and that enables us to bid larger programs. And even though we may have identified them in the past, we would have never considered them in our pipeline, simply because of their size. I don't know of too many things of size these days that we are afraid of taking on.

Rob Spingarn - *Credit Suisse - Analyst*

So you've got a horizontal market expansion here?

Walt Havenstein - *SAIC, Inc. - CEO*

Exactly.

Rob Spingarn - *Credit Suisse - Analyst*

And on that note, can you characterize -- when we look at the 1.2 book to bill, how that would split out between the legacy, government end markets and the new commercial targeted markets?

Walt Havenstein - *SAIC, Inc. - CEO*

I haven't looked at it that way. But I'm sure we could. I'm sure we could give you some sense of that. But can we get back to you on that?

Rob Spingarn - *Credit Suisse - Analyst*

Sure.

Mark Sopp - *SAIC, Inc. - CFO, EVP*

And, Rob, the expanded markets are not just commercial markets, as you said. They are very much government markets.

Rob Spingarn - *Credit Suisse - Analyst*

Well, you know what I mean, the legacy business versus the things you have been emphasizing the last year or so.

Walt Havenstein - *SAIC, Inc. - CEO*

You bet, got you.

Rob Spingarn - *Credit Suisse - Analyst*

Okay, and then, just as a final question, with regard to cash deployment, how would you think about M&A, given the current share multiples? And are you still committed to the accretion of acquired deals? And then, separately, Mark, what does nominal share repurchase mean in the context of $600 million this year?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

Rob, I would say that, from the share multiples perspective, our criteria are the same with respect to what constitutes a strategically attractive acquisition, coupled with an economically attractive transaction. And we focus on discounted cash flow and cash EPS generated, i.e., real economics and our acquisition thought process, which gives fair consideration to synergies, particularly revenue synergies that we can leverage across our very wide contracting customer base. That's a key part of it, but we look for cash accretion right out of the box, and we are willing to accept some GAAP dilution for a period of time, provided we meet that first test. That really hasn't changed.

Rob Spingarn - *Credit Suisse - Analyst*

Yes, just not the share repurchase?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

On share repurchases, we have a plan to, as we publicly said, buy back $300 million to offset the dilution from the bond transaction, and the nominal amount is roughly $100 million above that, that we have traditionally done in our planning process since going IPO. So it's $400 million for the year, of which we have already bought back about two-thirds at this time.

Rob Spingarn - *Credit Suisse - Analyst*

Thank you both.

Operator

Ed Caso, Wells Fargo.

Ed Caso - *Wells Fargo Securities - Analyst*

We noted that your total employee headcount dropped about 2000 people. Is that reflecting the discontinued operations? Is there something else going on?

Walt Havenstein - *SAIC, Inc. - CEO*

It reflects a couple of things. It reflects an increased ratio in our materials and subcontracts. But it also reflects the fact that we weren't converting our revenue -- our new wins to revenue as quickly as we thought. But we took a significant amount of headcount out of our infrastructure this past year, so we gained a significant improvement in our overall operating costs by virtue of that, probably close to half of that headcount reduction.

Ed Caso - *Wells Fargo Securities - Analyst*

I was just surprised because we looked at the number in your press release a quarter ago; it was 45,000. It's now 43,000. That's an unusually large drop, and it didn't sound like you guys lost any business. I guess I'm just trying to get a better feel for it.

Mark Sopp - *SAIC, Inc. - CFO, EVP*

Ed, the reduction was not that sharp, so the 45,000 was a rounding up at a certain point of time, and that it was updated recently with the new figure. So it was fairly ratable throughout the year, to be honest, from the starting position of 45,000 down to 43,500, roughly.

Ed Caso - *Wells Fargo Securities - Analyst*

Right. And the other question -- around in sourcing, can you give us your sense of what you're hearing and then maybe how it's affecting your business, and also maybe lead that into a comment on pricing or competitiveness on deals?

Walt Havenstein - *SAIC, Inc. - CEO*

On the case of in sourcing, we still saw a significant amount of in sourcing in fiscal 2011, but we see that coming down. There have been some policy changes in the second half of the year that would indicate that we would expect to see less in sourcing going forward. We will have to see how that actually plays out.

Your second question had to do with competition?

Ed Caso - *Wells Fargo Securities - Analyst*

Yes.

Walt Havenstein - *SAIC, Inc. - CEO*

Can you repeat your second --

Ed Caso - *Wells Fargo Securities - Analyst*

I'm sorry. Yes; I was trying to get a sense for some of the pricing. I know pricing is different in this market, but you mentioned several times that you've done well despite an increasingly competitive market. I was wondering how that was translating into pricing as opposed to just number of people bidding.

Walt Havenstein - *SAIC, Inc. - CEO*

Well, I think a lot of the actions we've taken over the last couple years to reduce our operating costs, right, have enabled us to be a little more aggressive in a more price-contentious environment. So prices are more competitive, and I think SAIC is much more competitive because of the actions we've taken over the last few years and will continue to take, frankly.

Ed Caso - *Wells Fargo Securities - Analyst*

Last quick question -- I understand your tsunami buoys worked well, given the recent tragedy. Is there a market to sell more, or are they all in place at this point?

Walt Havenstein - *SAIC, Inc. - CEO*

Well, you know, we sell buoys. I'm not sure we are responsible for how they are deployed, but we are very proud of the work that we do for NOAA and other agencies who are responsible for alerting not just the United States, but certainly across the Pacific. So we will see how that plays out. I don't want to talk about business opportunities when it comes to tragedies like that, that's for sure.

Ed Caso - *Wells Fargo Securities - Analyst*

Thank you.

Operator

(Operator instructions) Bill Loomis, Stifel Nicolaus.

Bill Loomis - *Stifel Nicolaus - Analyst*

Mark, can you just help us understand the organic growth over the next year, just talk about some of the larger programs and how you see them trending as potential head winds or benefits? You already mentioned Vanguard and the potential contribution. But on Brigade Combat Modernization, MRAP, UNITeS, post re-competes, can you help us understand how those will track in fiscal 2012 versus 2011?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

Sure, Bill. MRAP is relatively steady in our expectations. We have had a team down in Charleston that has been very agile in expanding the types of work they do on the integration front, both on the government side and commercial side, which we have been pleased to see. So they are holding that very steady, even though the thrust of the MRAP's and the MATVs have come through already. The logistics side of that has continued to grow and is expected to continue to grow in fiscal 2012, and a great (technical difficulty) story. Things like POLCHEM are fairly plateaued out at this point in time. BCTM is contracting. It contracted about 20% in fiscal 2011 from 2010 and can contract as much as 40%-50% further contraction in fiscal 2012 from 2011, so that's pretty significant. That will have to be offset by growth in new activities, such as Vanguard and the many others we have both in outstanding proposals and in the pipeline.

On NASA, as you know, that caused some reduction during fiscal 2011. And it's kind of stabilized now with the one win we had, and we are waiting for the -- actually, two wins -- and then the final piece we are waiting for, which is relatively significant. So that's a re-compete which will have fiscal 2012 revenue impacts when decided.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, and then let's assume you win that larger piece. How's the revenue levels going to look versus your prior, roughly?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

I think it's fair to say that we need to win that re-compete in order to level set for fiscal 2011 baseline revenues in fiscal 2012. We are not projecting growth from that opportunity.

Bill Loomis - *Stifel Nicolaus - Analyst*

And then just to follow up on margins -- you mentioned the guidance seems operating margin in the low 8%'s. Right? How much of that -- what would be the margin in fiscal 2011, adjusted for all the one-time events that we would compare that against?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

Well, the most significant nonrecurring item, even though it could recur, is the royalty receipt we had in the second quarter, which was roughly 50 basis points of that margin composition in fiscal 2011. So that was significant, as previously discussed many times. There were a number of write-ups, write-downs, the effects of the continuing resolution, contract slips, etc., but I think it's fair to say that the rest was recurring business. And so you can therefore say that fiscal 2011 was in the low 8% ranges excluding that royalty item.

We are not counting on the royalty to occur in fiscal 2012 in our guidance, but it could, as we had previously discussed, and we would love to see that.

Bill Loomis - *Stifel Nicolaus - Analyst*

So, basically, the low 8%'s would the flat. But how -- you know, I'm just still trying to get a sense -- we are hearing about pricing pressure on re-competes in business, and you have mentioned it yourself, how much some of the improvements you have made in terms of facility consolidation, shared services and other cost initiatives, how much of that -- is that 100% or more than 100% offsetting the pricing pressure you are seeing?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

There are a number of moving factors in different directions. I should say that we do have a couple of larger programs that have very favorable margin characteristics that are not going to see the same pace of revenues in fiscal 2012 versus 2011 and prior years. So there's a little bit of head wind there.

On the other hand, we are continuing to see more product revenue opportunities and more fixed-price opportunities that we think are tail winds in our margin story, as we have articulated a number of times. We also are continuing to improve our cost structure that will make those fixed-price contracts more profitable.

So we need some time to develop our new products, Reveal, CloudShield, etc., to larger volumes to really drive significant margin improvement in the out years. We are still weighted down a little bit by amortization from those acquisitions. And so that's why fiscal 2012 is flattish, but we are still bullish that if we can leverage our strategy to turn organic growth in the low- to mid-single digits and continue to have success in the product area and in the cost structure area, that we can continue to gradually improve margins over time.

Walt Havenstein - *SAIC, Inc. - CEO*

It's important to also note that we are making significant increases in new business resources and investments, both in our internal research and development along with the new products that Mark was describing, but also in our capture activity. So we expect to bid more, win more, and we recognize that the acquisition process within the government has lengthened, and so we are adjusting our investments accordingly.

Now, if we come to a point where those investments -- we run out of opportunities, which right now we don't see that happening, we will adjust accordingly. But right now I think we've tried to balance what we think is the cost reduction activity to increase our ability to invest and be cost competitive and price competitive in the marketplace. So I think, as Mark said, there's a balancing of things. But it's important to know that we are continuing to increase our investments when it comes to new business.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, thank you.

Operator

Erik Olbeter, Pacific Crest.

Erik Olbeter - *Pacific Crest Securities - Analyst*

Yes, thank you, guys, and nice quarter. Really quickly, two questions -- one is that, switching gears to the commercial market, you have talked about energy and environment, some of the things as well in healthcare. Can you give us an update on the pipelines, specifically in the energy environment, how -- what the pipeline looks like for smart grid, what your pipeline is looking for energy efficiency as well?

Walt Havenstein - *SAIC, Inc. - CEO*

That's a good question, Erik. Let me just characterize it rather than give you specifics, and I'll just characterize one element of our energy strategy. It has to do with design and built around renewable technology. Where a year ago our pipeline may have looked for design and build work in renewables, at something significantly less than $500 million, today that pipeline looks more like $2.5 billion and addressable near-term, certainly well above $1 billion. So I think the emphasis we have been putting in that area has really opened up the aperture and grown the pipeline.

In the case of smart grid, if recollection holds, we won 20 smart grid jobs within the last 12 months. And we think those wins will actually, although I can't quantify it for you right now, are actually going to -- they in themselves will create a significant increase in our aperture and pipeline because they introduced us to a whole new set of customers both at the utility level, but primarily at the local level, local and state level, where a lot of the smart grid applications are occurring. So it is pretty immature at this point, but I can safely say it is growing very, very quickly.

Erik Olbeter - *Pacific Crest Securities - Analyst*

Okay, that's helpful, and I guess we will get more details on the financial breakouts as you give them during the year.

Maybe just a question on M&A -- I think you know we've heard for the first time that you are discussing a much broader, bigger sort of M&A strategy. But it's also something that you guys have never really done before. (inaudible) buying public companies and chopping them up among the different divisions is something that we don't really think about with SAIC. What do you need to do to feel comfortable about the ability to integrate those kind of acquisitions? And are there areas in the commercial space that you would be interested in looking as you think about your M&A strategy?

Walt Havenstein - *SAIC, Inc. - CEO*

Well, let me caveat that around publicly traded companies. We won't and we haven't, frankly, backed off from participating in transactions that involve publicly traded companies. Now, oftentimes, because they are publicly traded companies, they go into an auction. And frankly, we prefer not to get into bidding wars and end up being the last drunk standing at the bar. So we tend to favor private companies and companies where we have had an ongoing relationship so that we fully appreciate both the cost synergies and the revenue synergies and, more importantly, the cultural interaction that facilitates good integration.

But we have looked at more than our fair share of public companies. In my comments earlier, I'm just saying, we don't disregard that sector. We just think it's a little more sporty, when those kind of properties get into the auction process.

Having said that, there are public companies that are going to start fragmenting, and we've seen -- I think you have probably seen recent announcements of various public companies who are trying to portfolio-shape for one reason or another. And we think those public company assets, in many cases, are going to be attractive to SAIC. So, whether it's a whole public company or, more importantly, an asset within a publicly traded companies, we are going to be thoughtful in both cases.

And at the same time, we are continuing to look at high-technology private companies that are a good fit for us at SAIC.

Erik Olbeter - *Pacific Crest Securities - Analyst*

All right, thank you very much.

Operator

Tim McHugh, William Blair.

Tim McHugh - *William Blair & Company - Analyst*

Most of my questions have been answered. I just had two quick ones, maybe, one, if you gave us what to expect for capital expenditures next year. And, secondly, you talked a little bit about the shift towards more fixed-price contracts. Can you quantify that? I didn't hear any sort of numbers. Just how significant is that trend now as you look at the business?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

CapEx has been consistently running 0.7, 0.8 times, or 0.7 -- less than a percent of revenue. I'm getting mixed up here. But last year, it was $75 million in hard dollars. It has been very consistent around that figure, so it wouldn't expect to be too far different from that in fiscal 2012. We are not expecting a major change in capital intensity in fiscal 2012. So think $75 million.

With respect to fixed-price, if you have looked through the 10-Ks over the years, you will have seen fixed-price migrate upward from the teens into the 20s. And we will have for a full-year fiscal 2011 about 24% composition of fixed-price. That has come at the expense of T&M, primarily. T&M used to be above 35%. It's now going to be about 30% for fiscal 2011, whereas cost plus has remained in the high 40% range, near 50%.

Tim McHugh - *William Blair & Company - Analyst*

As you look at some of the recent wins, would you expect that percentage to go to 26, 27 in 2012 or stay about the same as you look forward?

Mark Sopp - *SAIC, Inc. - CFO, EVP*

There's so much activity in the pipeline in the outstanding proposals I'd hate to provide a prediction, but we generally expect to fixed-price to improve in the forward years, due to higher exposure to products as well as higher growth in our strategic growth areas which tend to have the slightly more concentrated fixed-price composition as well.

Tim McHugh - *William Blair & Company - Analyst*

Okay, thanks.

Operator

Ladies and gentlemen, I show no further questions at this time. I would like to turn the call back over to Paul Levi for closing remarks. Please proceed.

Paul Levi - *SAIC, Inc. - SVP, IR*

I would like to let those of you know that joined via the webcast and had some noise interference at the beginning of the call, as we do on a normal basis, we will be making available a clean audio version of this call today for your future reference when it's available to be posted on our website in the usual location. If there's any problem in locating that, please let me know.

On behalf of the SAIC team, we want to thank everyone on the call today for their participation and their interest in the Company. Have a good day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. That does conclude the presentation. You may disconnect; have a wonderful day.
