

FINAL TRANSCRIPT

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ORB - Q4 2010 Orbital Sciences Corporation Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Sarah and I will be your conference operator today. At this time I would like to welcome everyone to the fourth quarter and full-year 2010 financial results.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session.

(Operator Instructions)

I would now like to turn the call over to Mr. David Thompson. Mr. Thompson, you may begin your conference.

David Thompson - *Orbital Sciences Corporation*

Thank you, Sarah. Good morning, everyone, and thank you for joining us for Orbital's fourth quarter and full-year 2010, financial result's call. I am Dave Thompson, and with me on the phone today are JR Thompson and Garrett Pierce .

Before we get underway, I'd like to ask everyone to take note of the Safe Harbor paragraph that is at the end of our earnings release. This statement emphasizes the major uncertainties and risk in the forward-looking statements that we will make this

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morning. So, please carefully consider these as we discuss our future operational plans and financial guidance during today's call.

We plan to follow our customary outline for the call. I'll begin by discussing some highlights from the fourth quarter, and then turn it over to Garrett who will cover the Company's financial results in greater detail and also update our preliminary guidance for 2011 that we've provided last fall.

After that, we'll ask JR to recap recent space missions, major system deliveries, and product development milestones and he will also provide a preview of upcoming launches, system deliveries, and developmental events planned in the early part of 2011. Finally, I'll address fourth quarter new orders and contract backlog as well as our new business outlook for the first six months of this year and at that point, we'll open up the call for questions.

To set the stage for today's discussion, I'll begin by highlighting several areas in which I think characterize the Company's fourth quarter and full-year performance, and then we'll come back to each of these and discuss them in more depth later in the call.

First though, let's look at our financial results. Orbital generated strong revenue and profit margin growth in the final quarter of 2010. Revenue increased 23% to \$346 million, and operating income expanded 64% to \$24.1 million. Net income and EPS both more than doubled to \$21.2 million and \$0.36 per share respectively.

The increase in revenue was driven primarily by strong double-digit growth in our satellites and space systems and in our launch vehicle segment, while the margin expansion was propelled by lower Taurus II launch vehicle research and development expenditures and improved advanced space programs profit performance compared to the prior year. In addition to these factors, the gains in net income and EPS also reflected the extension of the research and development tax credit for 2010 that occurred in December.

Free cash flow of negative \$26.3 million in the quarter resulted in a year-end cash balance of \$252 million. For the full year, revenue increased 15% to a record \$1.295 billion and operating income rose 40% to \$73 million. Net income climbed 30% to \$47.5 million and EPS increased 29% to \$0.81 per share.

Full-year free cash flow was negative \$84.2 million reflecting the unprecedented level of R&D and capital equipment investments we made last year, which together totaled just over \$205 million. Garrett will provide more detail on both the fourth quarter and full-year financial results in a few minutes.

Second, let's turn to operational highlights. The fourth quarter was a very busy one for operational activity with five space missions and six system deliveries taking place over that three-month period. In addition, the long awaited recovery of the Intelsat Galaxy 15 Geosynchronous Satellite was achieved in December. Following a month of extensive in-orbit testing, the satellite was recertified for commercial service several weeks ago.

Furthermore, seven major milestones in our Taurus II Rocket and Cygnus spacecraft production and test programs were also completed in the quarter. For the full year, Orbital carried out 15 space missions, delivered 20 additional satellites and launchers for future uses, and accomplished about a dozen major R&D milestones in our two major product development programs.

At the midpoint of the first quarter of this year, the company has already conducted two successful rocket launches including the 20th consecutive successful Minotaur Flight. We are now preparing for two satellite deployments, a space systems mission, and two additional rocket launches scheduled to take place over the next six weeks. We also expect to complete nine or ten R&D and production and test milestones in the Taurus II and Cygnus programs this quarter, four of which have already been accomplished. JR will have more to say on these topics later on in the call.



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Finally, here's a summary of our new business activity. Orbital turned in our strongest quarter of the year with approximately \$705 million of new business volume in the October to December period. This total consisted of \$480 million of new firm contracts, \$175 million of new option orders, and \$50 million of option exercises under existing contracts.

Fourth quarter order activity boosted full-year new business volume to nearly \$2.1 billion, the second-highest annual level in the company's history. It also increased year-end firm contract backlog to over \$2 billion, up about 8% compared to year earlier results.

And as I'll discuss later, we are off to a strong start this year with several new contracts awarded and a few more pending for decisions over the next five or six weeks.

Now, though, I'd like to ask Garrett to take you through the financial results from the fourth quarter and the full year and to update the preliminary guidance for 2011 that we provided back in October.

Garrett Pierce - *Orbital Sciences Corporation*

Thank you, Dave, and good morning.

Before commenting on the financial results, I want to note that during this call we will provide certain non-GAAP financial measures. A reconciliation of these measures to comparable GAAP financial measures can be found in our earnings release or to the extent not addressed there but discussed in this call will be available in the appendix to the transcript of this call and will be posted under the Investor Relations heading on our website.

Dave summarized the financial results with revenues for the fourth quarter of 2010 of \$346 million compared to \$282 million in the fourth quarter of 2009. An increase of \$64 million or 23%. Let me go into more detail.

The revenue growth was primarily driven by our GEO product line contracts with an increase of \$38 million or 81%. Increased activity on the CRS contract of \$26 million or a 44% increase in the revenue contribution of the Gilbert Arizona satellite business purchased from GD at \$22 million.

The target vehicle revenues were down \$11 million, and the Orion revenues were lower by \$9 million due to the contract termination in the second quarter of 2010. Consolidated fourth quarter 2010 operating income was \$24.1 million, resulting in a 7.0% operating margin as compared to \$14.7 million operating income, with a 5.2% operating margin in the fourth quarter of 2009. The operating increase was primarily due to a \$6.5 million net reduction in unrecovered research and development expenses.

In addition, GEO satellite income grew \$2.2 million, CRS contract income grew by \$1.2 million, and the acquired Gilbert contracts generated \$2.5 million of operating income. For the full year revenues were, \$1.295 billion versus \$1.125 billion, an increase of 15%. CRS contract revenues totaled \$278 million versus \$103 million in 2009, an increase of 170%. GEO revenues increased by \$82 million or 33% to \$331 million in 2010.

The Gilbert contracts contributed \$70 million of revenue and NSS revenues increased by \$34 million to \$174 million, an increase of 25%. Interceptor revenues decreased year over year by about \$100 million.

Finally, the Orion program had \$63 million less revenue due to the contract termination. For the full year operating income grew to \$21 million or a 40% increase. This reflect increases of \$11 million for the NSS contracts, \$8.5 million for the CRS contract, and \$7 million contributions from the Gilbert acquisition. In addition, unrecovered research and development expenses decreased by \$20 million.



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Interceptor product-line income was (\$16) million lower due to the (15%) reduction in revenues year over year. I would now like to highlight certain factors in each of the three operating segments.

Fourth quarter 2010 revenues for our launch vehicle segments were up \$39 million or 41% compared to the fourth quarter of 2009. This is primarily due to a \$50 million revenue increase, and the Taurus II product line partially offset by an \$11 million reduction in target vehicle revenues.

Launch vehicle segment operating income increased 5.6 million in the fourth quarter of 2010 as compared to the fourth quarter of 2009, primarily due to a \$6.5 million net reduction in unrecovered research and development expenses. The operating margin in the launch vehicle segment was 6.2% compared to 2.8% in the fourth quarter of 2010 versus 2009. The margin improvement reflects the reduction in unrecoverable research and development costs.

Fourth quarter 2010 revenues at our satellites and space system segment were up \$63 million or 87% compared to the fourth quarter of 2009, primarily due to an increase in the GEO satellite product line, which was up \$38 million reflecting the execution of new backlog business booked late in 2009. The science and technology product line increased by \$18 million, mostly due to the acquired Gilbert contracts that generate \$15 million of revenue in the quarter.

Technical services product line increased by \$7 million, primarily due to the NSROC or the sounding rocket contract, that began in the third quarter of 2010. Satellite and space system segment operating income with \$11.1 million for the quarter, a \$5 million increase or 82% over the fourth quarter of 2009. The income growth was primarily due to the ramp up of production on GEO satellite contracts generating \$2.2 million of income growth and the acquired Gilbert contracts that produced \$1.5 million of income.

The operating margin in the satellites and space segment was 8.2% compared to 8.4% in the fourth quarter of 2010 versus 2009. For the fourth quarter of 2010, revenues in the advanced space program segment were down \$28 million or 23% as compared to the fourth quarter of 2009, primarily due to the transfer of the Taurus II launch vehicle product line to the launch systems group early in 2010 as an initial designs were completed in the advanced space program segment. In addition, Orion revenues were lower by \$9 million due to the contract termination

Advanced space program segment's operating income was \$5.2 million for the quarter, a decrease of \$800,000 compared to the prior year, primarily driven by the transfer of the Taurus II program to our launch systems group. Operating margin in the advanced space program segment was 5.7% in the fourth quarter of 2010 as compared to 5.0% in the fourth quarter of 2009, due to improved operating margins in the NSS product line.

The effective GAAP tax rate in the fourth quarter of 2010 was 4%, and our full year 2010 tax rate was 27%. The fourth quarter 2010 tax rate includes a favorable catch-up adjustment for the R&D tax credits which were legislated into law on a retrospective basis at the end of 2010. This increased earnings per share by \$0.13.

As of the end of 2010, our net operating loss and R&D tax credit carry-forwards total about \$120 million. We estimate that our NOL will substantially reduce cash taxes to approximately 4% through 2012.

As forecasted, free cash flow for the fourth quarter was negative \$26 million. Capital expenditures included in free cash flow totaled \$25 million in the quarter. Year-to-date cash flow was negative \$84 million, including \$84 million of capital expenditures. At the end of the quarter, we had \$252 million in cash. We also have \$100 million revolving credit facility in place through 2012.

With respect to our guidance for 2011, we are reaffirming the preliminary guidance that we provided in the October earning's release call for revenue in the range of \$1.3 billion to \$1.350 billion. Our 2011 operating margin range increased by 25 basis points. It is expected to be in the range of six-and-a-quarter to six-and-three-quarters compared to 2010 operating margin of 5.6.



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The year over year margin improvement is largely attributable to a reduction in unrecovered research and development expenditures. We expect the effective GAAP tax rate will be about 35%, and our cash tax rate will be 4% in 2011. The GAAP tax rate reflects the enactment of the R&D tax credit. This will generate an additional (\$0.05) EPS, hence we've increased the EPS guidance range to \$0.80 to \$0.90.

Our estimate for free cash flow is in the range of negative \$50 million to \$70 million, which includes \$60 million of capital expenditures. The negative cash flow in 2011 reflects our assessment of the impact of the continuing resolution over the CR for fiscal year 2011.

The plan to run an additional test flight, which will move to the right the COTS demonstration and the first CRS mission by a month or two, and continued investment in capital expenditures and research and development. In addition, under the terms of our CRS contract, a substantial percentage of the customer cash receipts are billable and collectible only upon successful launch of each vehicle.

You will know that the receivable level on the balance sheet as of December 31, 2010 increased 65%, which reflects, in part, the increase of unbilled accounts receivable due to the CRS contract terms, hence, we expect the balance of our unbilled receivables will increase further in 2011. However, we expect to return to positive cash flow in 2012 and beyond as CRS missions are executed.

Also, we expect the R&D and capital investments to return to substantially lower levels in 2012 and beyond, contributing to free cash flow improvements. This should establish the platform to capitalize on our organic investments in our new product development programs. Now back to Dave.

David Thompson - *Orbital Sciences Corporation*

Thanks, Garrett. I'd like to now ask JR to update you on the company's major operational events from the fourth quarter and preview what's ahead in the early months of 2011. JR?

JR Thompson - *Orbital Sciences Corporation*

Thanks, Dave and good morning. The fourth quarter operation results for the company were very strong across all of our operating groups, including substantial progress on our major new product development in the Taurus II launch vehicle and Cygnus spacecraft programs.

During the quarter, customers received seven major system deliveries consisting of two Navy Supersonic Sea Skimming targets, a Patriot target vehicle, a Minotaur I launch vehicle for the National Reconnaissance Office, a ground-based missile defense interceptor, and two GEO communication satellites, KOREASAT 6 and Intelsat's New Dawn.

Additional deliveries early in the first quarter included the Taurus launch vehicle and spacecraft for the upcoming Glory mission scheduled now for next Tuesday morning. All missions conducted in the fourth quarter were successful and included a medium-range target, a Minotaur IV launch for the Air Force, a GMD launch of the OBV interceptor for the Missile Defense agency, a Navy Sea Skimming target, and two AJ-26 engine firings at the Stennis space center, completing acceptance testing of the first flight engine for the Taurus II program, and launch an initial checkout of the KOREASAT 6 GEO communications satellite.

Early in the first quarter, another Sea Skimming target for the Navy was successfully launched. A Minotaur I successfully launched for the rapid -- launch the rapid pathfinder payload for NRO, and the 20th Minotaur launch, all successful, and the second AJ-26 engine for the Taurus II successfully completed acceptance testing.

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This year is off to a fast start and bodes well for our financials if we could keep up the momentum. For the full year, 31 major system deliveries occurred. Including 26 targets, interceptors, or space launch vehicles, four GEO communication satellites, and the first flight engine for the Taurus II launch vehicle. Seventeen missions were successfully conducted, and included 12 targets, interceptors, space launch vehicles, and three GEO communication satellite missions initiated in ground test events. NASA's Orion Pad Abort test of the launch abort system, at the White Sands missile Range, in completion of the acceptance testing of the first Taurus II flight engine.

Our launch systems group continued to make good progress on the Taurus II and Wallops launch complex programs. Schedules remain tight and cost pressures continue as we focus on completing the launch site in preparation for the NASA sponsored test flight in the August time frame.

The first stage core vehicle arrived from the Ukraine late in the fourth quarter, in preparation for test and assembly, and the launch configuration is well underway. As mentioned earlier, the first two AJ-26 engines have successfully completed acceptance testing and will arrive at Wallops in early March to begin integration into the thrust frame and first stage core vehicle.

The Transporter/Erector is being shipped from the West Coast and will arrive at Wallops in late March to begin integrated testing with the launch pad. The upper stage component assembly and test activity is proceeding very well and flight articles will begin arriving at Wallops in the next few months. We currently plan to conduct a short, approximately a 20 second, firing of the Taurus II launch vehicle on the pad in the July time frame, prior to the first launch to verify the vehicle integrity.

Our space systems group, remains very active and plans to launch five satellites this year. Four GEO communications satellites and NASA's glory satellite later this month. As mentioned earlier by Dave, recovery of the galaxy 15 satellite late in the quarter was a major achievement, and it is now recertified for commercial service. Fourteen satellites are now in various phases of integration and test in our factory.

Our advanced programs group continues to do very well in capturing classified new business projects. Cygnus development for both the COTS and CRS programs, is proceeding to plan. All procurements have been placed and suppliers are meeting our required schedules. Propulsion system build up for the COTS mission began last month in the satellite manufacturing facility. Integration and test for the mission will begin in earnest in early March.

Flight software testing is maturing rapidly. The first flight units will be delivered to the Wallops for integrated -- for integration to the Taurus II in late fall of this year with the first flight scheduled for mid-November.

Looking ahead to the first quarter, 11 system deliveries are planned, and eight missions or major operating events scheduled. Of the system deliveries include, five Navy Sea Skimming targets, three AJ-26 engines for acceptance testing for the Taurus II program, a medium range target, and the Taurus rocket and spacecraft for the Glory missions.

Missions in major operational events include two satellite launches, NASA's Glory mission, and Intelsat's New Dawn GEO communications satellite, a Navy Sea Skimming target that was successfully launched last month, a Minotaur I launch vehicle successfully executed last week, carrying NRO's Rapid Pathfinder spacecraft to orbit, a patriot target for the Missile Defense agency, the Taurus launch vehicle for the Glory mission, and three AJ-26 engine acceptance tests for the Taurus II program, with one successfully conducted last week.

This year is already off to a fast start, and hopefully this year's highlight will be the introduction into the market place of the Taurus II and Cygnus product lines. I will now return the discussion to Dave.



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David Thompson - *Orbital Sciences Corporation*

Thank you, JR. I will now take you through our fourth quarter and full-year 2010 new business results and discuss the Company's outlook for the first half of 2011.

Orbital's advanced space program segment led the way in the fourth quarter with new orders and option exercises that totaled approximately \$370 million, mostly on the strength of several new National Security Space Program awards. Our satellites and space systems segment added \$190 million of new business, including the MEXSAT-3 Geosynchronous Satellite contract with Boeing, while our launch vehicle segment rounded out the quarter with about \$145 million of orders and options driven by several target vehicle awards. The company ended the quarter and the year with firm contract backlog of \$2.03 billion and total backlog of \$4.57 billion.

For the full year 2010, Orbital booked \$2.09 billion in new orders and option exercises, which, as I mentioned earlier, was the second highest new business volume achieved in our history. This was made up of \$1.01 billion in new firm contracts, \$480 million in new option orders, and \$600 million in option exercises under previously awarded contracts from earlier years.

Each of our business segments generated robust new business volume with satellites and space systems contributing \$915 million, advanced programs adding \$645 million, and launch vehicles recording \$530 million for the full year.

Looking ahead to the first half of this year, Orbital was aiming for between \$900 million and \$1.1 billion in new orders and option exercises in the January to June period. This is based on about \$1.4 billion in currently outstanding proposals and other active pursuits.

At this point, I expect especially strong results from our missile defense interceptors, and target vehicles and commercial communications satellites. We also have additional potential in National Security Space programs and in human space systems.

As previously announced, we are off to a good start with the company's contract from Thales Alenia space in January to assemble, integrate and test the 82nd generation Iridium Low Orbit Communication Satellite. In addition, we were recently selected for a contract to build our first geosynchronous communication satellite of the year, which is a KU band platform for SES WORLD SKIES covering India and Southeast Asia. We were also selected earlier this month for a follow-on production order of Coyote short range target vehicles for the US Navy.

Turning to our major product development programs, I'll add some financial details to the technical progress that JR reported. On the Taurus II launch vehicle and the Wallops launch site program, overall R&D and CapEx incurred-costs reached 86% of our total projected amount as of the end of December. As we previously indicated, it was likely over the past several months, NASA did initiate \$120 million risk reduction augmentation to our COTS cooperative agreement and provided the first payments under this augmentation provision.

Assuming the remaining funds are forthcoming on a timely schedule, this extra investment by NASA should allow us to conduct a test flight of Taurus II this August, some six months from now, before it is used on the first full COTS demonstration mission in the fourth quarter of the year. Counting these two vehicles scheduled for 2011 launches, we now have a total of five Taurus II rockets that are in production for test missions and demonstration flights this year and operational launches under the CRS contract through early 2013.

On the Cygnus cargo spacecraft and the COTS demonstration mission, which will be its first use, our total cost estimate increased in the fourth quarter due to additional scope as a result of the COTS augmentation funding and to some minor delays in its launch readiness. Even so, cost incurred to date reached the 80% point by the end of December as the first Cygnus spacecraft started final assembly and its pressurized cargo module passed most of its final testing at Thales Alenia facilities in Italy.



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On a combined basis, total R&D and CapEx expenditures for Taurus II and Cygnus ended last year at the 83% complete point compared to about 79% complete three months earlier, and by the end of the first quarter of this year, I expect, we will be around 90% complete on an aggregate basis for the two major product development programs.

In summary, 2010 was a good year for Orbital. During the past year, the company carried out 15 successful space missions, including several important first flights of new launchers, we generated strong new orders in all operating units, we made considerable progress in our major product development programs, and we reported better than expected financial results.

As we look ahead to 2011, we expect that our operational pace will increase this year, with 20 or more space missions currently planned to be conducted; that our market demand will continue to be strong for satellites and launch vehicles; that our multi-year investments in Taurus II and Cygnus will be rewarded with successful first flights of these new systems and that good revenue growth and margin expansion will also be achieved. Thanks for your attention.

Sarah, at this point, we're ready to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)And, your first question comes from the line of Gary Liebowitz from Wells Fargo Securities. Your line is open.

Gary Liebowitz - Wells Fargo Securities - Analyst

Thank you, good morning gentlemen.

David Thompson - Orbital Sciences Corporation

Good morning, Gary.

Gary Liebowitz - Wells Fargo Securities - Analyst

Garrett and David, you mention the impact on your cash flow from the CR. I was wondering if you started to game plan and put some estimates together in the case of a government shutdown this year and just how disruptive that might be to your business?

David Thompson - Orbital Sciences Corporation

We haven't -- we really haven't done that assessment in any quantitative way. At this point, our best estimate is that by the end of March or the early days of April, we'll see a -- on the defense side, we will see an actual defense bill for -- spending bill for 2011, probably attached to a rest-of-the-year continuing resolution for the non defense agencies. Now, there are other possible outcomes, but at this point based on what we know, we consider that to be the most likely outcome for how the fiscal 2011 federal budget is finalized.

A few of our programs have experienced some minor delays as a result of the continuing resolution lasting well into the new fiscal year, and until things are resolved, we will, of course, monitor this carefully and probably stay on the conservative side for our outlook for the year. But at this point, we think the scenario I outlined earlier is the most probable one to occur and don't anticipate a major shutdown of the type that occurred 15 or so years ago to replay itself this year.

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Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, thanks, and then just one more. Can you give us an update on your negotiations for a settlement on, related to the Orion termination costs, and when you might expect to receive that?

David Thompson - Orbital Sciences Corporation

We're hoping to wrap that up before this year is out. The -- most of the termination settlement audit work is complete or will be within a matter of the next month, and hopefully, that will lead to a satisfactory resolution well before the end of this year.

Gary Liebowitz - Wells Fargo Securities - Analyst

Is that in the cash flow guidance?

David Thompson - Orbital Sciences Corporation

There is a little bit in there that reflects that.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay. Thank you. I will get back in the queue.

David Thompson - Orbital Sciences Corporation

Okay, thanks, Gary.

Operator

Your next question comes from the line of Chris Quilty from Raymond James. Your line is open.

Chris Quilty - Raymond James - Analyst

Good morning, gentlemen. Congratulations on getting that demo flight scheduled in. If I remember correctly, wasn't that originally-- you were originally talking about a November launch date and it seems like it got accelerated a little bit?

David Thompson - Orbital Sciences Corporation

Yes, good morning, Chris. Well, at this point the Taurus II rocket is expected to be ready in advance of when the Cygnus spacecraft is, and so, to the extent those two had to be launched together on the first mission for Taurus II, the November date was what we were looking at. The rocket itself, though, is likely to be ready by late summer, and so the current plan is to conduct a test flight of Taurus II without an active spacecraft onboard in the -- in August, and then follow that up three or four months later with the originally planned full demonstration, which would consist of, now, the second Taurus II rocket together with the first Cygnus spacecraft and its cargo module.

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Chris Quilty - Raymond James - Analyst

Okay. And if I remember, there was \$200 million in the FY year '11 budget for risk reduction, and it seems like you got \$120 million of that. But, given the fact that we are in a continuing resolution, how did the mechanics of that work out? Where is NASA getting the money for that risk reduction?

David Thompson - Orbital Sciences Corporation

NASA has assigned a high priority to the two COTS programs and to providing risk reduction funding to ensure both the technical success and the schedule responsiveness of both our program and a comparable one at SpaceX. They have some flexibility to reallocate funds from other accounts.

So far they have authorized \$40 million of the \$120 million that we expect for our work, and they are keeping on track, on pace, with the timing that we need those funds. So, we're good, at this point, through March and into April, and then by that time, hopefully, the budget situation will have stabilized and the future funding will be made available on a timely basis.

That is our expectation. I think the odds of that are good. But we'll have to wait and see if our projected scenarios for how the budget for 2011 is resolved actually are the correct ones.

Chris Quilty - Raymond James - Analyst

Okay, and then just in a macro. The president's budget request, obviously, Congress hasn't finished its handy work on it. So, no telling where the numbers actually fallout. But just your general puts and takes on what you saw in the proposal?

David Thompson - Orbital Sciences Corporation

I would characterize it at this point, as being moderately good news for Orbital. On the NASA side the commercial cargo and somewhat similar commercial crew programs are well supported. The science budgets, while not increasing, are programmed for fairly healthy amounts of funding, particularly in view of the broader fiscal challenges the country faces, and NASA is also seeking substantial funds next year for space related research and development. So, in all of those areas, which are the primary ones of interest to us, I think it's a pretty -- I think it's pretty good, budget request in view of the difficult fiscal situation the country faces.

With regard to the Missile Defense Agency's budget, there the total is projected for a modest increase in 2012 compared to the requested amount in 2011, and the GMD program has a reasonable amount of funding allocated to it, pretty much in-line with what we had earlier expected, and the targets and testing program, which we believe will be key to our growth in the missile defense area, is in line for a good increase, so that also looks moderately encouraging.

And the third major area of relevance to our business is the military and intelligence space programs. There, the results are incomplete so far. The funding levels for some of the class five programs will not be available for a month or so. The funding level for the unclassified military space program is up a little bit compared to 2011 and in the areas of interest to us things are largely in line with earlier expectations.

So, overall, I think, it is as I said, moderately good news, and underpinning these big numbers, there, I think is a shifting focus to smaller and more affordable systems, which really play to our strengths. So, I think overall, pretty good

Chris Quilty - Raymond James - Analyst

And do you have an update on your medium GEO bus efforts?

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David Thompson - *Orbital Sciences Corporation*

I don't have any major news to report there. We are continuing to bid that product. We're not, right now, spending a lot of R&D on it. There may be one area that we invest a bit in this year but not-- but the remaining, the bulk of the remaining development investment is gated on winning an initial order for that product.

We have one outstanding proposal that's expected to be decided on by this spring that would use that system, and other possibilities coming up later in the year. But nothing beyond that to report today.

Chris Quilty - *Raymond James - Analyst*

And a final. Garrett, I think you mentioned in advanced space it was down \$28 million, \$11 million of which was Orion. Did you give us a number for how much of that was related to the Taurus II shift into the launch segment?

Garrett Pierce - *Orbital Sciences Corporation*

Are you saying for the fourth quarter?

Chris Quilty - *Raymond James - Analyst*

Yes.

Garrett Pierce - *Orbital Sciences Corporation*

Yes, it was about \$24 million.

Chris Quilty - *Raymond James - Analyst*

Okay. Great, thanks.

Garrett Pierce - *Orbital Sciences Corporation*

That was the initial research and development and design engineering that was done in our advanced program, and they transferred the program over to the further engineering and production stage at the -- in the launch group.

Chris Quilty - *Raymond James - Analyst*

Got you. By the way, did you guys give a size for the Iridium contract? I think the trade press kind of quoted that around \$150 million.

David Thompson - *Orbital Sciences Corporation*

We did not, and following our custom on most of the commercial satellite work, we don't plan to announce the exact value.

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Chris Quilty - *Raymond James - Analyst*

Okay. Well, good win. Thank you.

David Thompson - *Orbital Sciences Corporation*

Thank you, Chris.

Operator

Your next question comes from the line of Troy Lahr from Stifel Nicolaus. Your line is open.

Troy Lahr - *Stifel Nicolaus - Analyst*

Yes. Thanks. Can you help me better understand the margins at the satellite business in the fourth quarter and maybe, now what you're thinking that, that business can do in 2011? I thought you originally threw out a maybe a 7% type margin number.

David Thompson - *Orbital Sciences Corporation*

Yes, good morning, Troy. We had good fourth quarter in the business. Its strength was maybe accentuated a bit because earlier in the year we were facing, certainly, in the second and third quarters, a pretty sizable headwind due to the unexpected costs that we incurred in investigating the Galaxy 15 problem and making corrective action, or taking corrective actions on both in-orbit and on-ground satellites.

That headwind largely had diminished in the fourth quarter, and so it was a pretty strong period for particularly the commercial satellite margins. For the year ahead, we're looking for fairly flat margins in that segment, somewhere in the 6.5% to 7% range, and I think last year's final margins were around 6.8%. So plus or minus a few tens of basis points, I think, it will be about the same this year.

Troy Lahr - *Stifel Nicolaus - Analyst*

So, what segment then is catching the upside to the margin guidance that you are talking about?

David Thompson - *Orbital Sciences Corporation*

The primary driver in 2011 compared to last year is in the launch vehicle segment. There we expect something like a 150 basis point improvement in 2011 operating margin compared to 2010 margin. We also expect a more modest improvement in advanced space programs probably on the order of 50 basis points.

Troy Lahr - *Stifel Nicolaus - Analyst*

Okay. So, are you thinking now like launch vehicles might be 8% next year?

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David Thompson - *Orbital Sciences Corporation*

Well, they were just under 5% last year. So, we're looking for roughly a 150, maybe a 175 basis point improvement. Not getting to 8% though, and the reason for that is -- well, there are really two parts of the reason for that. One, and both revolve around Taurus II.

The first part is with the addition of the test flight under the COTS Cooperative research and development agreement. That work has been done in the past and would continue this year to be done at, basically, zero margin. It's being, it's accounted for as reimbursed R&D, so there is no profit on that, and that's a sizeable fraction of this year's revenue. It could be in the \$80 million to \$100 million range.

The other part of the reason is the ramp-up in production work of, for Taurus II under the CRS contract, which for the time being, as we did last year, is being -- that work is being accrued at a fairly modest profit rate, and that won't be the case forever, but at least for this year's plan we're holding that at not much more than 5%.

Troy Lahr - *Stifel Nicolaus - Analyst*

Okay, thanks. And the last question then. Can you just talk -- what was the final commercial satellite order count for 2010? I don't know if that fourth quarter order made it three and maybe what you are expecting for 2011?

David Thompson - *Orbital Sciences Corporation*

yes, okay. Let's see. For the full year across the industry, our count had 22 new commercial satellites being ordered, and we got two of those.

There were five of the 22 in our addressable market, and we received orders from -- for the MEXSAT-3 program late in December and the AzerSat I program in the third quarter, so we got two. We were targeted three. The third one that were originally targeting for last year is the SES eight contract that was announced this morning actually, and that just slipped out of 2010; it just didn't get done in 2010.

So, overall projections for this year that we have are for 18 to 20 new satellites to be purchased. That represents a drop from last year and, certainly from the year before. Out of the 18 to 20 new satellites to be purchased in 2011, we expect that between four, five, or six of those will be smaller satellites in our product category, and we're targeting three orders.

Troy Lahr - *Stifel Nicolaus - Analyst*

Great. Thank you guys.

David Thompson - *Orbital Sciences Corporation*

Okay. Thank you.

Operator

Your next question comes from the line of Erik Olbeter from Pacific Crest. Your line is open.

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Erik Olbeter - Pacific Crest - Analyst

Hi. Thanks for taking my question. I think you mentioned earlier on the call that your unfunded R&D for the whole year was down \$6.5 million, and I think that's off of a \$27 million base. Just wondering if you could confirm those for me? And, then also touch on what your expectations for unfunded R&D are for 2011 and beyond?

Garrett Pierce - Orbital Sciences Corporation

Well, you've got the numbers right. It's about \$26 million of unrecovered research and development in 2009, and we had about \$5.2 million, close to 6 this year, compared to last year. We do not expect in 2011 and beyond to have any unrecovered research and development.

Erik Olbeter - Pacific Crest - Analyst

Okay, also, in your guidance I was wondering if you could just walk through the individual revenue growth rates for the individual sectors? I know that's something you typically provide on the call.

David Thompson - Orbital Sciences Corporation

Yes, okay Eric. Let's see. For 2011, we are looking for revenue growth to be the strongest in our launch vehicle segment. That segment generated about \$435 million of revenue in 2010, and we are expecting about 20% growth in that area this year, so that would put us up in the range of \$515 million to \$525 million, so that will be the strongest of the three segments for revenue growth based on our current expectations for the year.

The satellite and space systems segment will also, we believe, generate solid growth. Last year we had \$497 million of revenue in that segment, and this year we're looking for something in the range of \$540 million to \$550 million of revenue. So, a roughly 10% growth there compared to roughly 20% growth in launch vehicles.

The one segment that is expected to show a drop in 2011 is advanced space programs. That segment generated just under \$425 million in revenue last year, and at this point we're projecting between \$380 million and \$390 million in revenue this year, so, down some 8% to 10%. Part of the drop in advanced space programs is the absence or almost complete absence in 2011 of Orion launch abort system work that was present in 2010, and I guess -- I think that's the major area of reduction.

Erik Olbeter - Pacific Crest - Analyst

Great. Thank you.

David Thompson - Orbital Sciences Corporation

Okay.

Operator

Your next question comes from the line of Michael Ciarmoli from KeyBanc Capital. Your line is open.

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Michael Ciarmoli - *Keybanc Capital - Analyst*

Good morning, guys.Thanks for taking my questions.

David Thompson - *Orbital Sciences Corporation*

Yes.Good morning, Mike.

Michael Ciarmoli - *Keybanc Capital - Analyst*

Maybe, Dave, just on the backlog, what percent of your 2011 revenues are in backlog right now?

David Thompson - *Orbital Sciences Corporation*

We started the year with about 85% of 2011 revenue and backlog.

Michael Ciarmoli - *Keybanc Capital - Analyst*

Okay, and maybe just if you can, some of the composition there. For 2011 revenues, where is the COTS CRS program expected to go, and how much of your firm backlog consists of that COTS CRS program?

David Thompson - *Orbital Sciences Corporation*

Let's see.I think I can answer the first part more readily than the second one. Let's talk about the CRS contract to start with.

I think Garrett mentioned the number, the revenue number for 2010 being approximately \$275 million. On a segment basis, the launch activity -- the launch vehicle activity shows up in launch vehicles and the rest of the work on the Cygnus spacecraft and related areas, shows up in advanced space programs. But the sum of those two in 2011 was approximately \$275 million.

This year we're looking for \$40million to \$50 million of growth in that contract, and so we'll be in the range of \$315 million to \$325 million of 2011 revenue in CRS.

Let's see, with regard to the contribution to backlog, I don't have that handy, so if you will give us a couple minutes, we'll circle back on that question in a minute. I can maybe on a related matter give you the breakdown of backlog by our three reporting segments, if that would be helpful.

Michael Ciarmoli - *Keybanc Capital - Analyst*

Yes, that would be great.

David Thompson - *Orbital Sciences Corporation*

Launch, the launch vehicle segment had firm backlog at the end of December of \$620 million and total backlog of \$1.615 billion. The satellites and space system segment had year-end backlog of \$890 million, total backlog of \$1.635 billion. And, finally, the advanced space programs segment had backlog of about \$520 million -- firm backlog of about \$520 million total backlog of a \$1.320 billion.



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Michael Ciarmoli - *Keybank Capital - Analyst*

Okay, that's perfect. And maybe just two quick follow ons. What are you expecting -- I know you had talked maybe about expecting \$100 million from the General Dynamics business in '11. Is that still a good number?

David Thompson - *Orbital Sciences Corporation*

Yes. I think that's still a pretty good number. We ended up with revenue last year from the acquisition of just under \$70 million. I think it was \$68 million or something like that, and so that accounted so -- of our 15 percent growth last year, about 5% of the 15% came from the acquisition and about 10% came from just organic sources.

For the year ahead, this one's a little bit sensitive to timing of resolving the budget situation. But around estimate of \$100 million is probably pretty close to what we would expect.

Michael Ciarmoli - *Keybank Capital - Analyst*

Okay, and then the last one. Just kind of around the future of the COTS CRS program. You've got ATK out there partnering with Astrium for this Liberty rocket. They say it could compete with the Taurus II. I mean, how kind of do you view that, maybe more competition for this program and just another platform in there?

David Thompson - *Orbital Sciences Corporation*

As I understand what as -- what they've proposed, the combination of the solid rocket motors from ATK and the liquid upper stage from the Europeans would produce a quite a large launch vehicle. Not a heavy lift vehicle as NASA would term it, but a large vehicle in the class of the largest of the Atlas and Delta rocket, so several times maybe -- let's see, off the top of my head, maybe four times the lift capacity of the Taurus II and at quite a bit higher cost per launch.

So, I don't really see it competing in the same market segment that the Taurus II is designed for, which is focused on medium class launch. If it were to come about, it's certainly something we could consider using for some of our future activities in human spaceflight and other areas. But I don't see it being a direct competitor for Taurus II.

Michael Ciarmoli - *Keybank Capital - Analyst*

Okay, great, thanks, guys. I will jump back in the queue.

David Thompson - *Orbital Sciences Corporation*

Okay, yes, thank you, Mike.

Operator

Your next question comes from the line of Tyler Hojo from Sidoti & Company. Your line is open.

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Tyler Hojo - Sidoti & Company - Analyst

Morning, everyone. Just a couple of cleanup questions here. Just wonder -- what did the General Dynamics acquisition contribute in the fourth quarter?

David Thompson - Orbital Sciences Corporation

Let me ask Garrett for that number. As I recall it's about \$20 million or \$22 million.

Garrett Pierce - Orbital Sciences Corporation

It was \$22 million in the fourth quarter. Full year was \$70 million.

Tyler Hojo - Sidoti & Company - Analyst

Okay, great. And then just going back to the free cash flow question. I guess -- I get why we're negative in 2011, but you guys, I think, had a three year free cash flow target of \$200 million. Is that still intact?

David Thompson - Orbital Sciences Corporation

It was \$150 million, and it is still intact. So, if you take the forecasted free cash flow for 2011, '12, and '13, it is \$150, and how we are able to do that with \$50 million to \$70 million negative in the first year is the -- (insueing) two years are substantially strong because we are hitting milestones and we're launching CRS missions and it releases a substantial amount of money that's an unbilled receivables right now.

Tyler Hojo - Sidoti & Company - Analyst

Okay, great and last one. Just in terms of the launch vehicle guidance, I think during the third quarter call you guys indicated something like \$450 million in revenue, and I guess you've ticked that up to about \$515 million to \$525 million. Just trying to understand what the moving pieces are there?

David Thompson - Orbital Sciences Corporation

I'm sorry, could you run that one by us again, Tyler?

Tyler Hojo - Sidoti & Company - Analyst

Yes. During the third quarter conference call, I think you guys indicated launch vehicle revenues in 2011 of about \$450 million.

David Thompson - Orbital Sciences Corporation

Right

Tyler Hojo - Sidoti & Company - Analyst

It sounds like you're now saying you're expecting between \$515 million to \$525 million.

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David Thompson - *Orbital Sciences Corporation*

Oh, okay. Just trying to understand what's going on there. Yes, good question. The only real change of significance there is now we are building into our plan the segment level revenue effects of the Taurus II test flight in the summer. We were not doing that back in October. So, the difference -- the primary difference of roughly \$70 million between where we were in October and where we are now is attributable to the addition of the Taurus II test flight.

Because that is funded under the cooperative R&D agreement with NASA, as part of COTS, it is eliminated. Those revenue -- that revenue figure is eliminated in our consolidated numbers. But at the segment level, it is recorded.

Tyler Hojo - *Sidoti & Company - Analyst*

Okay, great. I appreciate the clarification. Thanks a lot.

David Thompson - *Orbital Sciences Corporation*

Sure, and if I could just go back, I think, to Mike's question. I think it was Mike's question about the CRS contribution to backlog. It represents about \$350 million firm backlog at the present time.

Operator

And, your last question comes from the line of Michael French from Morgan Joseph. Your line is open.

Michael French - *Morgan Joseph - Analyst*

Good morning, gentlemen.

David Thompson - *Orbital Sciences Corporation*

Morning, Michael.

Michael French - *Morgan Joseph - Analyst*

Congratulations on the successful recovery of the G-15. That's not something that happens every day.

David Thompson - *Orbital Sciences Corporation*

Well, that's true. Thank you. It was a real great effort between Intelsat and Orbital to be in a position to affect that successful recovery. So, not quite in the category of an Apollo 13 rescue, but maybe as close as we have ever come to it.

Michael French - *Morgan Joseph - Analyst*

Good. You had been expecting that as the power level depleted, that for lack of a better word, it would reboot. Is that, in fact, what happened?

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David Thompson - *Orbital Sciences Corporation*

Yes.

Michael French - *Morgan Joseph - Analyst*

Okay, and then in terms of the financial impact, will there be a reversal of the charge that was taken there?

David Thompson - *Orbital Sciences Corporation*

We don't expect so. Most of the -- well, most of the costs that we incurred were expensed in the period which we incurred them. Or we're factored in on a percent completion basis to other satellite contracts where we made hardware changes in production spacecraft, and we don't expect to see a recovery of those costs or in a future, or any kind of future reversal of those expenses.

Michael French - *Morgan Joseph - Analyst*

Okay, very well. And, then, switching over to the Iridium next and they've been talking about hosted payloads on those spacecraft. Are there any opportunities for your company?

David Thompson - *Orbital Sciences Corporation*

Yes, I think so. We're pretty excited about the possibilities there. Orbital's been involved in five or six hosted payload programs, primarily with government agencies over the last 15 years. These range from a missile warning sensor that we are putting on a SES GEO-communication satellite to be launched later this year, to wide-area augmentation systems for the FAA on prior Intelsat satellites, including Galaxy 15, and a variety of other things we've done, both for civilian government agencies and military customers.

The opportunity to do more of these for Iridium is very exciting. Over the period between 2015 and 2017, Iridium will launch 72 satellites, and they have set aside an envelope for secondary payloads on each one of those spacecraft's.

We have reserved 20% of the total secondary capacity for hosted payloads and could well increase that in the future depending on market demand, but in applications covering the waterfront from civilian government agencies who are interested in scientific missions and enhanced forms of weather prediction and air traffic control, to defense missions in areas like missile warning and space situational awareness.

This opportunity may be very relevant. It is, however, a perishable opportunity. This comes around about once every decade and a half, so we'll be putting a lot of work into this in the next year or two to try to line up as many hosted payload packages to go on the Iridium second generation satellites as we can.

In total, and we may not fill up every possible secondary package. But in total, the Iridium network can accommodate about 4 tons of secondary payloads that require over 15 kilowatts of peak electrical power. So, that's a pretty impressive capability for a variety of missions and because the Iridium system is inherently networked and inner-linked, a customer for a secondary payload does not need to worry about investing in a ground infrastructure. That comes pretty much for free if you are flying on board the Iridium satellite.

So, I think this is the most exciting hosted payload opportunity that we have ever seen, and it really comes at a good time. It's very much in alignment with the new National Space policy as well as the National Security Space strategy, and so, we'll have to see how all the details work out, but we're quite optimistic that this will be a good area for Iridium and a good business for us.

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Michael French - *Morgan Joseph - Analyst*

Okay, well, thank you for the color on that opportunity, and good luck with it.

David Thompson - *Orbital Sciences Corporation*

Okay. Well, thank you as well.

I think at this point we'll bring the discussion to a close. I want to thank everyone, again, for joining us this morning. We look forward to talking with you soon. Good day.

Operator

This concludes today's conference call. You may now disconnect.

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