SAIC, Inc.
Form S-1/A
October 14, 2005
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As filed with the Securities and Exchange Commission on October 14, 2005

Registration No. 333-128021

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SAIC, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**8700**	**20-3562868**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

10260 Campus Point Drive
San Diego, California 92121
(858) 826-6000
(Address, including zip code and telephone number, including area code, of Registrant s principal executive offices)

Douglas E. Scott, Esq.

Senior Vice President, General Counsel and Secretary

SAIC, Inc.

10260 Campus Point Drive

San Diego, California 92121

(858) 826-6000

(Name, address, including zip code and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued October 14, 2005

Shares

COMMON STOCK

SAIC, Inc. is offering shares of its common stock. Although our principal operating subsidiary has previously sponsored a limited market in its common stock, no public market currently exists for our common stock. We anticipate that the initial public offering price will be between $ and $ per share. A special dividend of $ billion will be declared prior to this offering by our principal operating subsidiary and, following completion of this offering, paid to its stockholders of record, including our directors and officers. We will not pay this special dividend on shares sold in this offering.

We have applied for listing of our common stock on the New York Stock Exchange under the symbol SAI.

Investing in our common stock involves risks. See Risk Factors beginning on page 10.

PRICE $ A SHARE

	Price to Public	*Underwriting Discounts and Commissions*	*Proceeds to SAIC*
Per Share	*$*	*$*	*$*
Total	*$*	*$*	*$*

We have granted the underwriters the right to purchase up to an additional shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on , 2006.

MORGAN STANLEY *BEAR, STEARNS & CO. INC.*

, 2006

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Until , 2006, all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

You should read the following summary together with the entire prospectus, including the more detailed information in our financial statements and related notes appearing in the back of this prospectus. You should also carefully consider, among other things, the matters discussed in Risk Factors.

In this prospectus, we use the terms SAIC, we, us and our to refer to Science Applications International Corporation or SAIC, Inc. when the distinction between the two companies is not important. When the distinction is important to the discussion, we use the term Old SAIC to refer to Science Applications International Corporation and New SAIC to refer to SAIC, Inc. Unless otherwise noted, references to years are to fiscal years ended January 31, not calendar years. For example, we refer to the fiscal year ended January 31, 2005 as fiscal 2005. We are currently in fiscal 2006. References to government fiscal years are to fiscal years ending September 30.

SAIC, INC.

Overview

We are a leading provider of scientific, engineering, systems integration and technical services and solutions to all branches of the U.S. military, agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, as well as to selected commercial markets. Our customers seek our domain expertise to solve complex technical challenges requiring innovative solutions for mission-critical functions in such areas as national security, intelligence and homeland defense. Increasing demand for our services and solutions is driven by priorities including the ongoing global war on terror and the transformation of the U.S. military.

From fiscal 2001 to fiscal 2005, our consolidated revenues increased at a compound annual growth rate of 15.5% to a company record of $7.2 billion, inclusive of acquisitions and exclusive of Telcordia Technologies, Inc., our commercial telecommunications subsidiary, which we divested in March 2005. As of July 31, 2005, we had a portfolio of more than 10,000 contracts and total consolidated negotiated backlog of approximately $9.9 billion, which included funded backlog of approximately $3.4 billion, compared to approximately $9.0 billion and $3.4 billion, respectively, as of July 31, 2004. In May 2005, Washington Technology, a leading industry publication, ranked us number three in its list of Top Federal Prime Contractors in the United States based on information technology (IT), telecommunications and systems integration revenues.

The U.S. Government is our largest customer, in aggregate representing 86% of our total consolidated revenues in fiscal 2005. According to the Congressional Budget Office, U.S. Government total discretionary spending in government fiscal 2005 is approximately $960 billion and we estimate that more than $125 billion of this amount will be spent in areas in which we compete. We believe that U.S. Government spending in these areas will continue to grow as a result of homeland security and intelligence needs arising from the global war on terror, the ongoing transformation of the U.S. military and the increased reliance on outsourcing by the U.S. Government.

Competitive Strengths

To maximize our ability to consistently deliver innovative solutions to help meet our customers most challenging needs, and to grow our business and increase stockholder value, we rely on the following key strengths:

- Skilled Personnel and Experienced Management;

- Employee Ownership and Core Values;

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- Knowledge of Customers Needs;
- Technical Expertise;
- Trusted Services and Solutions Provider;
- Proven Marketing and Business Development Organization; and
- Ability to Complete and Integrate Acquisitions.

Growth Strategy

We are focused on continuing to grow our business as a leading scientific, engineering, systems integration and technical services and solutions company. In our Government segment, we seek to become the leading provider of systems engineering, systems integration and technical services and solutions by focusing on the U.S. Government s increased emphasis on defense transformation, intelligence and homeland defense. In addition, we plan to continue to pursue strategic acquisitions in areas such as these where we anticipate high growth. In our Commercial segment, we seek to grow our business in our existing targeted markets, in addition to becoming a leader in new selected vertical markets in which we can leverage our specialized experience and skill sets.

Our Services and Solutions

We offer a broad range of services and solutions to address our customers most complex and critical technology-related needs. These services include the following:

Defense Transformation. We develop leading-edge concepts, technologies and systems to solve complex challenges facing the U.S. military and its allies, helping them transform the way they fight.

Intelligence. We develop solutions to help the U.S. defense, intelligence and homeland security communities build an integrated intelligence picture, allowing them to be more agile and dynamic in chaotic environments and produce actionable intelligence.

Homeland Security. We develop technical solutions and provide systems integration and mission-critical support services to help federal, state, local and foreign governments and private-sector customers protect the United States and allied homelands.

Logistics and Product Support. We provide logistics and product support solutions to enhance the readiness and operational capability of U.S. military personnel and weapon and support systems.

Systems Engineering and Integration. We provide systems engineering and integration solutions to help our customers design, manage and protect complex IT networks and infrastructure.

Research and Development. As one of the largest science and technology contractors to the U.S. Government, we conduct leading-edge research and development of new technologies with applications in areas such as national security, intelligence and life sciences.

Commercial Services. We help our customers become more competitive, offering technology-driven consulting, systems integration and outsourcing services and solutions in selected commercial markets, currently IT support for oil and gas exploration and production, applications and IT infrastructure management for utilities and data lifecycle management for pharmaceuticals.

Prior to completion of this offering, we will ask the stockholders of Old SAIC to adopt and approve a merger agreement providing for the merger of Old SAIC with New SAIC s wholly-owned subsidiary, SAIC Merger Sub, Inc. We refer to this merger in this prospectus as the reorganization merger. After the reorganization merger, Old SAIC will be a wholly-owned subsidiary of New SAIC and Old SAIC stockholders

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will become New SAIC stockholders. We expect to complete the reorganization merger before the completion of this offering, and the completion of the reorganization merger is a condition to the completion of this offering. After the reorganization merger and upon the completion of this offering, our current stockholders will hold approximately   % of our total outstanding capital stock and   % of our total voting power. Unless we indicate otherwise, the information in this prospectus assumes that we complete the reorganization merger.

We are headquartered in San Diego, California. Our address is 10260 Campus Point Drive, San Diego, California 92121, and our telephone number is (858) 826-6000. Our website can be found on the Internet at *www.saic.com*. The website contains information about us and our operations. The contents of our website are not incorporated by reference into this prospectus.

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THE OFFERING

Common stock offered by us	shares	
Stock to be outstanding immediately after completion of this offering:		
Common stock		shares
Class A preferred stock, divided into four series:		
Series A-1 preferred stock	35,500,576 shares	
Series A-2 preferred stock	106,501,727 shares	
Series A-3 preferred stock	106,501,727 shares	
Series A-4 preferred stock	106,501,727 shares	
Total class A preferred stock		355,005,758 shares
Total capital stock		shares
Voting rights:		
Common stock	One vote per share	
Class A preferred stock	10 votes per share	
Proposed NYSE symbol	SAI	

Net proceeds from this offering will be approximately $, or $ if the underwriters exercise their over-allotment option in full. A special dividend of $ billion will be declared prior to this offering by our principal operating subsidiary and, following completion of this offering, paid to its stockholders of record. We will not pay this special dividend on shares sold in this offering. The aggregate amount of this special dividend will exceed the net proceeds from this offering by approximately $ million, or $ million if the underwriters exercise their over-allotment option in full. See Use of Proceeds and The Merger and the Special Dividend.

The principal purpose of this offering is to better enable us to use our cash and cash flows from operations to fund organic growth and growth through acquisitions, as well as to provide us with publicly traded stock that can be used for future acquisitions. Creating a public market for our common stock eliminates the need to use our cash to provide liquidity for our stockholders in the limited market that we have historically sponsored.

The payment of the special dividend is conditioned upon the completion of this offering. We do not expect to pay any other dividends on our capital stock in the foreseeable future and intend to retain any future earnings to finance our operations and growth. Any future determination to pay dividends will be at the discretion of our board of directors in light of earnings, financial condition, operating results, capital requirements, applicable contractual restrictions and other factors our board of directors deems relevant. See Use of proceeds, Dividend Policy and The Merger and the Special Dividend.

Shares of our class A preferred stock are convertible on a one-for-one basis into our common stock, subject to certain restrictions on the timing of conversion. The four series of this stock will be identical, except for the restrictions on the timing of the conversion applicable to each series. See Description of Capital Stock.

The number of shares of class A preferred stock that will be outstanding immediately after the completion of this offering is based on 173,185,879 shares of Old SAIC class A common stock and 215,850 shares of Old

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SAIC class B common stock outstanding as of July 31, 2005 (which will convert into shares of New SAIC class A preferred stock pursuant to the reorganization merger described below), and excludes the following:

- 63,104,636 shares of New SAIC class A preferred stock issuable upon exercise of 31,552,318 options to purchase shares of Old SAIC class A common stock, which will be assumed by New SAIC in the reorganization merger, with a weighted-average exercise price of $16.75 per share (adjusted for the reorganization merger, but not including the anticipated adjustments for the special dividend); and

- shares of New SAIC class A preferred stock reserved for future grants under our 2006 Equity Incentive Plan and 2006 Employee Stock Purchase Plan.

Except as otherwise indicated, all information in this prospectus relating to New SAIC (1) assumes that the underwriters over-allotment option will not be exercised and (2) gives effect to the reorganization merger of Old SAIC with a wholly-owned subsidiary of New SAIC, pursuant to which:

- each share of Old SAIC class A common stock will convert into two shares of New SAIC class A preferred stock, which will be allocated among four series, A-1, A-2, A-3 and A-4, as described under The Merger and the Special Dividend; and

- each share of Old SAIC class B common stock will convert into 40 shares of New SAIC class A preferred stock, which will be allocated among four series, A-1, A-2, A-3 and A-4, as described under The Merger and the Special Dividend.

Old SAIC financial statements and share and per share data have not been adjusted to give effect to the planned reorganization merger.

Please read Risk Factors and other information included in this prospectus for a discussion of the factors you should consider carefully before deciding to invest in our common stock.

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SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the summary consolidated financial data presented below in conjunction with Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. The summary consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2005, 2004 and 2003 and for the six months ended July 31, 2005 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data presented below under Consolidated Statement of Income Data for the six months ended July 31, 2004 have been derived from unaudited condensed consolidated financial statements that are included elsewhere in this prospectus and have been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our results of operations for and as of the periods presented. The summary consolidated financial data presented below under Consolidated Balance Sheet Data as of July 31, 2005 have been derived from our audited consolidated financial statements that are included elsewhere in this prospectus. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

The pro forma consolidated balance sheet data reflect the balance sheet data as of July 31, 2005, after giving effect to Old SAIC s payment of the special dividend after the completion of this offering. The pro forma as adjusted consolidated balance sheet data reflect the balance sheet data as of July 31, 2005, after giving effect to the payment of the special dividend, the completion of the reorganization merger and the completion of the sale of common stock by us in this offering at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and offering expenses. The special dividend is expected to range from $8 to $10 per share of Old SAIC class A common stock and from $160 to $200 per share of Old SAIC class B common stock, which is the equivalent of a range from $4 to $5 per share of New SAIC class A preferred stock. The pro forma earnings per share and the pro forma common equivalent share data contained in the summary consolidated financial data presented below reflect the payment of the special dividend and the completion of the reorganization merger.

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	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
	(in millions, except per share data)				
Consolidated Statement of Income Data:					
Revenues	$ 7,187	$ 5,833	$ 4,835	$ 3,798	$ 3,474
Cost of revenues	6,337	5,100	4,211	3,332	3,055
Selling, general and administrative expenses	364	331	305	210	185
Goodwill impairment		7	13		
Gain on sale of business units, net	(2)		(5)		
Operating income	488	395	311	256	234
Net (loss) gain on marketable securities and other investments, including impairment losses (1)	(16)	5	(134)	(5)	(4)
Interest income	45	49	37	43	17
Interest expense	(88)	(80)	(45)	(44)	(44)
Other (expense) income, net	(12)	5	6	2	(1)
Minority interest in income of consolidated subsidiaries	(14)	(10)	(7)	(6)	(6)
Income from continuing operations before income taxes	403	364	168	246	196
Provision for income taxes	131	140	61	106	77
Income from continuing operations	272	224	107	140	119
Income from discontinued operations, net of tax	137	127	152	542	51
Net income	$ 409	$ 351	$ 259	$ 682	$ 170
Earnings per share:					
Basic:					
Income from continuing operations	$ 1.49	$ 1.22	$ .55	$ .79	$ .64
Discontinued operations, net of tax	.74	.68	.77	3.06	.28
	$ 2.23	$ 1.90	$ 1.32	$ 3.85	$ .92
Diluted:					
Income from continuing operations	$ 1.45	$ 1.19	$ .53	$ .77	$ .63
Discontinued operations, net of tax	.73	.67	.75	2.98	.27
	$ 2.18	$ 1.86	$ 1.28	$ 3.75	$ .90
Common equivalent shares:					
Basic	183	185	196	177	184
Diluted	188	189	203	182	189
Pro forma earnings per share:					
Basic: (2)(3)					
Income from continuing operations	$			$	
Discontinued operations, net of tax					
	$			$	

Diluted: (2)(3)		
Income from continuing operations	$	$
Discontinued operations, net of tax		
	$	$
Pro forma common equivalent shares:		
Basic (2)(3)		
Diluted (2)(3)		

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	As of July 31, 2005		
	Actual	Pro Forma	Pro Forma as Adjusted
		(in millions)	
Consolidated Balance Sheet Data:			
Cash, cash equivalents and short-term investments	$ 3,101		
Working capital	3,153		
Total assets	5,866		
Long-term debt, net of current portion	1,209		
Stockholders equity	2,834		

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
			(dollars in millions)		
Other Data:					
EBITDA (4)	$ 687	$ 622	$ 464	$ 1,148	$ 342
Adjusted EBITDA (5)	519	438	354	284	253
Number of contracts generating more than $10 million in annual revenues (6)	91	66	44	N/A	N/A

	As of January 31			As of July 31	
	2005	2004	2003	2005	2004
			(dollars in millions)		
Total consolidated negotiated backlog (7)	$ 8,977	$ 7,575	$ 5,619	$ 9,932	$ 9,045
Total consolidated funded backlog (7)	3,646	3,355	2,729	3,354	3,434
Total number of employees (8)	42,400	39,300	34,700	43,000	40,900

(1) Includes impairment losses of $108 million on marketable equity securities and other private investments in 2003.

(2) Pro forma earnings per share and common equivalent share data reflect the completion of the reorganization merger and the payment of the special dividend that Old SAIC intends to pay to its stockholders following completion of this offering. See Use of Proceeds, Capitalization and The Merger and the Special Dividend.

(3) Pro forma earnings per share and common equivalent share data for both basic and diluted computations assume that shares of our common stock during each of the periods indicated had been sold by us with assumed net proceeds of $ per share. Such shares represent the assumed number of shares of our common stock necessary to be sold in this offering to fund the $ special dividend to be paid by Old SAIC. Pro forma earnings per share and common equivalent share data for both basic and diluted computations reflect the conversion of each outstanding share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock and each outstanding share of Old SAIC class B common stock into 40 shares of New SAIC class A preferred stock.

(4) EBITDA is defined as net income plus income tax expense, net interest expense, and depreciation and amortization expense. EBITDA is considered a non-GAAP financial measure. We believe that EBITDA is an important measure of our performance and is a useful supplement to net income and other income statement data. We believe EBITDA is useful to management and investors in comparing our performance to that of other companies in our industry, since it removes the impact of (a) differences in capital structure, including the effects of interest income and expense, (b) differences among the tax regimes to which we and comparable companies are subject and (c) differences in the age, method of acquisition and approach to depreciation and amortization of productive assets. However, because other companies may calculate EBITDA differently than we do, it may be of limited usefulness as a comparative measure. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments, (b) EBITDA does not reflect changes in, or cash requirements for, our working capital needs, (c) EBITDA does not reflect the interest expense, or the cash requirements necessary to service our principal payments, on our debt, (d) EBITDA does not reflect income taxes or the cash requirements for any tax payments, and (e) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

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The following is a reconciliation of EBITDA to net income.

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
			(in millions)		
Net income	$ 409	$ 351	$ 259	$ 682	$ 170
Interest income	(45)	(49)	(37)	(43)	(17)
Interest expense	88	80	45	44	44
Provision for income taxes	149	159	101	434	102
Depreciation and amortization	86	81	96	31	43
EBITDA	$ 687	$ 622	$ 464	$ 1,148	$ 342

(5) Adjusted EBITDA equals EBITDA minus income from discontinued operations, net of tax and gain on sale of business units and subsidiary common stock, plus goodwill impairment, net gain or (loss) on marketable securities and other investments including impairment losses and investment activities by our venture capital subsidiary. We utilize and present Adjusted EBITDA as a further supplemental measure of our performance. We prepare Adjusted EBITDA to eliminate the impact of items we do not consider indicative of ongoing operating performance. You are encouraged to evaluate each adjustment and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA.

The following is a reconciliation of Adjusted EBITDA to EBITDA.

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
			(in millions)		
EBITDA	$ 687	$ 622	$ 464	$ 1,148	$ 342
Income from discontinued operations, net of tax	(137)	(127)	(152)	(542)	(51)
Depreciation and amortization of discontinued operations	(30)	(44)	(65)		(18)
Provision for income taxes of discontinued operations	(18)	(19)	(40)	(328)	(25)
Gain on sale of business units and subsidiary common stock	(2)		(5)		
Goodwill impairment		7	13		
Net loss (gain) on marketable securities and other investments, including impairment losses	16	(5)	134	5	4
Investment activities by venture capital subsidiary	3	4	5	1	1
Adjusted EBITDA	$ 519	$ 438	$ 354	$ 284	$ 253

(6) Number of contracts from which we recognized more than $10 million in annual revenues in the period presented.

(7) Total consolidated negotiated backlog consists of funded backlog and negotiated unfunded backlog. Funded backlog represents the portion of backlog for which funding currently is appropriated or otherwise authorized and is payable to us upon completion of a specified portion of work, less revenues previously recognized. Our funded backlog does not include the full potential value of our contracts because the U.S. Government and our other customers often appropriate or authorize funds for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a number of years. Negotiated unfunded backlog represents (a) firm orders for which funding has not been appropriated or otherwise authorized and (b) unexercised contract options. When a definitive contract or contract amendment is executed and funding has been appropriated or otherwise authorized, funded backlog is increased by the difference between the funded dollar value of the contract or contract amendment and the revenue recognized to date. Negotiated unfunded backlog does not include any estimate of future potential task orders that might be awarded under (a) indefinite delivery / indefinite

quantity contract vehicles, (b) government-wide acquisition contract vehicles or (c) U.S. General Services Administration Schedule contract vehicles. See Risk Factors Risks Relating to Our Business We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our future revenues and growth prospects, Management s Discussion and Analysis of Financial Condition and Results of Operations Sources of Revenues Backlog and Business Contracts Backlog.

(8) Includes full-time and part-time employees and excludes employees of our former Telcordia Technologies, Inc. subsidiary.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information contained in this prospectus before deciding whether to purchase our common stock. If any of the following risks occurs, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business

We depend on our contracts with U.S. Government agencies for a significant portion of our revenues and, if our reputation or relationships with these agencies were harmed, our future revenues and growth prospects would be adversely affected.

We are heavily dependent upon the U.S. Government as our primary customer and we believe that the success and development of our business will continue to depend on our successful participation in U.S. Government contract programs. We generated 86%, 85% and 84% of our total consolidated revenues from the U.S. Government (including all branches of the U.S. military) in fiscal 2005, 2004 and 2003, respectively. Revenues from the U.S. Army represented 13% of our total consolidated revenues in each of fiscal 2005, 2004 and 2003. Revenues from the U.S. Navy represented 13% of our total consolidated revenues in fiscal 2005 and 12% of our total consolidated revenues in fiscal 2004 and 2003. Revenues from the U.S. Air Force represented 11% of our total consolidated revenues in fiscal 2005 and 2004 and 12% of our total consolidated revenues in fiscal 2003.

For the foreseeable future, we expect to continue to derive a substantial portion of our revenues from work performed under U.S. Government contracts. If our reputation or relationship with the U.S. Government, and in particular agencies of the Department of Defense (DoD) or the U.S. intelligence community, were negatively affected, if we were suspended or debarred from contracting with government agencies or if the U.S. Government decreased the amount of business that it does with us, our future revenues and growth prospects would be adversely affected.

The U.S. Government may modify, curtail or terminate our contracts at any time prior to their completion and, if we do not replace them, we may be unable to sustain our revenue growth and may suffer a decline in revenues.

Many of the U.S. Government programs in which we participate as a contractor or subcontractor may extend for several years. These programs are normally funded on an annual basis. Under our contracts, the U.S. Government generally has the right not to exercise options to extend or expand our contracts and may modify, curtail or terminate the contracts and subcontracts at its convenience. Any decision by the U.S. Government not to exercise contract options or to modify, curtail or terminate our major programs or contracts would adversely affect our revenues and revenue growth.

We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our future revenues and growth prospects.

Backlog is our estimate of the amount of revenue we expect to realize over the remaining life of definitive contracts and task orders in effect as of the measurement date. The U.S. Government s ability not to exercise contract options or to modify, curtail or terminate our major programs or contracts makes the calculation of backlog subject to numerous uncertainties. Our total consolidated negotiated backlog consists of funded backlog plus negotiated unfunded backlog. Funded backlog represents the portion of backlog for which funding currently is appropriated or otherwise authorized and is payable to us upon completion of a specified portion of work, less revenues previously recognized. Negotiated unfunded backlog represents (1) firm orders for which funding has not been appropriated or otherwise authorized and (2) unexercised contract options. Negotiated unfunded backlog does not include any estimate of future potential task orders that might be awarded under indefinite delivery / indefinite quantity (IDIQ), government-wide acquisition contracts (GWAC) or U.S. General Services Administration (GSA) Schedule contract vehicles. As of July 31, 2005, our total consolidated negotiated backlog was $9.9 billion, which included $3.4 billion in funded backlog. For information regarding our historic backlog levels, see Business Contracts Backlog. Due to the uncertain nature of our contracts with the U.S. Government, we may never realize revenues from some of the engagements that are included in our backlog. Our unfunded backlog, in particular, contains amounts that we may never realize as revenues because the maximum contract value specified under a U.S. Government contract or task order awarded to us is not necessarily indicative of the revenues that we will realize under that contract. If we fail to realize as revenues amounts included in our backlog, our future revenues and growth prospects may be adversely affected.

The U.S. Government has increasingly relied on IDIQ and other contracts that are subject to a competitive bidding process. If we are unable to consistently win new awards under these contracts, we may be unable to sustain our revenue growth and may suffer a decline in revenues.

The U.S. Government has increasingly been using IDIQ contracts, GWACs and GSA Schedule contract vehicles to obtain commitments from contractors to provide various products or services on pre-established terms and conditions. Under these contracts, the U.S. Government issues task orders for specific services or products it needs and the contractor supplies these products or services in accordance with the previously agreed terms. These contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling but not committing the U.S. Government to purchase substantial amounts of products and services from one or more contractors. The use of these contracts makes it difficult for us to estimate the actual value of products or services that we may ultimately sell or perform under a given contract, and a failure to estimate these amounts accurately could have an adverse effect on our results of operations and financial condition. The competitive bidding process also presents a number of more general risks, including the risk of unforeseen technological difficulties and cost overruns that may result from our bidding on programs before completion of their design and the risk that we may encounter expense, delay or modifications to previously awarded contracts as a result of our competitors protesting or challenging contracts awarded to us in competitive bidding.

Contracts such as these that are subject to a competitive bidding process have also resulted in greater competition and increased pricing pressure. Accordingly, we may not be able to realize revenues and/or maintain our historical profit margins under these contracts. We may not continue to realize revenues under these existing contracts or otherwise successfully sell our services and solutions under these types of contracts. Our failure to compete effectively in this procurement environment would adversely affect our revenues and revenue growth.

Our overall profit margins on our contracts may decrease and our results of operations could be adversely affected if material and subcontract revenues continue to grow at a faster rate than labor-related revenues.

Our revenues are generated from either the efforts of our technical staff, which we refer to as labor-related revenues, or the receipt of payments for the costs of materials and subcontracts used in a project, which we refer to as material and subcontract (M&S) revenues. Generally, our M&S revenues have lower margins than our labor-related revenues. Our labor-related revenues increased by 15.6% from fiscal 2004 to 2005 and by 15.8% from fiscal 2003 to 2004, while our M&S revenues increased by 39% from fiscal 2004 to 2005 and by 32.1% from fiscal 2003 to 2004. M&S revenues accounted for 37%, 33% and 30% of our total consolidated revenues for fiscal 2005, 2004 and 2003, respectively, and labor-related revenues accounted for 63%, 67% and 70% of our total consolidated revenues for fiscal 2005, 2004 and 2003, respectively. If M&S revenues continue to grow at a faster rate than labor-related revenues, our overall profit margins on our contracts may decrease and our profitability could be adversely affected.

A decline in the U.S. defense budget or changes in budgetary priorities may adversely affect our future revenues and limit our growth prospects.

Sales under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented 65% of our total consolidated revenues in fiscal 2005. Changes in the budgetary priorities of the U.S.

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Government or the DoD could directly affect our operating results. For example, the U.S. defense budget declined in the late 1980s and the early 1990s, resulting in a slowing of new program starts, program delays and program cancellations. These reductions caused most defense-related government contractors to experience declining revenues, increased pressure on operating margins and, in some cases, net losses. While spending authorizations for defense-related programs by the U.S. Government have increased in recent years, and in particular after the September 11, 2001 terrorist attacks, these spending levels may not be sustainable, and future levels of spending and authorizations for these programs may decrease, remain constant or shift to programs in areas where we do not currently provide services. A significant decline in overall U.S. Government spending, including in the areas of national security, defense transformation, intelligence and homeland security, or a significant shift in its spending priorities, would adversely affect our future revenues and limit our growth prospects. For example, the relief and recovery costs for Hurricanes Katrina and Rita could impact the U.S. Government s spending for defense-related programs.

A delay in the completion of the U.S. Government s budget process could delay procurement of our services and solutions and have an adverse effect on our future revenues.

In years when the U.S. Government does not complete its budget process before the end of its fiscal year on September 30, government operations are typically funded pursuant to a continuing resolution that authorizes agencies of the U.S. Government to continue to operate, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of our services and solutions. We have from time to time experienced a decline in revenues in our quarter ending January 31 as a result of this annual budget cycle, and we could experience similar declines in revenues if the budget process is delayed significantly in future periods. These delays could have an adverse effect on our future revenues.

Our financial results may vary significantly from period to period.

Our financial results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our financial results may be negatively affected by any of the risk factors listed in this Risk Factors section and, in particular, the following risks:

- a reduction of government funding or delay in the completion of the U.S. Government s budget process;
- decisions by the U.S. Government not to exercise contract options or to modify, curtail or terminate our major programs or contracts;
- the potential decline in our overall profit margins if our material and subcontract revenues grow at a faster rate than labor-related revenues;
- failure to estimate costs or control costs under firm fixed price (FFP) contracts;
- adverse judgments or settlements in legal disputes;
- expenses related to acquisitions, mergers or joint ventures; and

- other one-time financial charges.

Our failure to attract, train and retain skilled employees, including our management team, would adversely affect our ability to execute our strategy.

The availability of highly trained and skilled technical, professional and management personnel is critical to our future growth and profitability. Competition for scientists, engineers, technicians and professional and management personnel is intense and competitors aggressively recruit key employees. Because of our growth and increased competition for experienced personnel, particularly in highly specialized areas, it has become more difficult to meet all of our needs for these employees in a timely manner. Although we intend to continue to

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devote significant resources to recruit, train and retain qualified employees, we may not be able to attract and retain these employees. Any failure to do so would have an adverse effect on our ability to execute our strategy.

In addition to attracting and retaining qualified engineering, technical and professional personnel, we believe that our success will also depend on the continued employment of a highly qualified and experienced senior management team and its ability to generate new business. Our inability to retain appropriately qualified and experienced senior executives could cause us to lose customer relationships or new business opportunities.

Our revenues and growth prospects may be adversely affected if we or our employees are unable to obtain the security clearances or other qualifications we and they need to perform services for our customers.

Many U.S. Government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue anticipated from the contract.

Employee misconduct, including security breaches, or our failure to comply with laws or regulations applicable to our business could cause us to lose customers or our ability to contract with the U.S. Government.

Because we are a U.S. Government contractor, misconduct, fraud or other improper activities by our employees or our failure to comply with laws or regulations could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with U.S. Government procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in U.S. Government contracts, environmental laws and any other applicable laws or regulations. Many of the systems we develop involve managing and protecting information relating to national security and other sensitive government functions. A security breach in one of these systems could prevent us from having access to such critically sensitive systems. Other examples of potential employee misconduct include time card fraud and violations of the Anti-Kickback Act. The precautions we take to prevent and detect these activities may not be effective, and we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees could subject us to fines and penalties, loss of security clearance and suspension or debarment from contracting with the U.S. Government, any of which would adversely affect our business.

Our U.S. Government contracts may be terminated and we may be liable for penalties under a variety of procurement rules and regulations and changes in government regulations or practices could adversely affect our profitability, cash balances or growth prospects.

We must comply with laws and regulations relating to the formation, administration and performance of U.S. Government contracts, which affect how we do business with our customers. Such laws and regulations may potentially impose added costs on our business and our failure to comply with them may lead to penalties and the termination of our U.S. Government contracts. Some significant regulations that affect us include:

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the Federal Acquisition Regulations and their supplements, which regulate the formation, administration and performance of U.S. Government contracts;

- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations; and

- the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based government contracts.

The U.S. Government may revise its procurement practices or adopt new contract rules and regulations, such as cost accounting standards, at any time. In addition, the U.S. Government may face restrictions or pressure

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from government employees and their unions regarding the amount of services the U.S. Government may obtain from private contractors. Any of these changes could impair our ability to obtain new contracts or contracts under which we currently perform when those contracts are put up for recompetition bids. Any new contracting methods could be costly or administratively difficult for us to implement and could adversely affect our future revenues.

Additionally, our contracts with the U.S. Government are subject to periodic review and investigation. If such a review or investigation identifies improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including the termination of contracts, forfeiture of profits, the triggering of price reduction clauses, suspension of payments, fines and suspension or debarment from doing business with U.S. Government agencies. We could also suffer harm to our reputation, which would impair our ability to win awards of contracts in the future or receive renewals of existing contracts. Although we have never had any material civil or criminal penalties or administrative sanctions imposed upon us, it is not uncommon for companies in our industry to have such penalties and sanctions imposed on them. If we incur a material penalty or administrative sanction in the future, our profitability, cash position, growth prospects and reputation could be adversely affected.

Our business is subject to routine audits and cost adjustments by the U.S. Government, which, if resolved unfavorably to us, could adversely affect our profitability.

U.S. Government agencies routinely audit and review their contractors performance on contracts, cost structure and compliance with applicable laws, regulations and standards. They also review the adequacy of, and a contractor s compliance with, its internal control systems and policies, including the contractor s purchasing, property, estimating, compensation and management information systems. Such audits may result in adjustments to our contract costs, and any costs found to be improperly allocated will not be reimbursed. To date, none of our audits have resulted in material adjustments and substantially all of our indirect contract costs have been agreed upon through fiscal 2003 and are not subject to further adjustment. We have recorded contract revenues in fiscal 2004 and 2005 based upon costs we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments and, if future audit adjustments exceed our estimates, our profitability could be adversely affected.

If we are unable to accurately estimate the costs associated with various contractual commitments, our profitability may be adversely affected.

Over the last three fiscal years, an average of 18% of our total consolidated revenues were derived from FFP and target cost and fee with risk sharing contracts, in which we bear risk that our actual costs may exceed a target amount. Under FFP contracts, we agree to fulfill our obligations at a set price. Under target cost and fee with risk sharing contracts, customers reimburse our costs plus a specified or target fee or profit, if our actual costs equal a negotiated target cost. Under such contracts, if our actual costs exceed the target costs, our target fee and cost reimbursement are reduced by a portion of the cost overrun. When making proposals for engagements on these types of contracts, we rely heavily on our estimates of costs and timing for completing the associated projects. In each case, our failure to estimate costs accurately or to control costs during performance of our work could result, and in some instances has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in connection with the performance of these contracts, including costs and delays caused by factors outside of our control, could make these contracts less profitable or unprofitable. We have recorded losses on FFP contracts from time to time, including the Greek contract. Future losses could have a material adverse effect on our profitability.

We incur significant pre-contract costs that if not reimbursed would deplete our cash balances and adversely affect our profitability.

We often incur costs on projects outside of a formal contract when customers ask us to begin work under a new contract that has yet to be executed, or when they ask us to extend work we are currently doing beyond the scope of the initial contract. We incur such costs at our risk, and it is possible that the customers will not reimburse us for these costs if we are ultimately unable to agree on a formal contract. At July 31, 2005, we had pre-contract costs of $19 million in our Government segment and $1 million in our Commercial segment. Although we have historically recovered substantially all of our pre-contract costs, we may never execute formal contracts or contract amendments and may never be able to recover the related costs. Any failure to recover these pre-contract costs would deplete our cash balances and adversely affect our profitability.

The failure to successfully resolve issues related to our Greek Olympic contract could adversely affect our profitability and could require us to make large payments to the Greek Government.

We entered into an FFP contract with the Greek Government to provide the security infrastructure that was used to support the 2004 Athens Summer Olympic Games. The Greek Government has not made various payments under this contract and has not yet formally accepted the security infrastructure, and a Greek Government audit agency has recently made a finding that the contract was not awarded in accordance with applicable Greek procurement regulations and may be unenforceable. This and various other financial, technical, contractual and legal issues have not been resolved. Standby letters of credit relating to payment, performance and offset bonding arrangements under the contract totaling $233 million have been issued. Under the terms of these bonding arrangements, the Greek Government could call these standby letters of credit at any time.

Although we have been in discussions with the Greek Government and our principal subcontractor to attempt to resolve these issues, we may not be able to reach mutually acceptable agreements, and we cannot predict the financial impact the resolution of those issues will have on us. The situation is extremely complex and dynamic, involving multiple government agencies, customer elements, subcontractors and government representatives having different roles and, at times, expressing inconsistent positions. We have recorded losses on this contract and unfavorable resolution of this matter could further adversely affect our cash balances and profitability. See Management s Discussion and Analysis of Financial Condition and Results of Operations Commitments and Contingencies Greek Government FFP Contract.

Adverse judgments or settlements in legal disputes could require us to pay potentially large damage awards, which would adversely affect our cash balances and profitability.

We are also subject to, and may become a party to, a variety of litigation or other claims and suits that arise from time to time in the ordinary course of our business. Adverse judgments or settlements in some or all of these legal disputes may result in significant monetary damages or injunctive relief against us. The litigation and other claims described in this prospectus are subject to inherent uncertainties and management s view of these matters may change in the future. For example, an unfavorable final settlement or judgment of our dispute with the Greek Government, Telcordia Technologies, Inc. s dispute with Telkom South Africa, or our disputes relating to our joint venture, INTESA, could adversely affect our cash balances and profitability. See Management s Discussion and Analysis of Financial Condition and Results of Operations Commitments and Contingencies.

Our services and operations sometimes involve using, handling or disposing of hazardous materials, which could expose us to potentially significant liabilities.

Our services sometimes involve the investigation or remediation of environmental hazards, as well as the use, handling or disposal of hazardous materials. These activities and our operations generally subject us to extensive foreign, federal, state and local environmental protection and health and safety laws and regulations, which, among other things, require us to incur costs to comply with these regulations and could impose liability on us for contamination. Furthermore, failure to comply with these environmental protection and health and safety laws could result in civil or criminal sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. Government. Additionally, our ownership and operation of real property also subjects us to environmental protection laws, some of which hold current or previous owners or operators of businesses and real property liable for contamination, even if they did not know of and were not responsible for the

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contamination. Although we have not incurred any material environmental liabilities to date, any violations of, or liabilities pursuant to, these laws or regulations could adversely affect our financial condition and operating results.

Acquisitions, investments and joint ventures could result in operating difficulties, dilution and other adverse consequences to our business.

We have historically supplemented our internal growth through acquisitions, investments and joint ventures and expect that a significant portion of our planned growth will continue to come from these transactions. We evaluate potential acquisitions, investments and joint ventures on an ongoing basis. Our acquisitions, investments and joint ventures pose many risks, including:

- we may not be able to compete successfully for available acquisition candidates, complete future acquisitions and investments or accurately estimate the financial effect of acquisitions and investments on our business;
- future acquisitions, investments and joint ventures may require us to issue capital stock or spend significant cash or may result in a decrease in our operating income or operating margins;
- we may have trouble integrating acquired businesses or retaining their personnel or customers;
- acquisitions, investments or joint ventures may disrupt our business and distract our management from other responsibilities; and
- we may not be able to exercise control over joint ventures, and this lack of operational control could adversely affect our operations.

We may not be able to continue to identify attractive acquisitions or joint ventures. Acquired entities or joint ventures may not operate profitably. Additionally, we may not realize anticipated synergies and acquisitions may not result in improved operating performance. If our acquisitions, investments or joint ventures fail or perform poorly, our business could be adversely affected.

In conducting our business, we depend on other contractors and subcontractors. If these parties fail to satisfy their obligations to us or the U.S. Government, or if we are unable to maintain these relationships, our revenues, profitability and growth prospects could be adversely affected.

We depend on contractors and subcontractors in conducting our business. There is a risk that we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract, or our hiring of a subcontractor s personnel. In addition, if any of our subcontractors fails to deliver on a timely basis the agreed-upon supplies and/or perform the agreed-upon services, our ability to fulfill our obligations as a prime contractor may be jeopardized. During the past five fiscal years, on several occasions we have incurred non-material losses resulting from the failure of our subcontractors to perform their subcontract obligations. Although material losses due to subcontractor performance problems have been rare, material losses could arise in future periods and subcontractor performance deficiencies could result in a customer terminating a contract for default. A termination for default could expose us to liability and have an adverse effect on our ability to compete for future contracts and orders, especially if the customer is an agency of the U.S. Government.

We also rely on relationships with other contractors when we act as their subcontractor or joint venture partner. Our future revenues and growth prospects could be adversely affected if other contractors eliminate or reduce their subcontracts or joint venture relationships with us, or if the U.S. Government terminates or reduces these other contractors programs, does not award them new contracts or refuses to pay under a contract. Additionally, companies that do not initially have access to U.S. Government contracts may perform services as our subcontractor for a U.S. Government customer, and through that exposure secure future positions as prime

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U.S. Government contractors. If any of our current subcontractors were awarded prime contractor status in the future, not only would we have to compete with them for future U.S. Government contracts, but our ability to perform our current and future contracts might also be impaired.

Systems failures could disrupt our business and impair our ability to effectively provide our products and services to our customers, which could damage our reputation and adversely affect our revenues and profitability.

We are subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, intruders or hackers, computer viruses, natural disasters, power shortages or terrorist attacks. Any such failures could cause loss of data and interruptions or delays in our or our customers businesses and could damage our reputation. In addition, the failure or disruption of our communications or utilities could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our actual results could differ materially from those anticipated.

The systems and networks that we maintain for our customers could also fail. If a system or network we maintain were to fail or experience service interruptions, we might experience loss of revenue or face claims for damages or contract termination. Our errors and omissions liability insurance may be inadequate to compensate us for all the damages that we might incur and, as a result, our actual results could differ materially from those anticipated.

We have only a limited ability to protect our intellectual property rights, which are important to our success. Our failure to adequately protect our intellectual property rights could adversely affect our competitive position.

Our success depends, in part, upon our ability to protect our proprietary information and other intellectual property. We rely principally on trade secrets to protect much of our intellectual property especially where we do not believe that patent or copyright protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information. In addition, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection would adversely affect our competitive business position. In addition, if we are unable to prevent third parties from infringing or misappropriating our copyrights, trademarks or other proprietary information, our competitive position could be adversely affected.

We face risks associated with our international business.

Approximately 3% of our total consolidated revenues in each of the last three fiscal years was derived from our international business operations. These international business operations are subject to a variety of the risks associated with conducting business internationally, including:

- changes in or interpretations of foreign regulations that may adversely affect our ability to sell our products, perform services or repatriate profits to the United States;

- the imposition of tariffs;
- hyperinflation or economic or political instability in foreign countries;
- imposition of limitations on or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures;
- conducting business in places where business practices and customs are unfamiliar and unknown;
- the imposition of restrictive trade policies;

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- the imposition of inconsistent laws or regulations;
- the imposition or increase of investment and other restrictions or requirements by foreign governments;
- uncertainties relating to foreign laws and legal proceedings;
- having to comply with a variety of U.S. laws, including the Foreign Corrupt Practices Act;
- having to comply with U.S. export control regulations and policies that restrict our ability to communicate with non-U.S. employees and supply foreign affiliates and customers; and
- having to comply with licensing requirements.

Although revenues derived from our international operations have been relatively low, we do not know the impact that these regulatory, geopolitical and other factors may have on our business in the future and any of these factors could materially adversely affect our business.

We have transactions denominated in foreign currencies because some of our business is conducted outside of the United States. In addition, our foreign subsidiaries generally conduct business in foreign currencies. We are exposed to fluctuations in exchange rates, which could result in losses and have a significant adverse impact on our results of operations. Our risks include the possibility of significant changes in exchange rates and the imposition or modification of foreign exchange controls by either the U.S. Government or applicable foreign governments. We have no control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for the applicable currencies. From time to time, we may use foreign currency forward-exchange contracts to hedge against movements in exchange rates for contracts denominated in foreign currencies. Because our foreign operations have historically accounted for only a limited portion of our revenues, fluctuations in foreign exchange rates have not had a material effect on our operating results. However, if our foreign operations account for a more significant percentage of our revenues in future periods, a significant fluctuation in exchange rates may have an adverse impact on our operating results.

We face aggressive competition.

Our business is highly competitive in both the Government and Commercial segments, particularly in the area of IT outsourcing. We compete with larger companies that have greater name recognition, financial resources and larger technical staffs. We also compete with smaller, more specialized entities that are able to concentrate their resources on particular areas. In the Government segment, we also compete with the U.S. Government s own capabilities and federal non-profit contract research centers. To remain competitive, we must provide superior service and performance on a cost-effective basis to our customers. In February 2004 and 2005, we modified our organizational structure to help improve our competitiveness by better aligning the business groups within our Government segment with our major customers and key markets. We cannot be certain that we will remain competitive or that these realignment efforts will produce the desired results.

Our existing indebtedness may affect our ability to take certain extraordinary corporate actions and may negatively affect our ability to borrow additional amounts at favorable rates.

As of July 31, 2005, we had approximately $1.2 billion in outstanding debt. The terms of the credit facilities and the indentures governing our notes place certain limitations on our ability to undertake extraordinary corporate transactions, such as a sale of significant assets. As a result, it may be more difficult for us to take these actions and the interests of our creditors in such transactions may be different from the interests of our stockholders. Additionally, the existence of this debt may make it more difficult for us to borrow additional amounts at favorable rates. For additional information regarding our existing indebtedness, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Outstanding Indebtedness.

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Risks Relating to Our Stock

The concentration of our capital stock ownership with our employee benefit plans, executive officers, employees and directors and their respective affiliates will limit your ability to influence corporate matters.

After this offering, our class A preferred stock will have 10 votes per share and our common stock, which is the stock we are selling in this offering, will have one vote per share. We anticipate that after the completion of this offering, our employee benefit plans, founders, executive officers, employees and directors and their respective affiliates will together own approximately % of our capital stock, representing approximately % of the voting power of our outstanding capital stock. For the foreseeable future, they will have significant influence over our management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets. As a result of this dual-class structure, our employee benefit plans, founders, executive officers, employees and directors and their respective affiliates will also be able to control all matters submitted to our stockholders for approval, even if they come to own less than 50% of the outstanding shares of our capital stock, except to the extent that holders of common stock may be entitled to vote as a separate class under the General Corporation Law of the State of Delaware. This concentrated control will limit your ability to influence corporate matters and, as a result, we may take actions that our common stockholders do not view as beneficial. As a result, the market price of our common stock could be adversely affected.

Our common stock has not been publicly traded, and the price of our common stock may fluctuate substantially.

Although Old SAIC has sponsored a limited market in its common stock, there has been no public market for New SAIC common stock prior to this offering. We cannot predict the extent to which a trading market will develop or how liquid that market might become. If you purchase shares of our common stock in this offering, you will pay a price that was not established in the public trading markets. The initial public offering price will be determined by negotiations between the underwriters and us. You may not be able to resell your shares above the initial public offering price and may suffer a loss on your investment.

Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price include, among other things:

- actual or anticipated variations in quarterly operating results;
- changes in financial estimates by us, by investors or by any financial analysts who might cover our stock;
- our ability to meet the performance expectations of financial analysts or investors;
- changes in market valuations of other companies in our industry;
- the expiration of the applicable restriction periods to which the class A preferred stock is subject, which could result in additional shares of our common stock being sold in the market;

- general market and economic conditions;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- additions or departures of key personnel;
- sales of our common stock, including sales by our directors and officers or our principal stockholders; and
- the relatively small percentage of our stock that will be held by non-employees following this offering.

Fluctuations caused by factors such as these may negatively affect the market price of our common stock. In addition, the other risks described elsewhere in this prospectus could adversely affect our stock price.

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Before the reorganization merger, Old SAIC intends to declare a dividend payable to its stockholders of record. The net proceeds from this offering will be less than the amount of this dividend and we will have less cash available after this offering and the payment of the dividend.

Before the reorganization merger, Old SAIC intends to declare a special dividend of $ billion, payable to the holders of record of Old SAIC class A and class B common stock. The aggregate amount of this special dividend will exceed the net proceeds from this offering by approximately $ million, or $ million if the underwriters exercise their over-allotment option in full. As a result of the payment of this dividend, we will have less cash available for working capital, capital spending and possible investments and acquisitions.

Except for the special dividend that Old SAIC intends to pay to holders of its common stock, we do not intend to pay dividends on our capital stock.

Old SAIC has never declared or paid any cash dividend on our capital stock other than the special dividend. New SAIC does not expect to pay any dividends on our capital stock in the foreseeable future and intend to retain any future earnings to finance our operations and growth. See Dividend Policy.

The Sarbanes-Oxley Act of 2002 requires us to document and test our internal controls over financial reporting as of fiscal 2007 and requires our independent registered public accounting firm to report on our assessment as to the effectiveness of these controls. Any delays or difficulty in satisfying these requirements could cause some investors to lose confidence in, or otherwise be unable to rely on, the accuracy of our reported financial information, which could adversely affect the trading price of our common stock.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal controls over financial reporting in accordance with an established internal control framework and to report on our conclusion as to the effectiveness of our internal controls. It also requires our independent registered public accounting firm to test our internal controls over financial reporting and report on the effectiveness of such controls as of January 31, 2007. Our independent registered public accounting firm is also required to test, evaluate and report on the completeness of our assessment.

In the second quarter of fiscal 2005, we reported the existence of a material weakness in our internal controls relating to income tax accounting. During a review and reconciliation of our worldwide income tax liabilities, we identified an overstatement of income tax expense of $13 million related to fiscal 2003. Although we believe we have remediated this weakness, similar or other weaknesses may be identified. If we conclude that our controls are not effective or if our independent registered public accounting firm concludes that either our controls are not effective or that we did not appropriately document and test our controls, investors could lose confidence in, or otherwise be unable to rely on, our reported financial information, which could adversely affect the trading price of our common stock.

Future sales of substantial amounts of our common stock, or the perception in the public markets that these sales may occur, could depress our stock price.

We cannot predict the effect, if any, that market sales of our common stock or the availability of shares for sale will have on the market price prevailing from time to time. Although the shares of class A preferred stock are subject to restrictions on conversion, the possibility of the conversion and sale, as well as the actual sales of this stock, may adversely affect the market price of our common stock. These sales may also make it more difficult for us to raise capital through the issuance of equity securities at a time and at a price we deem appropriate.

Upon the completion of this offering, there will be shares of our common and class A preferred stock outstanding. Of these shares, shares of common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act of 1933 (Securities Act). The remaining shares are shares of class A preferred stock, all of which are held by current and former employees or by their heirs or assigns. Many of these holders have owned their shares for many years and have not had access to a public market in which to sell their shares. After the restriction periods described in Shares eligible for future sale, shares of class A preferred stock will be convertible on a one-for-one basis into shares of common stock. A significant number of holders of our class A preferred stock may convert their shares to take advantage of the public market in common stock. Subject to certain limitations, those shares of common stock will be freely tradable without restriction following the expiration of the transfer restriction periods described in Description of Capital Stock and Shares Eligible for Future Sale. In addition to outstanding shares eligible for sale, additional shares of our class A preferred stock will be issuable upon completion of this offering under currently outstanding stock options. Substantial sales of these shares could adversely affect the market value of the common stock and the value of your shares.

Provisions in our charter documents and under Delaware law could delay or prevent transactions that many stockholders may favor.

Some provisions of our certificate of incorporation and bylaws may have the effect of delaying, discouraging or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These restrictions, which may also make it more difficult for our stockholders to elect directors not endorsed by our current directors and management, include the following:

- Our certificate of incorporation provides for class A preferred stock, which initially will give our founders, executive officers, employees and directors and their respective affiliates voting control over all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as a merger or other sale of our company or its assets. This concentrated control could discourage others from initiating any potential merger, takeover or other business combination that other stockholders may view as beneficial.

- Our certificate of incorporation provides that our bylaws and certain provisions of our certificate of incorporation may be amended only by two-thirds or more voting power of all of the outstanding shares entitled to vote. These supermajority voting requirements could impede our stockholders ability to make changes to our certificate of incorporation and bylaws, which could delay, discourage or prevent a merger, acquisition or business combination that our stockholders may consider favorable.

- Our certificate of incorporation generally provides that mergers and certain other business combinations between us and a related person be approved by the holders of securities having at least 80% of our outstanding voting power, as well as by the holders of a majority of the voting power of such securities that are not owned by the related person. This supermajority voting requirement could prevent a merger, acquisition or business combination that our stockholders may consider favorable.

- Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions without holding a stockholders meeting.

- Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

- Our board of directors is classified and members of our board of directors serve staggered terms. Our classified board structure may discourage unsolicited takeover proposals that stockholders may consider favorable.

As a Delaware corporation, we are also subject to certain restrictions on business combinations. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years, or among other things, the board of directors has approved the business combination or the transaction pursuant to which such person became a 15% holder prior to the time the person became a 15% holder. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us. See Description of Capital Stock Anti-takeover Effects of Various Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws.

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FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements that are based on our management s belief and assumptions about the future in light of information currently available to our management. As these statements relate to future events or our future financial performance, they are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- changes in the U.S. Government defense budget or budgetary priorities or delays in the U.S. budget process;
- changes in U.S. Government procurement rules and regulations;
- our compliance with various U.S. Government and other government procurement rules and regulations;
- the outcome of U.S. Government audits of our company;
- our ability to win contracts with the U.S. Government and others;
- our ability to attract, train and retain skilled employees;
- our ability to maintain relationships with prime contractors, subcontractors and joint venture partners;
- our ability to obtain required security clearances for our employees;
- our ability to accurately estimate costs associated with our firm fixed price and other contracts;
- resolution of legal and other disputes with our customers and others;
- our ability to acquire businesses and make investments;
- our ability to manage risks associated with our international business;
- our ability to compete with others in the markets which we operate; and
- our ability to execute our business plan effectively and to overcome these and other known and unknown risks that we face.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipate believes, estimates, predicts, potential, continue or the negative of these terms or other comparable terminology. Although we believe that th expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. There are a number of important factors that could cause our actual results to differ materially from those results anticipated by our forward-looking statements. These factors are discussed elsewhere in this prospectus, including under Risk Factors. We do not intend to update any of the forward-looking statements after the date of this prospectus or to conform these statements to actual results.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of our shares of common stock in this offering of approximately $, or $ if the underwriters fully exercise their over-allotment option, based upon an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Within 25 days after the completion of this offering, Old SAIC will pay a special dividend to holders of record of Old SAIC class A and class B common stock immediately prior to the reorganization merger in an amount equal to $ billion. The aggregate amount of this special dividend will exceed the net proceeds from this offering by approximately $ million, or $ million if the underwriters exercise their over-allotment option in full. Old SAIC will use available cash, cash equivalents and/or short-term investments to pay the special dividend. Following the completion of this offering and the payment of the special dividend by Old SAIC, on a consolidated basis, we will have a cash balance of approximately $, as compared to a cash balance before this offering and payment of the special dividend of approximately $. Our consolidated cash balances, including the net proceeds from this offering, will be used for general corporate purposes, including working capital, capital spending and possible investments in, or acquisitions of, complementary businesses, services or technologies. Pending their use, we intend to invest the proceeds in investment-grade, short-term fixed-income instruments that may include corporate, financial institutions, federal agency or U.S. Government obligations. The payment of the special dividend is conditioned upon the completion of this offering. See The Merger and the Special Dividend.

The principal purpose of this offering is to better enable us to use our cash and cash flows from operations to fund organic growth and growth through acquisitions, as well as to provide us with publicly traded stock that can be used for future acquisitions. Creating a public market for our common stock eliminates the need to use our cash to provide liquidity for our stockholders in the limited market.

DIVIDEND POLICY

Old SAIC has never declared or paid dividends on its capital stock, other than the special dividend. The special dividend is expected to range from $8 to $10 per share of Old SAIC class A common stock and from $160 to $200 per share of Old SAIC class B common stock, which is the equivalent of a range from $4 to $5 per share of New SAIC class A preferred stock. New SAIC does not expect to pay any dividends on our capital stock in the foreseeable future and we currently intend to retain any future earnings to finance our operations and growth. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on earnings, financial condition, operating results, capital requirements, applicable contractual restrictions and other factors our board of directors deems relevant.

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CAPITALIZATION

The following table sets forth our liquid assets and capitalization as of July 31, 2005:

- on an actual basis
- on a pro forma basis to reflect payment of the special dividend after the completion of this offering
- on a pro forma as adjusted basis to reflect the payment of the special dividend, the completion of the reorganization merger and the completion of this offering at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and offering expenses

You should read this table in conjunction with the sections of this prospectus entitled Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus.

	As of July 31, 2005		
	Actual	Pro Forma	Pro Forma as Adjusted
	(in millions, except share data)		
Cash and cash equivalents and short-term investments	$ 3,101	$	$
Debt:			
Notes payable and current portion of long-term debt	36		
Long-term debt, net of current portion	1,209		
Total debt	1,245		
Stockholders equity:			
Preferred stock of Old SAIC: $.05 par value; 3,000,000 shares authorized; 0, 0 and 0 shares issued			
Class A common stock of Old SAIC: $.01 par value; 1,000,000,000 shares authorized; , 0 and 0 shares issued	2		
Class B common stock of Old SAIC: $.05 par value; 5,000,000 shares authorized; , 0 and 0 shares issued			
Series A-1 preferred stock of New SAIC: $.0001 par value; 50,000,000 shares authorized; 0, and shares issued			
Series A-2 preferred stock of New SAIC: $.0001 par value; 150,000,000 shares authorized; 0, and shares issued			
Series A-3 preferred stock of New SAIC: $.0001 par value; 150,000,000 shares authorized; 0, and shares issued			

Series A-4 preferred stock of New SAIC: $.0001 par value; 1,150,000,000 shares authorized; 0, and shares issued			
Common stock of New SAIC: $.0001 par value; 2,000,000,000 shares authorized; 0, and shares issued			
Additional paid-in capital	2,451		
Retained earnings	514		
Other stockholders equity	(101)		
Accumulated other comprehensive loss	(32)		
Total stockholders equity	2,834		
Total capitalization	$ 4,079	$	$

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the selected consolidated financial data presented below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2005, 2004 and 2003 and the selected consolidated financial data presented below under Consolidated Balance Sheet Data as of January 31, 2005 and 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2002 and 2001 and under Consolidated Balance Sheet Data as of January 31, 2003, 2002 and 2001, have been derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the six months ended July 31, 2005 and Consolidated Balance Sheet Data as of July 31, 2005 have been derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the six months ended July 31, 2004 have been derived from unaudited condensed consolidated financial statements that are included elsewhere in this prospectus and have been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

The pro forma earnings per share and pro forma common equivalent share data contained in the selected consolidated financial data presented below reflect the payment of the special dividend we intend to pay to our class A preferred stockholders following completion of this offering and the completion of the reorganization merger. See Use of Proceeds, Capitalization and The Merger and the Special Dividend.

	Year Ended January 31					Six Months Ended July 31	
	2005	2004	2003	2002	2001	2005	2004
	(in millions, except per share data)						
Consolidated Statement of Income Data:							
Revenues	$ 7,187	$ 5,833	$ 4,835	$ 4,374	$ 4,037	$ 3,798	$ 3,474
Cost of revenues	6,337	5,100	4,211	3,826	3,488	3,332	3,055
Selling, general and administrative expenses	364	331	305	312	354	210	185
Goodwill impairment		7	13		5		
Gain on sale of business units, net	(2)		(5)	(10)	(73)		
Operating income	488	395	311	246	263	256	234
Net (loss) gain on marketable securities and other investments, including impairment losses (1)	(16)	5	(134)	(456)	2,656	(5)	(4)
Interest income	45	49	37	50	108	43	17
Interest expense	(88)	(80)	(45)	(14)	(14)	(44)	(44)
Other (expense) income, net	(12)	5	6	10	25	2	(1)
Minority interest in income of consolidated subsidiaries	(14)	(10)	(7)	(5)	(6)	(6)	(6)
Income (loss) from continuing operations before income taxes	403	364	168	(169)	3,032	246	196
Provision for (benefit from) income taxes	131	140	61	(80)	1,129	106	77
Income (loss) from continuing operations	272	224	107	(89)	1,903	140	119
Income from discontinued operations, net of tax	137	127	152	107	156	542	51
Cumulative effect of accounting change, net of tax (2)				1			

Net income	$ 409	$ 351	$ 259	$ 19	$ 2,059	$ 682	$ 170

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	Year Ended January 31					Six Months Ended July 31	
	2005	2004	2003	2002	2001	2005	2004
	(in millions, except per share data)						
Earnings per share: (2)							
Basic:							
Income from continuing operations	$ 1.49	$ 1.22	$ .55	$ (.41)	$ 8.10	$ .79	$ .64
Discontinued operations, net of tax	.74	.68	.77	.50	.66	3.06	.28
	$ 2.23	$ 1.90	$ 1.32	$ .09	$ 8.76	$ 3.85	$ .92
Diluted:							
Income from continuing operations	$ 1.45	$ 1.19	$ .53	$ (.41)	$ 7.50	$ .77	$ .63
Discontinued operations, net of tax	.73	.67	.75	.50	.61	2.98	.27
	$ 2.18	$ 1.86	$ 1.28	$ .09	$ 8.11	$ 3.75	$ .90
Common equivalent shares:							
Basic	183	185	196	215	235	177	184
Diluted	188	189	203	215	254	182	189
Pro forma earnings per share:							
Basic: (3)(4)							
Income from continuing operations	$					$	
Discontinued operations, net of tax							
	$					$	
Diluted: (3)(4)							
Income from continuing operations	$					$	
Discontinued operations, net of tax							
	$					$	
Pro forma common equivalent shares:							
Basic (3)(4)							
Diluted (3)(4)							

	As of January 31					As of July 31
	2005	2004	2003(1)	2002(1)	2001(1)	2005
	(in millions)					
Consolidated Balance Sheet Data:						

Total assets	$ 6,010	$ 5,540	$ 4,876	$ 4,678	$ 5,871	$ 5,866
Working capital (5)	2,687	2,230	1,967	875	1,117	3,153
Long-term debt	1,215	1,232	897	100	101	1,209
Other long-term liabilities	99	86	75	48	44	100
Stockholders equity	2,351	2,203	2,020	2,524	3,344	2,834

(1) Includes impairment losses of $108 million, $467 million and $1.4 billion on marketable equity securities and other private investments in 2003, 2002 and 2001, respectively, and gains of $4.1 billion from sales or exchanges of marketable equity securities and other investments in 2001.

(2) The 2002 amount includes the cumulative effect of an accounting change for the adoption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended.

(3) Pro forma earnings per share and common equivalent share data reflect the completion of the reorganization merger and the payment of the special dividend that Old SAIC intends to pay to its stockholders following completion of this offering. See Use of Proceeds, Capitalization and The Merger and the Special Dividend.

(4) Pro forma earnings per share and common equivalent share data for both basic and diluted computations assume that shares of our common stock during each of the periods indicated had been sold by us with assumed net proceeds of $ per share. Such shares represent the assumed number of shares of our common stock necessary to be sold in this offering to fund the $ special dividend to be paid by Old SAIC. Pro forma earnings per share and common equivalent share data for both basic and diluted computations reflect the conversion of each outstanding share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock and each outstanding share of Old SAIC class B common stock into 40 shares of New SAIC class A preferred stock.

(5) Working capital for fiscal 2004, 2002 and 2001 excludes the effect of reclassifications for discontinued operations that were made in fiscal 2005 and 2003 in order to conform the fiscal 2004, 2002 and 2001 consolidated balance sheets to reflect discontinued operations that occurred in fiscal 2005 and 2003.

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, our unaudited condensed consolidated financial statements and related notes that appear elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. See Forward-Looking Statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors.

Unless otherwise noted, references to years are for fiscal years ended January 31, not calendar years. For example, we refer to the fiscal year ended January 31, 2005 as fiscal 2005. We are currently in fiscal 2006.

Overview

We are a leading provider of scientific, engineering, systems integration and technical services and solutions to all branches of the U.S. military, agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, as well as to selected commercial markets. Our customers seek our domain expertise to solve complex technical challenges requiring innovative solutions for mission-critical functions in such areas as national security, intelligence and homeland defense. Increasing demand for our services and solutions is driven by priorities including the ongoing global war on terror and the transformation of the U.S. military. We have three reportable segments: Government, Commercial, and Corporate and Other. Except in Discontinued Operations, all amounts are presented only for our continuing operations.

Government Segment. Through the Government segment we provide systems engineering, systems integration and advanced technical services and solutions primarily to U.S. federal, state and local government agencies and foreign governments. Revenues from our Government segment accounted for 94%, 93% and 91% of our total consolidated revenues in fiscal 2005, 2004 and 2003, respectively. Within the Government segment, substantially all of our revenues were derived from contracts with the U.S. Government. In fiscal 2005, 2004 and 2003, we derived 86%, 85% and 84%, respectively, of our total consolidated revenues from contracts with the U.S. Government. These revenues include contracts where we serve as the prime, or lead, contractor, as well as contracts where we serve as a subcontractor to other parties who are engaged directly with various U.S. Government agencies as the prime contractor.

In the period since the September 11, 2001 terrorist attacks, U.S. Government spending has increased in response to the global war on terror and efforts to transform the U.S. military. This increased spending has had a favorable impact on our business. Our results have also been favorably impacted by increased outsourcing of IT and other technical services by the U.S. Government. Although we expect that these trends will continue, our revenues would be adversely affected by a reduction in overall U.S. Government spending or a shift in spending priorities. For example, the U.S. Government s spending for defense-related programs could be impacted by the funds that it allocates to the relief and recovery efforts for Hurricanes Katrina and Rita.

Competition for contracts with the U.S. Government is intense. In addition, in recent years, the U.S. Government has increasingly used contracting processes that give it the ability to select multiple winners or pre-qualify certain contractors to provide various products or services at established general terms and conditions. Such processes include purchasing services and solutions using indefinite delivery / indefinite quantity (IDIQ), government-wide acquisition contract (GWAC), and U.S. General Services Administration (GSA) award contract vehicles. This trend has served to increase competition for U.S. Government contracts and increase pressure on the prices we charge for our services. See Risk Factors Risks Related to Our Business and Business Contracts.

Commercial Segment. Through our Commercial segment, we primarily target commercial customers worldwide in selected commercial markets, currently IT support for oil and gas exploration and production,

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applications and IT infrastructure management for utilities and data lifecycle management for pharmaceuticals. We provide our Commercial segment customers with systems integration and advanced technical services and solutions we have developed for the commercial marketplace, often based on expertise developed in serving our Government segment customers. Revenues from our Commercial segment accounted for 7%, 7% and 9% of our total consolidated revenues in fiscal 2005, 2004 and 2003, respectively, and are driven primarily by our customers desire to reduce their costs related to management of IT and other complex technical functions through outsourcing to third-party contractors.

Corporate and Other Segment. Our Corporate and Other segment includes the operations of our broker-dealer subsidiary, Bull, Inc., our internal real estate management subsidiary, Campus Point Realty Corporation, and various corporate activities, including elimination of intersegment revenues. We expect that the operations of Bull, Inc. will cease following the completion of this offering. Our Corporate and Other segment does not contract with third parties for the purpose of generating revenues. However, for internal management reporting purposes, we record certain revenue and expense items incurred by the Government and Commercial segments in the Corporate and Other segment in certain circumstances as determined by our chief operating decision-maker (who currently is our Chief Executive Officer).

Key Financial Metrics

Sources of Revenues

Contracts. We generate revenues under the following types of contracts: (1) cost-reimbursement, (2) time-and-materials (T&M), (3) fixed price level-of-effort, (4) firm fixed-price (FFP) and (5) target cost and fee with risk sharing. Cost-reimbursement contracts provide for reimbursement of our direct costs and allocable indirect costs, plus a fee or profit component. T&M contracts typically provide for the payment of negotiated fixed hourly rates for labor hours plus reimbursement of our other direct costs and allocable indirect costs. Fixed price level-of-effort contracts are substantially similar to T&M contracts except that the deliverable is the labor hours provided to the customer. FFP contracts provide for payment to us of a fixed price for specified products, systems and/or services. If actual costs vary from the FFP target costs, we can generate more or less than the targeted amount of profit or even incur a loss. Target cost and fee with risk sharing contracts provide for reimbursement of costs, plus a specified or target fee or profit, if our actual costs equal a negotiated target cost. Under these contracts, if our actual costs are less than the target costs, we receive a portion of the cost underrun as an additional fee or profit. If our actual costs exceed the target costs, our target fee and cost reimbursement are reduced by a portion of the cost overrun. We do not use target cost and fee with risk sharing contracts in our Government segment.

The following table summarizes revenues by contract type for the periods noted:

	Year Ended January 31			Six Months Ended July 31	
	2005	**2004**	**2003**	**2005**	**2004**
Cost-reimbursement	44%	45%	48%	46%	44%
T&M and fixed price level-of-effort	38	38	33	37	38
FFP	16	15	14	16	16
Target cost and fee with risk sharing	2	2	5	1	2
Total	100%	100%	100%	100%	100%

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We generate revenues under our contracts from (1) the efforts of our technical staff, which we refer to as labor-related revenues and (2) receipt of payments based on the costs of materials and subcontractors used in a project, which we refer to as M&S revenues. M&S revenues are generated primarily from large, multi-year systems integration contracts. If M&S revenues grow at a faster rate than our labor-related revenues, our overall profit margins on our contracts could be impacted negatively because our M&S revenues generally have lower margins than our labor-related revenues.

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The growth of our business is directly related to the receipt of contract awards and contract performance. In fiscal 2005, we derived more than $10 million in annual revenues from each of 91 contracts, compared to 66 and 44 in fiscal 2004 and 2003, respectively. These larger contracts represented 35%, 31% and 22% of our total consolidated revenues in fiscal 2005, 2004 and 2003, respectively. We recognized more than $50 million in annual revenues from 9 contracts in fiscal 2005, compared to 8 and 4 in fiscal 2004 and 2003, respectively. The remainder of our revenues is derived from a large number of smaller contracts with annual revenues of less than $10 million.

We recognize revenues under our contracts primarily using the percentage-of-completion method. Under the percentage-of-completion method, revenues are recognized based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimating total costs at completion. The contracting process used for procurement, including IDIQ, GWAC and GSA Schedule, does not determine revenue recognition. See Critical Accounting Policies.

Backlog. The approximate value of our total negotiated backlog as of January 31, 2005, 2004, 2003 and July 31, 2005 and 2004 was as follows:

	As of January 31			As of July 31	
	2005	**2004**	**2003**	**2005**	**2004**
			(in millions)		
Government Segment:					
Funded backlog	$ 3,333	$ 3,127	$ 2,499	$ 3,036	$ 3,174
Negotiated unfunded backlog	5,217	4,033	2,733	6,462	5,285
Total negotiated backlog	$ 8,550	$ 7,160	$ 5,232	$ 9,498	$ 8,459
Commercial Segment:					
Funded backlog	$ 313	$ 228	$ 230	$ 318	$ 260
Negotiated unfunded backlog	114	187	157	116	326
Total negotiated backlog	$ 427	$ 415	$ 387	$ 434	$ 586
Total Consolidated:					
Funded backlog	$ 3,646	$ 3,355	$ 2,729	$ 3,354	$ 3,434
Negotiated unfunded backlog	5,331	4,220	2,890	6,578	5,611
Total consolidated negotiated backlog	$ 8,977	$ 7,575	$ 5,619	$ 9,932	$ 9,045

Total consolidated negotiated backlog consists of funded backlog and negotiated unfunded backlog. Funded backlog represents the portion of backlog for which funding currently is appropriated or otherwise authorized and is payable to us upon completion of a specified portion of work, less revenues previously recognized. Our funded backlog does not include the full potential value of our contracts because the U.S. Government and our other customers often appropriate or authorize funds for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a number of years. Negotiated unfunded backlog represents (1) firm orders for which funding has not been appropriated or otherwise authorized and (2) unexercised contract options. When a definitive contract or contract amendment is executed and funding has been appropriated or otherwise authorized, funded backlog is increased by the difference between the funded dollar value of the contract or contract amendment and the revenue recognized to date. Negotiated unfunded backlog does not include any estimate of future potential task orders that might be awarded under IDIQ, GWAC or GSA Schedule contract vehicles.

We expect to recognize as revenues a substantial portion of our funded backlog within 12 months. However, the U.S. Government may cancel any contract or purchase order at any time. Most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and potential fees in such cases. See Risk Factors Risks Relating to Our Business We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our future revenues and growth prospects.

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Cost of Revenues and Operating Expenses

Cost of Revenues. Cost of revenues includes direct labor and related fringe benefits and direct expenses incurred to complete contracts and task orders. Cost of revenues also includes subcontract work, consultant fees, materials, depreciation and overhead. Overhead consists of indirect costs relating to operations, rent/facilities, administration, travel and other expenses.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses are primarily for corporate administrative functions, such as management, legal, finance and accounting, contracts and administration, human resources and management information systems. SG&A also includes bid-and-proposal and independent research and development expenses.

Factors Affecting Our Results of Operations

We acquire businesses in our key markets when opportunities arise. We completed one acquisition in the six months ended July 31, 2005 for a total purchase price of $34 million. In fiscal 2005, we acquired four businesses for an aggregate purchase price of $221 million and in fiscal 2004, we acquired 10 businesses for an aggregate purchase price of $278 million. The fiscal 2005 and 2004 acquisitions accounted for four percentage points of the growth in revenues for the Government segment in fiscal 2005. The fiscal 2004 and 2003 acquisitions accounted for six percentage points of the growth in the Government segment revenues in fiscal 2004. In the future, we expect the use of cash to make business acquisitions will increase. In addition, since our common stock will be publicly traded following this offering, we may use our shares of common stock for acquisitions.

As part of our ongoing strategic planning, we have exited, and may in the future exit, certain businesses from time to time. For example, in March 2005, we sold Telcordia Technologies, Inc., our commercial telecommunications subsidiary. The initial sale price of $1.35 billion was subject to a working capital adjustment, a reduction for the net proceeds from a sale-leaseback transaction between Telcordia and an unrelated third party relating to certain Telcordia-owned real property, and certain other adjustments contemplated by the agreement with the purchaser. As of July 31, 2005, we finalized the closing balance sheet and working capital adjustments with the buyer. For the six months ended July 31, 2005, we recognized a gain before income taxes of $866 million. The Telcordia sale transaction is reflected in the consolidated balance sheet as of July 31, 2005 and as discontinued operations for all periods presented. Prior to the sale, Telcordia s revenues were 11%, 13% and 18% of our total consolidated revenues in fiscal 2005, 2004 and 2003, respectively.

Changes When We are a Public Company

Prior to this offering, there has been no public trading market for our common stock. However, Old SAIC has maintained a limited secondary market for its common stock, which we call the limited market, and our broker-dealer subsidiary, Bull, Inc., has facilitated trades by Old SAIC stockholders on predetermined quarterly trade dates. Although we were not contractually required to do so, on all trade dates in the periods presented, we repurchased the excess of the number of shares offered for sale over the number of shares sought to be purchased to improve the liquidity of the shares held by Old SAIC stockholders. In fiscal 2005, 2004 and 2003, we repurchased $552 million, $406 million and $911 million of Old SAIC common stock, respectively, and in the six months ended July 31, 2005 and 2004, we repurchased $377 million and $311 million of Old SAIC common stock, respectively, through the limited market. Because shares of New SAIC common stock will be publicly traded following the completion of this offering and New SAIC class A preferred stock will be convertible into New SAIC common stock as the applicable restriction periods lapse, we expect that we will discontinue the limited market, cease repurchasing stock from our stockholders and wind up the operations of Bull, Inc. However, we intend to repurchase shares of class A preferred stock on a quarterly basis from our 401(k) and other retirement plans during the restriction periods in order to provide participants in those plans with liquidity to the extent permitted under the plans. See Liquidity and Capital Resources Cash Used in Financing Activities.

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Results of operations

Comparison of the Six Months ended July 31, 2005 and 2004

Revenues. The following table summarizes changes in total consolidated and segment revenues on an absolute basis and segment revenues as a percentage of total consolidated revenues for the six months ended July 31, 2005 and 2004:

	Six Months Ended July 31					
					Segment Revenues as a Percentage of Total Consolidated Revenues	
	2005	$ Change	Percent Change	2004	2005	2004
	(dollars in millions)					
Total consolidated revenues	$ 3,798	$ 324	9%	$ 3,474		
Government segment revenues	3,558	304	9	3,254	94%	94%
Commercial segment revenues	258	14	6	244	7	7
Corporate and Other revenues	(18)	6	25	(24)	(1)	(1)

Total consolidated revenues for the six months ended July 31, 2005 grew 9%, over the same period of the prior year, with most of the growth coming from our U.S. Government customers in our Government segment.

The growth in our Government segment revenues for the six months ended July 31, 2005 was the result of growth in our traditional business areas with departments and agencies of the U.S. Government. Approximately five percentage points of the growth in Government segment revenues for the six months ended July 31, 2005 was a result of acquisitions made after July 31, 2004, while the remaining four percentage points for the six months ended July 31, 2005 represented internal growth. Our internal growth reflects an increase in the number of contract awards from the U.S. Government and increased budgets of our customers in the national security business area.

The increase in our Commercial segment revenues for the six months ended July 31, 2005 was attributable primarily to higher revenues from the sale of security systems used to protect ports, cargo terminals and containers, and to exchange rate changes between the U.S. dollar and the British pound. These exchange rate changes caused the growth in local U.K. revenues to be translated into a higher amount of U.S. dollars, which accounted for one-third of the increase in Commercial segment revenues.

The Corporate and Other segment includes the elimination of intersegment revenues of $3 million and $21 million for the six months ended July 31, 2005 and 2004, respectively. For the six months ended July 31, 2005, the remaining balance represents the net effect of certain revenue items related to operating business units that are excluded from the evaluation of a business unit s operating performance in the Government or Commercial segment and instead are reflected in the Corporate and Other segment.

Our labor-related total consolidated revenues were $2.4 billion and $2.3 billion for the six months ended July 31, 2005 and 2004, respectively. At July 31, 2005, we had 43,000 full-time and part-time employees compared to 40,900 at July 31, 2004. The increase in labor-related total consolidated revenues was attributable to an increase in our technical staff. M&S revenues were $1.4 billion and $1.2 billion for the six months ended July 31, 2005 and 2004, respectively. M&S revenues as a percentage of total consolidated revenues were 36% and 35% for the six months ended July 31, 2005 and 2004, respectively. M&S revenues grew 14%, which was faster than our labor related revenues, for the six months ended July 31, 2005 compared to the same period of the prior year. The increase in M&S revenues is primarily related to the overall growth in our business in the logistics and product support business area.

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Cost of Revenues. The following table summarizes cost of revenues as a percentage of revenues for the six months ended July 31, 2005 and 2004:

	Six Months Ended July 31	
	2005	2004
Total consolidated cost of revenues as a percentage of total consolidated revenues	87.7%	88.0%
Segment cost of revenues as a percentage of segment revenues:		
Government segment	88.0	87.8
Commercial segment	76.1	75.9

Government segment cost of revenues increased $273 million or 10% on an absolute basis and as a percentage of segment revenues for the six months ended July 31, 2005 remained consistent with the same period of the prior year. On our contract with the Greek Government, described in Commitments and Contingencies, we recorded additional contract losses of $16 million in the six months ended July 31, 2005. We recorded similar additional contract losses on this contract in the six months ended July 31, 2004. For the six months ended July 31, 2005, we also had higher realized contract margins that were partially offset by lower direct labor utilization compared to the same period of the prior year.

Commercial segment cost of revenues increased $11 million or 6% and as a percentage of segment revenues did not change significantly.

Total consolidated cost of revenues as a percentage of total consolidated revenues decreased for the six months ended July 31, 2005. In addition to the trends discussed for the Government and Commercial segments, the decrease was caused by lower employee fringe benefit expenses related to changes in our retirement plans and bonus compensation plans. During the six months ended July 31, 2005, we decided to make a higher fraction of our fiscal 2006 bonus compensation plan awards in the form of vesting stock. Vesting stock bonus expense is recognized over the period which the employee provides service, which is the vesting period of four years. Consequently, this decision had the effect of reducing the estimated bonus compensation expense by approximately $5 million at July 31, 2005.

Selling, General and Administrative Expenses. The following table summarizes SG&A as a percentage of revenues for the six months ended July 31, 2005 and 2004:

	Six Months Ended July 31	
	2005	2004
Total consolidated SG&A as a percentage of total consolidated revenues	5.5%	5.3%
Segment SG&A as a percentage of segment revenues:		
Government segment	4.9	4.1

Commercial segment	18.7	19.2

For the six months ended July 31, 2005, total consolidated SG&A increased $25 million or 14% on an absolute basis and increased as a percentage of revenues compared to the same period of the prior year. During the six months ended July 31, 2005, we reversed our previously accrued expense of $10 million related to the Gracian vs. SAIC class action lawsuit described in Commitments and Contingencies because of favorable developments in July 2005 related to the lawsuit, which was subsequently dismissed in September 2005. This reversal of a previously accrued expense is reflected in the Corporate and Other segment. Total consolidated SG&A before this reversal increased $35 million or 19% on an absolute basis and was 5.8% of total consolidated revenues for the six months ended July 31, 2005. This increase, excluding the effect of the reversal of the Gracian lawsuit accrued expense, was primarily driven by the factors noted below in the SG&A discussion for the Government and Commercial segment.

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Government segment SG&A increased $41 million or 30% on an absolute basis and as a percentage of its revenues for the six months ended July 31, 2005 as we increased G&A spending by $26 million or 30% relating to our IT and other infrastructure areas to support current and future growth. G&A costs represented 3.1% and 2.6% of the Government segment revenues for the six months ended July 31, 2005 and 2004, respectively. We expect to maintain this higher level of spending for the remainder of fiscal 2006. In addition, bid-and-proposal costs increased $9 million or 29% on an absolute basis for the six months ended July 31, 2005 and represented 1.2% and 1% of Government segment revenues for the six months ended July 31, 2005 and 2004, respectively. The level of bid-and-proposal activities fluctuates depending upon the timing of bidding opportunities. Independent research and development costs have remained relatively consistent as a percentage of Government segment revenues at .2%.

Commercial segment SG&A decreased as a percentage of segment revenues for the six months ended July 31, 2005, primarily due to the overall increase in segment revenues. Absolute spending increased by $1 million for the six months ended July 31, 2005 compared to the same period of the prior year.

Segment Operating Income. We use segment operating income (SOI) as our internal measure of operating performance. It is calculated as operating income before income taxes less losses on impaired intangible and goodwill assets, less non-recurring gains or losses on sales of business units, subsidiary stock and similar items, plus equity in the income or loss of unconsolidated affiliates, plus minority interest in income or loss of consolidated subsidiaries. We use SOI as our internal performance measure because we believe it provides a comprehensive view of our ongoing business operations and is therefore useful in understanding our operating results. Unlike operating income, SOI includes only our ownership interest in income or loss from our majority-owned consolidated subsidiaries and our partially-owned unconsolidated affiliates. In addition, SOI excludes the effects of transactions that are not part of on-going operations such as gains or losses from the sale of business units or other operating assets as well as investment activities of our subsidiary, SAIC Venture Capital Corporation. In accordance with SFAS No. 131, for the six months ended July 31, 2005, the reconciliation of total reportable SOI of $252 million to consolidated operating income of $256 million is shown in Note 2 of the notes to consolidated financial statements for the six months ended July 31, 2005.

The following table summarizes changes in SOI on an absolute basis and as a percentage of related revenues for the six months ended July 31, 2005 and 2004:

	Six Months Ended July 31					
					SOI as a Percentage of Related Revenues	
	2005	$ Change	Percent Change	2004	2005	2004
			(dollars in millions)			
Total reportable SOI	$ 252	$ 25	11%	$ 227	6.6%	6.5%
Government SOI	250	(5)	(2)	255	7.0	7.8
Commercial SOI	12			12	4.7	4.9
Corporate and Other segment operating loss	(10)	30	74	(40)		

The increase in reportable SOI for the six months ended July 31, 2005 as compared to the same period in the prior year primarily reflects our revenue growth, the effect of the reversal of $10 million in accrued legal expenses related to the Gracian vs. SAIC class action lawsuit that has since been dismissed and lower fringe benefit expenses of $5 million, offset by the increases in operating costs described in the Government and Commercial SOI discussion that follows.

The decrease in Government SOI as a percentage of segment revenues for the six months ended July 31, 2005 primarily reflects the increase in SG&A caused by higher spending on our IT and other infrastructure areas and by higher bid-and-proposal costs.

The decrease in our Commercial SOI as a percentage of segment revenues for the six months ended July 31, 2005 was primarily attributable to losses in our Danet Partnership GBR, a German partnership.

The decrease in our Corporate and Other segment operating loss for the six months ended July 31, 2005 was due to lower accrued employee fringe benefit expenses related to our retirement plans and bonus compensation plans for employees in all segments and the reversal to income of an accrued expense of $10 million related to the Gracian vs. SAIC class action lawsuit.

Other Income Statement Items

Interest Income and Interest Expense. Interest income increased $26 million or 153% for the six months ended July 31, 2005 as average interest rates increased significantly and our average cash balances increased over the same period of fiscal 2005.

Interest expense reflects interest on (1) our outstanding debt securities, (2) a building mortgage, (3) deferred compensation arrangements and (4) notes payable. For the six months ended July 31, 2005, interest expense remained consistent with the same period of the prior year.

Net Loss on Marketable Securities and Other Investments, Including Impairment Losses. Net loss on marketable securities and other investments, including impairment losses, reflects gains or losses related to transactions from our investments that are accounted for as marketable equity or debt securities or as cost method investments and are part of non-operating income or expense. Impairment losses on marketable equity securities and private equity investments from declines in fair market values that are deemed to be other-than-temporary are also recorded in this financial statement line item.

We recorded impairment losses of $3 million and $6 million for the six months ended July 31, 2005 and 2004, respectively, primarily related to our private equity investments. The carrying value of our private equity securities as of July 31, 2005 was $45 million. The remainder of the losses in the six months ended July 31, 2005 and 2004 was the result of net realized losses or gains on the sale of marketable securities and investments.

As more fully described in Quantitative and qualitative disclosures about market risk and Note 8 of the notes to consolidated financial statements for the six months ended July 31, 2005, we are currently exposed to interest rate risks, foreign currency risks and equity price risks that are inherent in the financial instruments arising from transactions entered into in the normal course of business. We will from time to time use derivative instruments to manage this risk.

Provision for Income Taxes. The provision for income taxes as a percentage of income from continuing operations before income taxes was 43.2% and 39.2% for the six months ended July 31, 2005 and 2004, respectively. The higher tax rate for the six months ended July 31, 2005 was primarily the result of an increase in expense related to a change in a state tax law that went into effect during the three months ended April 30, 2005.

We are subject to routine compliance reviews by the IRS and other taxing jurisdictions on various tax matters, which may include challenges to various tax positions we have taken. We have recorded liabilities for tax contingencies for open years based upon our best estimate of the taxes ultimately expected to be paid. As of July 31, 2005, our income taxes payable included $145 million related to the sale of Telcordia and $200 million for tax contingencies. We are currently undergoing several routine IRS and other tax jurisdiction examinations. While we believe we have adequate accruals for tax contingencies, there is no assurance that the tax authorities will not assert that we owe taxes in excess of our accruals, or that there will not be accruals in excess of the final settlement amounts agreed to by the tax authorities.

Income from Continuing Operations. Income from continuing operations of $140 million for the six months ended July 31, 2005 increased 18% from $119 million for the same period of the prior year. Increases for the six months ended July 31, 2005 were primarily due to the increases in segment operating income and interest income described above.

Net Income. Net income of $682 million for the six months ended July 31, 2005 increased $512 million or 301% primarily due to income from discontinued operations that reflects a $541 million after-tax gain on the sale of Telcordia.

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Discontinued Operations

As of July 31, 2005, the closing balance sheet and working capital adjustments for the sale of Telcordia were finalized, and we finalized our analysis of closing costs, tax liabilities based on current tax positions and other sale-related items. For the six months ended July 31, 2005, we recognized a gain before income taxes of $866 million on the sale. We have agreed to indemnify the buyer for all income tax obligations on and through the closing date of this transaction. While we believe we have appropriate accruals for these tax contingencies, the ultimate resolution of these matters could differ from the amounts accrued.

We also have customary indemnification obligations owing to the buyer, as well as an obligation to indemnify the buyer against any loss Telcordia may incur as a result of an adverse judgment in the Telkom South Africa litigation. Any future contingent payments or contingent purchase price proceeds and changes in our estimates of these items and other related Telcordia items will continue to be reflected as discontinued operations and result in adjustments to the gain on sale in the period in which they arise. The following table summarizes the operating results for Telcordia s discontinued operations for the period prior to the sale, which was February 1, 2005 through March 14, 2005, and for the six months ended July 31, 2004 that have been reflected as discontinued operations in the consolidated statements of income:

	Period from February 1 March 14, 2005	Six Months Ended July 31, 2004
	(In millions)	
Revenues	$ 89	$ 419
Costs and expenses		
Cost of revenues	57	239
Selling, general and administrative expenses	28	110
Income before income taxes	4	70
Provision for income taxes	3	23
Income from discontinued operations	$ 1	$ 47

Comparison of Years Ended January 31, 2005, 2004 and 2003

Revenues. The following table summarizes changes in total consolidated and segment revenues on an absolute basis and segment revenues as a percentage of total consolidated revenues for the last three fiscal years:

	Year Ended January 31					
	2005	Percent Change	2004	Percent Change	2003	Segment Revenues as a Percentage of Total Consolidated Revenues

						2005	2004	2003
			(dollars in millions)					
Total consolidated revenues	$ 7,187	23%	$ 5,833	21%	$ 4,835			
Government segment revenues	6,738	24	5,426	24	4,382	94%	93%	91%
Commercial segment revenues	521	24	419	(7)	449	7	7	9
Corporate and Other revenues	(72)		(12)		4	(1)		

Total consolidated revenues increased in fiscal 2005 primarily due to growth in revenues from our U.S. Government customers in our Government segment. The growth in our Government segment in 2004 more than offset the decline in revenues from our customers in the Commercial segment.

Approximately four percentage points of the fiscal 2005 growth in the Government segment revenues was a result of acquisitions made in fiscal 2005, while the remaining 20 percentage points represented organic growth. The organic growth in our Government segment revenues in fiscal 2005 and 2004 reflects an increase in contract awards from the U.S. Government and increased budgets of our customers in the national security business area.

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Revenues from U.S. Government customers with greater than 10% of our total consolidated revenues were as follows:

	Year Ended January 31		
	2005	2004	2003
U.S. Army	13%	13%	13%
U.S. Navy	13	12	12
U.S. Air Force	11	11	12

The increase in our Commercial segment revenues in fiscal 2005 was attributable principally to higher revenues from the sale of security systems used to protect ports, cargo terminals and containers, including revenues from a Canadian security system business acquired late in fiscal 2004. In addition, four percentage points of the increase in revenues was attributable to exchange rate changes between the U.S. dollar and the British pound, which caused a relatively constant level of local U.K. revenues to be translated into a higher level of U.S. dollars. Revenues from our U.K. subsidiary represented 31% of the Commercial segment revenues in fiscal 2005. The decrease in fiscal 2004 revenues was attributable to our commercial IT outsourcing customers, primarily in the oil and gas and utilities industries, who reduced their IT spending and placed pressure on us to reduce prices as a result of a challenging economic environment.

The Corporate and Other segment includes the elimination of intersegment revenues of $45 million, $25 million and $21 million in fiscal 2005, 2004 and 2003, respectively. The remaining balance for each of the years represents the net effect of various revenue items related to operating business units that are excluded from the evaluation of a business unit s operating performance in the Government or Commercial segment and instead are reflected in the Corporate and Other segment.

Our labor-related total consolidated revenues were $4.6 billion, $3.9 billion and $3.4 billion for fiscal 2005, 2004 and 2003, respectively. The increase was attributable to an increase in our technical staff. At the end of fiscal 2005, we had approximately 42,400 full-time and part-time employees compared to 39,300 and 34,700 at the end of fiscal 2004 and 2003, respectively. M&S revenues were $2.6 billion in fiscal 2005, $1.9 billion in fiscal 2004 and $1.4 billion in fiscal 2003. M&S revenues as a percentage of total consolidated revenues increased to 37% in 2005 from 33% in fiscal 2004 and 30% in fiscal 2003. M&S revenues as a percentage of total consolidated revenues increased in 2005 as certain systems engineering and integration contracts in the Government segment had significant quantities of materials delivered and integrated during fiscal 2005.

Cost of Revenues. The following table summarizes cost of revenues as a percentage of revenues for fiscal 2005, 2004 and 2003:

	Year Ended January 31		
	2005	2004	2003
Total consolidated cost of revenues as a percentage of total consolidated revenues	88.2%	87.4%	87.1%
Segment cost of revenues as a percentage of segment revenues:			
Government segment	87.9	87.1	87.3
Commercial segment	75.5	75.3	76.0

Government segment cost of revenues as a percentage of segment revenues increased in fiscal 2005 primarily due to lower margins realized on the high level of M&S revenues described earlier and FFP contract overruns, primarily related to a $34 million loss on our FFP contract with the Greek Government as described in Commitments and Contingencies. Total consolidated cost of revenues as a percentage of total consolidated revenues includes the effect of the Corporate and Other segment operating loss as described in Segment Operating Income.

Commercial segment cost of revenues as a percentage of segment revenues did not change significantly.

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Selling, General and Administrative Expenses. The following table summarizes SG&A as a percentage of revenues for fiscal 2005, 2004 and 2003:

	Year Ended January 31		
	2005	2004	2003
Total consolidated SG&A as a percentage of total consolidated revenues	5.1%	5.7%	6.3%
Segment SG&A as a percentage of segment revenues:			
Government segment	4.2	4.7	5.2
Commercial segment	16.1	18.1	16.3

Total consolidated SG&A increased $33 million or 10% in fiscal 2005 and $26 million or 9% in fiscal 2004 on an absolute basis and decreased as a percentage of total consolidated revenues in fiscal 2005 and 2004. The decrease as a percentage of total consolidated revenues in fiscal 2005 and 2004 was attributable to the factors below for our Government and Commercial segments and, in fiscal 2005, to an $18 million gain on the sale of land and buildings in our Corporate and Other segment.

Government segment SG&A increased $34 million or 14% in fiscal 2005 and $23 million or 10% in fiscal 2004 on an absolute basis and decreased as a percentage of segment revenues in fiscal 2005 and 2004 primarily because revenues have grown more quickly than our SG&A expenses. In January 2004, we reorganized and streamlined our operations to better align our operations with our major customers and key markets. As a result, in fiscal 2004, we had involuntary workforce reductions of 260 employees and recorded total realignment charges of $8 million in SG&A, primarily in the Government segment. These charges consisted of an aggregate of $7 million in one-time termination benefits that consisted of severance payments, extension of medical benefits and outplacement services, and accelerated vesting of stock-based compensation of $1 million. As of January 31, 2004, we had $7 million in accrued liabilities related to the realignment, all of which has subsequently been paid. The levels of bid-and-proposal and independent research and development activities and costs have not significantly fluctuated and have remained relatively consistent with the revenue growth.

Commercial segment SG&A increased $8 million or 11% in fiscal 2005 and $3 million or 4% in fiscal 2004 on an absolute basis and decreased as a percentage of segment revenues in fiscal 2005 primarily because revenue grew more quickly than our SG&A expenses. In fiscal 2004, Commercial segment SG&A as a percentage of segment revenues increased over the same period of the prior fiscal year primarily due to a decrease in Commercial segment revenues in fiscal 2004. On an absolute basis, SG&A in fiscal 2004 increased primarily due to increased marketing efforts.

Segment Operating Income. In accordance with SFAS No. 131, for fiscal 2005, 2004 and 2003, the reconciliation of total reportable SOI of $470 million, $401 million and $319 million, respectively, to consolidated operating income of $488 million, $395 million and $311 million, respectively, is shown in Note 2 of the notes to consolidated financial statements for the three years ended January 31, 2005, 2004 and 2003. The following table summarizes changes in SOI:

	Year Ended January 31
	SOI as a Percentage of Related Revenues

	2005	Percent Change	2004	Percent Change	2003	2005	2004	2003
				(dollars in millions)				
Total reportable SOI	$ 470	17%	$ 401	26%	$ 319	6.5%	6.9%	6.6%
Government SOI	538	18	457	39	329	8.0	8.4	7.5
Commercial SOI	42	40	30	(17)	36	8.1	7.2	8.0
Corporate and Other segment operating loss	(110)		(86)		(46)			

The fiscal 2005 increase in Government SOI, on an absolute basis, reflects the increase in segment revenues and lower SG&A expenses as a percentage of revenues. However, the decrease as a percentage of segment

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revenues reflects lower margins earned on the high level of M&S revenues and a $34 million FFP contract overrun on a contract with the Greek Government as described in Commitments and Contingencies. The fiscal 2004 increase in Government SOI, on an absolute basis and as a percentage of its revenues, reflects higher segment revenues, increased overall negotiated contract margins, lower FFP contract losses and lower SG&A expenses as a percentage of segment revenues.

The fiscal 2005 increase in our Commercial SOI, on an absolute basis and as percentage of revenues, was primarily attributable to growth in revenues and lower SG&A expenses. The decrease in fiscal 2004, on an absolute basis and as a percentage of segment revenues, was primarily attributable to a decline in segment revenues without a proportional decrease in SG&A expenses.

The increase in our fiscal 2005 Corporate and Other segment operating loss was primarily related to a higher internal interest charge related to our Government segment, which earned a corresponding higher interest credit due to improved management of its capital resources, higher unallocated accrued incentive compensation costs as a result of improved SOI in our Government segment and an increase in certain revenue and expense items recorded within Corporate and Other and excluded from other segments operating performance. Partially offsetting the fiscal 2005 increase in Corporate and Other segment operating loss is an $18 million gain on the sale of land and buildings at two different locations. The increase in fiscal 2004 was also primarily due to a higher internal interest charge primarily related to our Government segment, which earned a corresponding higher interest credit due to improved management of its capital resources and higher unallocated accrued incentive compensation costs as a result of improved SOI in our Government segment.

Goodwill Impairment. During fiscal 2005, we did not record any impairment of goodwill. During fiscal 2004, as a result of the loss of certain significant contracts and proposals related to a reporting unit, we determined that goodwill assigned to that reporting unit had become impaired. Accordingly, we recorded goodwill impairment charges of $7 million in fiscal 2004 compared to $13 million in fiscal 2003. Impairment losses on intangible assets were not material in fiscal 2005 and we did not record any impairment charges on intangible assets in fiscal 2004 and 2003 because there were no circumstances or events that occurred that would have indicated a possible impairment.

Interest Income and Interest Expense. During fiscal 2005, average interest rates increased slightly while our average cash balances remained relatively consistent with fiscal 2004 and 2003. In fiscal 2004, interest income increased primarily as a result of interest received from a favorable audit settlement with the IRS for a refund of research tax credits.

Interest expense increased in fiscal 2005 primarily as a result of interest on $300 million aggregate amount of our 5.5% notes due in 2033 that were issued in the second quarter of fiscal 2004 and outstanding for a full year in fiscal 2005. Interest expense increased in fiscal 2004 as a result of recognizing a full year of interest on $550 million aggregate amount of our 6.25% notes due in 2012 and $250 million aggregate amount of our 7.125% notes due in 2032, which were issued in the second quarter of fiscal 2003.

Net (Loss) Gain on Marketable Securities and Other Investments, Including Impairment Losses. Due to the non-routine nature of the transactions that are recorded in this financial statement line item, significant fluctuations from year to year are not unusual.

We recorded impairment losses totaling $20 million in fiscal 2005 compared to $19 million in fiscal 2004 and $108 million in fiscal 2003. Substantially all of the impairment losses in fiscal 2005 and 2004 and $87 million in fiscal 2003 were related to our private equity securities. In fiscal 2003, impairment losses also included impairments on our publicly traded equity securities of $21 million. Taking into account these impairments in fiscal 2005, as of January 31, 2005, we held private equity securities with a carrying value of $47 million.

During fiscal 2004, we recognized a net gain before income taxes of $24 million from the sale of certain investments, primarily from the sale of our investment in publicly-traded equity securities of Tellium, Inc., which resulted in a gain before income taxes of $17 million. In fiscal 2003, we recognized a net gain before income taxes of $22 million from the sale of certain investments. The largest component of the net gain in fiscal 2003 was the liquidation of all our remaining shares of VeriSign, Inc. and Amdocs Limited, and related equity collars that resulted in a gain before income taxes of $14 million.

As more fully described in Quantitative and Qualitative Disclosures About Market Risk and Note 8 of the notes to consolidated financial statements for the six months ended July 31, 2005, we are currently exposed to interest rate risks, foreign currency risks and equity price risks that are inherent in the financial instruments arising from transactions entered into in the normal course of business. We will from time to time use derivative instruments to manage this risk. As a result of the liquidation in fiscal 2003 of all of our remaining VeriSign and Amdocs shares and the equity collars that hedged those shares, the remaining derivative instruments we currently hold have not had a material impact on our consolidated financial position or results of operations. Net losses from derivative instruments in fiscal 2005 and 2004 were not material. As described in Note 19 of the notes to the consolidated financial statements for fiscal 2005, a net loss before income taxes of $48 million in fiscal 2003 was related to the equity collars previously held.

Other (Expense) Income. In fiscal 2005, other expense included an impairment loss of $9 million on our investment in Data Systems & Solutions, LLC (DS&S), a 50-50 joint venture with Rolls Royce plc. The impairment loss was primarily due to a significant business downturn at DS&S caused by a loss of business and an ongoing government investigation. In addition, we also recognized equity losses in DS&S of $5 million in fiscal 2005 and maintain financial commitments related to DS&S as described in Commitments and Contingencies. Our total equity losses of all our equity investments were $6 million in fiscal 2005 compared to equity income of $5 million and $2 million in fiscal 2004 and 2003, respectively. For fiscal 2005, 2004 and 2003, there were no other significant items in Other (expense) income.

Provision for Income Taxes. The provision for income taxes as a percentage of income before income taxes was 32.5% in fiscal 2005, 38.4% in fiscal 2004 and 36.4% in fiscal 2003. The effective tax rate in fiscal 2005 was lower than in fiscal 2004 primarily as a result of the favorable closure of state tax audit matters. The effective tax rate in fiscal 2004 reflects higher state taxes and lower charitable contributions of appreciated property than in fiscal 2003, offset by a favorable federal audit settlement for 1997 to 2000 and a favorable federal audit settlement for 1988 to 1993 involving a claim for refund of research tax credits. The effective tax rate in fiscal 2003 was the result of charitable contributions of appreciated property and the favorable resolution of certain tax positions with state and federal tax authorities, as well as a lower effective state tax rate.

As a result of the sale of Telcordia Technologies, Inc. and presentation of Telcordia as discontinued operations, the provision for income taxes as a percentage of income before income taxes for continuing operations was higher than it would have been with Telcordia included in continuing operations. Telcordia had contributed to most of the incremental research spending that provided qualification for federal research credits and it had significant charitable contributions of appreciated property, both of which had the impact of reducing our overall tax rate.

The Working Families Tax Relief Act of 2004 was signed into law in the third quarter of fiscal 2005. As a result, the U.S. federal research and experimentation tax credit was retroactively reinstated to June 30, 2004 and extended through December 31, 2005. The American Jobs Creation Act of 2004 was also signed into law in the third quarter of fiscal 2005. As a result, limitations on charitable contributions were enacted effective after June 3, 2004, which make it unlikely for us to obtain future benefits from such contributions. Therefore, the effective tax rate for fiscal 2006 and subsequent years will be higher than it would have been if future contributions were made and the law had not changed. Other elements of these laws are not expected to have a material impact on our future effective tax rate.

Income from Continuing Operations. Income from continuing operations of $272 million in fiscal 2005 and $224 million in fiscal 2004 increased 21% and 109%, respectively, over the same period of the prior fiscal year. The increase in fiscal 2005 was primarily due to the growth in total consolidated revenues with lower

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SG&A expenses as a percentage of total consolidated revenues and the lower income tax rate as described above. Offsetting some of the favorable increase in income was an increase in cost of revenues and in net interest expense, which is interest income less interest expense, an impairment loss on our DS&S equity investment, and lower gains from the sale of investments in marketable securities or our private equity securities, all of which have been described above.

The increase in fiscal 2004 was primarily due to higher total consolidated revenues with lower SG&A expenses as a percentage of total consolidated revenues, increased overall negotiated contract margins, lower FFP contract losses and significantly lower impairment losses on our marketable and private equity securities. Offsetting some of the favorable increase in income is an increase in net interest expense and a higher income tax rate.

Net Income. Net income for fiscal 2005 increased $58 million over fiscal 2004, reflecting increased income from continuing operations and an increase in income from discontinued operations of Telcordia. Net income increased $92 million in fiscal 2004 over fiscal 2003, reflecting increased income from continuing operations offset somewhat by a decrease in income from discontinued operations of Telcordia.

Discontinued Operations. The following summarizes operating results from Telcordia s discontinued operations for the years ended January 31, 2005, 2004 and 2003:

	Year Ended January 31		
	2005	2004	2003
	(in millions)		
Revenues	$ 874	$ 887	$ 1,068
Costs and expenses:			
Cost of revenues	489	484	604
Selling, general and administrative expenses	235	258	275
Other expense (income), net	1	(1)	
Income before income taxes	149	146	189
Provision for income taxes	16	19	37
Income from discontinued operations	$ 133	$ 127	$ 152

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Selected Quarterly Financial Data

The following tables set forth our selected unaudited quarterly consolidated statements of income data for fiscal 2005 and 2004 and for the first two quarters of fiscal 2006. The information for each of these quarters has been derived from our unaudited consolidated financial statements, which have been prepared on the same basis as the audited consolidated financial statements included in this prospectus and, in the opinion of management, reflect all adjustments, consisting only of normal and recurring adjustments, necessary to fairly state our results of operations for and as of the periods presented. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended (1)			
	April 30	July 31	October 31	January 31
	(in millions, except per share amounts)			
Fiscal 2006				
Revenues	$ 1,846	$ 1,952		
Operating income	112	144		
Income from continuing operations	55	85		
Income from discontinued operations	530	12		
Net income	585	97		
Basic earnings per share (2)	$ 3.27	$ .55		
Diluted earnings per share (2)	$ 3.18	$ .54		
Fiscal 2005 (1)				
Revenues	$ 1,706	$ 1,768	$ 1,837	$ 1,876
Operating income	120	114	130	124
Income from continuing operations	67	52	68	85
Income from discontinued operations	22	29	27	59
Net income	89	81	95	144
Basic earnings per share (2)	$ .48	$ .44	$ .52	$ .80
Diluted earnings per share (2)	$ .47	$ .43	$ .51	$ .78
Fiscal 2004 (1)				
Revenues	$ 1,271	$ 1,445	$ 1,529	$ 1,588
Operating income	89	98	115	93
Income from continuing operations	51	60	78	35
Income from discontinued operations	18	31	38	40
Net income	69	91	116	75
Basic earnings per share (2)	$ .37	$ .49	$ .63	$ .41
Diluted earnings per share (2)	$ .37	$ .48	$ .61	$ .40

(1) Amounts for the first, second and third quarters of fiscal 2005 and all quarters in fiscal 2004 have been reclassified to conform to the presentation of Telcordia as discontinued operations at January 31, 2005.
(2) Earnings per share are calculated independently for each quarter presented and therefore may not sum to the total for the year.

Liquidity and Capital Resources

We financed our operations from our inception in 1969 primarily through cash flow from operations, sales of debt securities and our credit facilities. Following this offering and the payment of the special dividend, our principal sources of liquidity will be cash flow from operations and borrowings under our revolving credit facilities, and our principal uses of cash will be for operating expenses, capital expenditures, working capital requirements, possible acquisitions, equity investments, debt service requirements and repurchases of class A preferred stock from our 401(k) and other retirement plans during the restriction periods. We anticipate that our operating cash flow, existing cash, cash equivalents, short-term investments in marketable securities and borrowing capacity under our revolving credit facilities will be sufficient to meet our anticipated cash requirements for at least the next twelve months.

Historical Trends

Cash and cash equivalents and short-term investments in marketable securities totaled $3.1 billion and $2.4 billion at July 31, 2005 and January 31, 2005, respectively.

Cash from Discontinued Operations. During the six months ended July 31, 2005, we used $134 million of cash in operating activities of our Telcordia discontinued operations, primarily for income tax payments related to the sale of Telcordia, and we generated cash of $1.1 billion from investing activities, which represents the net cash proceeds from the sale of Telcordia.

Cash Generated by Operating Activities of Continuing Operations. We generated cash of $217 million and $222 million from operating activities for the six months ended July 31, 2005 and 2004, respectively. Factors increasing cash flows for the six months ended July 31, 2005 were higher income from continuing operations and a lower investment in receivables as a result of improvements in our working capital management processes. However, these cash flow increases were offset by an increase in cash tax payments.

In fiscal 2005, 2004 and 2003, we generated cash flows from operating activities of $592 million, $367 million and $371 million, respectively. Net cash provided by operating activities in fiscal 2005 consisted primarily of net income of $409 million reduced for income from discontinued operations of $137 million, increased for non-cash charges to income of $224 million and $47 million from working capital. The increase in fiscal 2005 was primarily generated by an increase in net income and non-cash charges and by lower tax payments.

Cash Used in Investing Activities of Continuing Operations. We used cash of $314 million and $138 million in investing activities for the six months ended July 31, 2005 and 2004, respectively. The increase in use of cash for the six months ended July 31, 2005 was primarily due to purchases of debt and equity securities that are managed as investment portfolios by outside investment managers. The primary source of cash to fund these purchases was from the proceeds from the sale of Telcordia, which was reflected as cash from investing activities of discontinued operations.

We used cash of $349 million and $461 million for investing activities in fiscal 2005 and 2004, respectively. In fiscal 2005, we used less cash for investing activities because we did not purchase any land or buildings as we did in fiscal 2004, and our purchases of debt and equity securities, net of proceeds from sales of investments, decreased compared to fiscal 2004. In fiscal 2004, we used cash to purchase land and buildings in McLean, Virginia that had previously been leased. In fiscal 2005, we used cash of $212 million to acquire four businesses for our Government segment. In fiscal 2004, we used cash of $193 million to acquire eight businesses for our Government segment and two businesses for our Commercial segment. All of these acquisitions were part of our overall growth strategy. In fiscal 2003, we generated net cash of $213 million from investing activities. This net cash was generated primarily from the liquidation of all our remaining shares in VeriSign and Amdocs and the related equity collars, which resulted in $631 million of proceeds.

Cash Used in Financing Activities. We used cash of $355 million and $243 million in financing activities for the six months ended July 31, 2005 and 2004, respectively, and used $478 million, $26 million and $104 million in fiscal 2005, 2004 and 2003, respectively, primarily for repurchases of our common stock. We used more cash in fiscal 2005 than in 2004 for financing activities because we did not generate cash proceeds from any debt offerings in fiscal 2005. In fiscal 2004 and 2003, our primary sources of cash from financing activities

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that helped to offset the impact of the repurchases of our common stock were the net proceeds from the debt offerings in June 2003 and June 2002, respectively. Our common stock repurchase activities for the six months ended July 31, 2005 and 2004, respectively, and for the years ended January 31, 2005, 2004 and 2003, respectively are as follows:

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
	(in millions)				
Repurchases of common stock:					
Limited market stock trades	$ 358	$ 220	$ 482	$ 208	$ 207
401(k) and other retirement plans	75	74	188	67	36
Upon employee terminations	68	56	143	79	39
Other stock transactions	51	56	98	23	29
Total	$ 552	$ 406	$ 911	$ 377	$ 311

The increase in repurchases in the limited market stock trade for the six months ended July 31, 2005 compared to the six months ended July 31, 2004 is primarily attributable to an increase in the average number of shares per stockholder offered for sale. Old SAIC has the right, but not the obligation, to repurchase stock in the limited market, to the extent that total shares offered for sale exceed total shares sought to be purchased. The increase in repurchases for the year ended January 31, 2005 was primarily attributable to an increase in the number of shares offered for sale relative to the number of shares sought to be purchased. Included in the fiscal 2005 shares offered for sale were approximately 1.5 million shares sold by our founder and former chairman. The increase in repurchases from 401(k) and other retirement plans for the six months ended July 31, 2005 is primarily due to repurchases of $27 million from the Telcordia 401(k) Plan. As a result of the sale of Telcordia, our common stock will no longer be an investment choice for future contributions in the Telcordia 401(k) Plan. As of July 31, 2005, the Telcordia 401(k) Plan held approximately 5.3 million shares of Old SAIC class A common stock, which had a fair value of $223 million. In accordance with the terms of the definitive stock purchase agreement between the buyer and us, the participants in the Telcordia 401(k) Plan must offer for sale their shares of Old SAIC class A common stock held in the Telcordia 401(k) Plan no later than the date of the scheduled April 2006 trade for the retirement plans, or any such later trade date as may be agreed by the buyer and us. We expect to determine whether to repurchase the shares of common stock held by the Telcordia 401(k) Plan in April 2006, based on an evaluation of all relevant then existing considerations, including our cash balances, our need for operating capital, our near-term acquisition plans, the level of repurchases from our retirement plans and the then prevailing stock price at which such shares would be repurchased. Repurchases of our shares reduce the amount of retained earnings in the stockholders equity section of our consolidated balance sheet. Because the New SAIC common stock will be publicly traded following the completion of this offering and the New SAIC class A preferred stock will be convertible into New SAIC common stock as the applicable restriction periods lapse, we expect that we will discontinue the limited market, cease purchasing stock from our stockholders and wind up the operations of Bull, Inc. and terminate our share repurchase program. However, we intend to repurchase shares of class A preferred stock on a quarterly basis from our 401(k) and other retirement plans during the restriction periods at fair value, as determined by the board of directors, in order to provide participants in those plans with liquidity to the extent permitted under the plans.

Outstanding Indebtedness

Notes payable and long-term debt totaled $1.2 billion at July 31, 2005 and January 31, 2005, with long-term debt maturities primarily between calendar 2012 and 2033. In addition to our long-term debt, we have two revolving five-year credit facilities totaling $750 million. One of the credit facilities is for an aggregate principal amount of up to $500 million and expires in July 2007. The other credit facility is for an aggregate principal amount of up to $250 million and expires in July 2009.

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Notes Payable and Long-Term Debt. Our outstanding notes payable and long-term debt consisted of the following as of July 31, 2005 and January 31, 2005:

	As of July 31, 2005	As of January 31, 2005
	(in millions)	
5.5% notes due 2033	$ 296	$ 296
6.25% notes due 2012	548	548
7.125% notes due 2032	248	248
6.75% notes due 2008	94	95
3-year note due 2006	24	30
Other notes payable	35	68
	1,245	1,285
Less current portion	36	70
Total	$ 1,209	$ 1,215

All of the long-term notes described above contain customary restrictive covenants, including, among other things, restrictions on our ability to create liens, dispose of assets, merge or consolidate with other entities and enter into sale and leaseback transactions. As of July 31, 2005, we were in compliance with such covenants. Our other notes payable have interest rates from 2.5% to 6% and are due on various dates through 2016. For additional information on our notes payable and long-term debt, see Note 13 of the notes to the consolidated financial statements for fiscal 2005.

Revolving Credit Facilities. Borrowings under our two revolving five-year credit facilities are unsecured and bear interest at a rate determined, at our option, based on either LIBOR plus a margin or a defined base rate. As of July 31, 2005, no loans were outstanding under either of our credit facilities and the entire $250 million under our $250 million credit facility was available for borrowing. However, only $391 million of the $500 million credit facility was available for borrowing as of July 31, 2005 as standby letters of credit of approximately $109 million were issued under this credit facility due to bonding requirements that we have under our FFP contract with the Greek Government. The terms of the standby letters of credit require them to remain outstanding until the customer has formally accepted the system pursuant to the contract. See Commitments and Contingencies Greek Government FFP Contract.

Our two revolving credit facilities contain customary restrictive covenants. The financial covenants contained in the credit facilities require us to maintain a trailing four-quarter interest coverage ratio of not less than 3.5 to 1.0 and a ratio of consolidated funded debt to a trailing four-quarter earnings before interest, taxes, depreciation and amortization of not more than 3.0 to 1.0. These covenants also restrict certain of our activities, including, among other things, our ability to create liens, dispose of assets, merge or consolidate with other entities and create guaranty obligations. The credit facilities also contain customary provisions on events of default. As of July 31, 2005, we were in compliance with all covenants under the two credit facilities. We will need to obtain consents under our revolving credit facilities prior to the payment by Old SAIC of the proposed special dividend described elsewhere in this prospectus.

Cash Flow Expectations for the Remainder of Fiscal 2006

We expect our cash flows from operating activities to decrease slightly for fiscal 2006 compared to fiscal 2005 because of the timing of tax payments. For the remainder of fiscal 2006, we expect to make between $60 million to $70 million of capital expenditures, including up to approximately $7 million for real estate transactions. In addition, we expect to increase our level of business acquisitions during the remainder of fiscal 2006. Subsequent to July 31, 2005, we have completed three acquisitions in the third fiscal quarter for approximately $200 million in the aggregate and expect to complete several other acquisitions by the end of fiscal 2006. These acquisitions are expected to be in our Government segment and will be funded by existing

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working capital. The October 2005 limited market trade is expected to be our last one prior to this offering and we do not expect to repurchase any Old SAIC class A common stock thereafter except to provide participants in our retirement plans with liquidity to the extent permitted under the plans. While we cannot predict how many shares, if any, we will repurchase in the remainder of fiscal 2006, it is possible that we will spend as much or more than we spent for repurchases in fiscal 2005. Based on our existing cash, cash equivalents, short-term investments in marketable securities, borrowing capacity and expected cash flows from operations, we expect to have sufficient funds for at least the next 12 months for our operations, capital expenditures, stock repurchases, business acquisitions and equity investments, and to meet our contractual obligations noted in the table above, including interest payments on our outstanding debt.

Off-Balance Sheet Arrangements

We are party to various off-balance sheet arrangements including various guarantees, indemnifications and lease obligations. We have outstanding performance guarantees and cross-indemnity agreements in conjunction with our joint venture investments. See Note 16 of the notes to the consolidated financial statements for fiscal 2005 for detailed information about our lease commitments and Commitments and Contingencies for detailed information about our guarantees associated with our joint ventures.

In connection with the sale of Telcordia, as described in Note 19 of the notes to consolidated financial statements for the six months ended July 31, 2005, we retained the outcome of litigation associated with Telkom South Africa and certain patent rights as well as income tax obligations on and through the closing date, which was March 15, 2005. We also have customary indemnification obligations and intend to repurchase our common stock from the Telcordia 401(k) Plan as previously discussed.

Contractual Obligations

The following table summarizes our obligations to make future payments pursuant to certain contracts or arrangements as of January 31, 2005, as well as an estimate of the timing in which these obligations are expected to be satisfied:

		Payments Due by Fiscal Year			
	Total	**2006**	**2007-2008**	**2009-2010**	**2011 and After**
			(in millions)		
Contractual obligations:					
Long-term debt (1)	$ 2,536	$ 143	$ 172	$ 242	$ 1,979
Operating lease obligations (2)	361	107	128	65	61
Capital lease obligations	6	3	3		
Purchase obligations (3)	3	2	1		
Other long-term liabilities (4)	99	15	48	25	11
Total contractual obligations	$ 3,005	$ 270	$ 352	$ 332	$ 2,051

(1) Includes total interest payments on our outstanding debt of $77 million in fiscal 2006, $151 million in fiscal 2007-2008, $141 million in fiscal 2009-2010 and $875 million in fiscal 2011 and after.

(2) Includes $98 million related to an operating lease on a contract with the Greek Government, whereby we are not obligated to make the lease payments to the lessee if our customer defaults on payments to us, as described in Commitments and Contingencies Greek Government FFP Contract, Business Legal Proceedings, and Note 16 of the notes to the consolidated financial statements for fiscal 2005.

(3) Includes obligations to transfer funds under legally enforceable agreements for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Excludes purchase orders for products or services to be delivered under U.S. Government contracts under which we have full recourse under normal contract termination clauses.

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(4) Includes estimated payments to settle the fiscal 2002 and 2003 swap agreements (as described in Note 8 of the notes to the consolidated financial statements for fiscal 2005), contractually required payments to the foreign defined benefit pension plan and deferred compensation arrangements. Because payments under the deferred compensation arrangements are based upon the participant s termination, we are unable to determine when such amounts will become due. Therefore, for purpose of this table we assumed equal payments over the next six years.

Commitments and Contingencies

Telkom South Africa

As described in Note 20 of the notes to consolidated financial statements for the six months ended July 31, 2005 included elsewhere in this prospectus, Telcordia Technologies, Inc., our former subsidiary, instituted arbitration proceedings before the International Chamber of Commerce (ICC), against Telkom South Africa in March 2001 as a result of a contract dispute. Telkom South Africa successfully challenged the arbitrator s partial award in our favor in the South African trial court and we have appealed this decision to the South African Supreme Court. In a separate proceeding, we unsuccessfully attempted to have our partial arbitration award confirmed by the U.S. District Court. Telcordia has appealed this ruling to the U.S. Court of Appeals for the Third Circuit.

On March 15, 2005, we sold Telcordia to an affiliate of Warburg Pincus LLC and Providence Equity Partners Inc. Pursuant to the definitive stock purchase agreement relating to the sale, we are entitled to receive all of the net proceeds from any judgment or settlement with Telkom South Africa, and, if this dispute is settled or decided adversely against Telcordia, we are obligated to indemnify the buyer of Telcordia against any loss that may result from such an outcome.

Due to the complex nature of the legal and factual issues involved in the dispute and the uncertainty of litigation in general, the outcome of the arbitration and the related court actions are not presently determinable; however, an adverse resolution could materially harm our business, consolidated financial position, results of operations and cash flows. Protracted litigation, regardless of outcome, could result in substantial costs and divert management s attention and resources. We do not have any assets or liabilities recorded related to this contract and the related legal proceedings as of July 31, 2005 and January 31, 2005. We do not believe a material loss is probable based on the procedural standing of the case and our understanding of applicable laws and facts.

Greek Government FFP Contract

Overview. We have an FFP contract with the Greek Government (customer), as represented by the Ministry of Defense, to provide a C4I (Command, Control, Communications, Coordination and Integration) System (System), that was used to support the 2004 Athens Summer Olympic Games (Greek contract). The customer has received delivery of the System for its use and operation, but, to date, has not formally accepted the System under the terms of the Greek contract and has not made certain milestone payments. The parties have had numerous disagreements concerning various technical, legal and contractual issues. We have been in discussions with the customer and our principal subcontractor to attempt to resolve these issues through appropriate contract and subcontract modifications. However, no agreement has been reached to date. In addition, the Greek Government has advised us that it will not be able to sign a contract modification until an issue concerning the legality of its award of the Greek contract is resolved. Additional information concerning the Greek contract and its status is set forth below.

Original Contract. The Greek contract requires us to provide the System and related services. The System is comprised of 29 subsystems, organized into three major functional areas: the Command Decision Support System (CDSS), the Communication and Information System (CIS) and the Command Center Systems (CCS).

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Under the Euro-denominated Greek contract, final acceptance of the System was to take place by September 1, 2004, at a price of approximately $191 million. To date, we have been paid approximately $143 million. The Greek contract also requires us to provide five years of System support and maintenance for approximately $12 million and ten years of TETRA (radio) network services for approximately $102 million. The Greek contract contains an unpriced option for an additional five years of TETRA network services.

Memorandum of Understanding. On July 7, 2004, shortly before the start of the Olympic Games, we entered into an agreement (MOU) with the Greek Government, as represented by the Committee for Planning and Monitoring the Olympic Security Command Centers, pursuant to which the parties recognized and agreed that (1) delivery and acceptance of the System had not been completed by the scheduled date, (2) the System would be delivered for use at the Olympic Games in its then-current state, which included certain omissions and deviations attributable to both parties, (3) a new process for testing and acceptance of the System would be instituted, with final acceptance to occur no later than October 1, 2004, (4) the customer would proceed with the necessary actions for the completion of a contract modification as soon as possible, and (5) we would receive a milestone payment of approximately $24 million immediately upon the execution of the contract modification. To date, the contract modification contemplated by the MOU has not been signed, and the $24 million milestone payment has not been received. Subsequent to execution of the MOU, the customer asserted that the MOU is non-binding, and disputes have arisen concerning its meaning and effect.

Delivery of System, Testing and Negotiations. The dispute between the parties relates primarily to the functionality of the CDSS portion of the System delivered in November 2004, and more specifically to the operational effectiveness and contractual compliance of CDSS. The customer has performed subsystem acceptance tests on each of the 29 subsystems. The parties are presently unable to proceed to the overall System acceptance tests until the disputes concerning the contractual compliance of CDSS and the other subsystems (supplied by both us and our subcontractors) are resolved. We and our principal subcontractor are attempting to address the omissions and deviations identified by the customer in subsystems 1 7. With respect to Subsystems 8 30, we are in the process of addressing the omissions and deviations through negotiations and, in some instances, the submission of applications for deviation. While discussions with the customer to attempt to resolve the contractual issues through an appropriate contract modification have been unsuccessful to date, the parties have continued to meet in an effort to resolve the disputed issues. Given the inherent uncertainties in this process, however, we are unable to predict if and when the negotiations will lead to acceptable modifications of the Greek contract or to our subcontract with our principal subcontractor as described below.

Memorandum of Agreement (MOA) with our Principal Subcontractor. On June 10, 2005, we entered into an MOA with our Greek-based principal subcontractor. The MOA contemplates that this subcontractor will perform certain of our responsibilities under the Greek contract, including delivering a modified version of Subsystems 1 7 (CDSS) and will resolve deviations and omissions asserted by the customer with respect to the remaining Subsystems the subcontractor was responsible for under the terms of its subcontract. In order for the solution contemplated by the MOA to be implemented, appropriate modifications to the Greek contract signed by the customer and the subcontract with our principal subcontractor must be negotiated and signed. Upon the modification of the Greek contract and the subcontract, the subcontractor would assume responsibility for achieving final acceptance of the System. The MOA is subject to a number of conditions and does not currently represent a binding obligation of the subcontractor to assume the enlarged scope of work noted above. We believe, however, that the MOA obligates the subcontractor to make good faith efforts to give effect to the purpose and intent of the MOA.

Performance and Payment Bonds. In connection with the Greek contract, we entered into payment, performance and offset bonding requirements, which currently total $233 million. The bonding requirements have been met through the issuance of standby letters of credit of which $109 million was issued under our $500 million credit facility and $124 million was issued by certain banks. Under the terms of these bonding arrangements, the customer could call these standby letters of credit at any time. Certain of our subcontractors have provided us with performance bonds in the aggregate amount of approximately $98 million, guaranteeing their performance under their subcontracts.

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Subcontracts. We have subcontracted a significant portion of the customer requirements under the Greek contract, and payments to the subcontractors are generally required only if we receive payment from the customer. In addition, the Greek contract requires us to lease certain equipment under an operating lease from our principal subcontractor for ten years as further described in Note 16 of the notes to consolidated financial statements for the six months ended July 31, 2005 included elsewhere in this prospectus. In August 2004, when we delivered the System to the customer for use, our principal subcontractor began providing TETRA network services to the customer. On March 29, 2005, we received written notice from our principal subcontractor that the subcontractor intended to stop providing TETRA network services unless payment were made to the subcontractor in the amount of approximately $9 million within 15 days of the letter. We provided the customer with a copy of the subcontractor s written notice. The customer has taken no action on this matter, and the subcontractor has continued to provide the services. On September 8, 2005, our principal subcontractor provided us with written notice that the subcontractor will no longer commit to continue providing TETRA network services and asserted its entitlement to payment for the TETRA network and terminals, which have been used by the customer since August 2004, and its expectation of payment for any future use. We provided the customer with notice of this development. To date, the subcontractor continues to provide TETRA network services. Under the terms of the Greek contract, we are not obligated to provide TETRA network services to the customer until the customer has accepted the System. We have not recorded any revenue from the customer or accrued any subcontract lease obligation related to the TETRA services or System maintenance.

Dispute Resolution, Binding Arbitration and Damages Provisions. If the parties are unable to resolve their disputes through negotiation or contract modification, the dispute could be resolved in binding arbitration. Under the Greek contract, any disputes are subject to ultimate resolution by binding arbitration before three Greek arbitrators in Greece. If the customer prevails in any such arbitration and we are found to have materially breached the Greek contract, the customer may be entitled to recover damages, which could include: (1) penalties for delayed delivery in an amount up to $15 million, (2) damages in the form of excess reprocurement costs, (3) repayment of amounts paid under the Greek contract and (4) forfeiture of a good performance bond in the amount of $31 million.

Legality of the Greek Contract. On August 25, 2005, we received a copy of a decision issued by the Court of Auditors of the Hellenic Republic (Greek Audit Court). The Greek Audit Court is a government agency that has authority to review and audit procurements, including payments to contractors. We understand that one of its auditors challenged on several grounds a payment order or invoice submitted by the Greek Ministry of Defense for a payment of approximately $78 million (63,109,140 Euros) relating to our Greek contract . As this payment is in excess of amounts which have not yet been paid to us under the contract, it is unknown at this time whether the payment order related to work for which (1) we have already been paid, (2) we have not been paid or (3) we have been paid on some but not all work. The Greek Audit Court decided that the payment was not authorized under Greek law or applicable procurement regulations.

In denying payment, the Greek Audit Court made the following two findings:

- the Greek contract was null and void due to lack of review by the Greek Audit Court prior to award, and
- the Greek contract properly should have been awarded by the Greek Ministry of Public Order and not the Greek Ministry of Defense, which awarded the Greek contract to us.

On September 1, 2005, we sent a letter to the customer requesting that the customer confirm what the parties discussed in an August 29, 2005 meeting; specifically that the customer considers the Greek contract to be a legal and binding agreement, that the customer desires us and our subcontractors to continue performing, and that the customer will take the actions necessary to lift any doubts that exist concerning the validity of our Greek contract. On September 14, 2005, the Deputy Minister of Public Order responded to SAIC in a letter which stated that: (1) despite the significant deficiencies and deviations identified in the System, the MPO s interest for the execution of the Greek contract remains unchanged; (2) the appropriate Courts have the jurisdiction and should decide the issue of the contract s legal validity; and (3) the Greek Ministry of Public Order s intention is to exhaust every possibility, within its authority, so that the Greek contract encounters no issues of legality, even if

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the adoption of remedial legislation is needed. On September 19, 2005, the customer submitted a request for revocation to the Greek Audit Court seeking a reversal of the decision relating to the legality of the Greek contract. We have also been advised by the customer that, if the revocation is unsuccessful, legislation will be introduced in the Greek Parliament, which, if adopted, would ratify and affirm the Greek contract.

We understand that the Greek Audit Court s decision relates to the Greek procurement process, is not binding upon us and may not relieve us of our contractual obligations to the customer under the Greek contract without further action by us, the Greek Audit Court or other agencies of the Greek Government. We are evaluating our options with respect to the legality of the Greek contract.

The issue of the legality of the Greek contract award could be arbitrated under the binding arbitration provisions of the Greek contract or determined by the appropriate Greek court. We have no current intention to arbitrate or litigate the issue of legality of the Greek contract and we currently plan to resolve all disputes through negotiation and contract modification as outlined above.

If, however, there is a finding by arbitrators or the appropriate court in the future that the contract was null and void, we believe the following would result, irrespective of the terms of the Greek contract: we would have no contractual obligations to complete any additional work under the Greek contract; penalties for delayed performance could not be enforced; damages for excess reprocurement costs could not be assessed; the good performance bonds could not be called; and we believe we would be entitled to equitable remedies. Under these equitable remedies, if the arbitrators or court found that the value conferred upon the customer by our work was greater than the payments already received by us, the customer would owe us for the amount of such excess. Likewise, if the arbitrators or court found the value conferred upon the customer by our work was less than the payments already received by us, we would owe the customer for the amount of such deficiency.

While we continue to evaluate the implications of the legality issue and other recent developments, we believe we performed services and received payments under a binding agreement with the customer.

Financial Status of the Contract. We have recorded the financial position of the Greek contract based on our best estimate of the loss to be realized. The situation remains extremely complex and dynamic, involving multiple government agencies, subcontractors, and customer elements and government representatives having different roles and at times, expressing inconsistent positions.

We have recognized revenues of $151 million and recorded losses of $54 million under the contract through July 31, 2005. We have accounts receivable of $9 million under the contract and a $4 million accounts receivable related to a contract addendum as of July 31, 2005. Our recorded losses exclude potential subcontractor liabilities of $10 million that management believes will not be paid under the subcontract terms. In addition, we have $13 million of accounts receivable relating to Value Added Taxes (VAT) that we have paid and are entitled to recover from the customer under the contract upon final billing.

Of the $54 million in contract losses recorded as of July 31, 2005, $16 million was recorded in the six months ended July 31, 2005, reflecting changes in management s estimate of the loss as a result of the failure by the parties to reach agreement on a contract modification, the unfavorable results of the customer s testing of the system, their unwillingness to accept the system, continuing negotiations with the customer and our principal subcontractor and other recent developments.

While we believe we are working towards an acceptable solution with the customer, if we are ultimately unable to resolve the various disputes under the contract, then we may not be able to collect our receivables and we may incur additional losses. We could also potentially incur additional losses if it is determined that we have breached the Greek contract, or our subcontracts, and owe the customer or our subcontractors damages, as described above. The customer could call some or all of the payment, performance and offset bonds of $233 million. Failure to collect our receivables, or the successful imposition of damages, could have a material adverse affect on our consolidated financial position, results of operations and cash flows.

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DS&S Joint Venture

DS&S, our 50-50 joint venture with Rolls Royce plc, maintains a $25 million credit facility, under which about $8 million in principal amount is outstanding and $11.5 million in standby letters of credit is outstanding at July 31, 2005. We have guaranteed 50% of the DS&S commitments under this credit facility, but we have not been required to perform under this guarantee. At January 31, 2005, we provided a loan of $1 million to DS&S. We and the other joint venture member have guaranteed the payment of 50% of legal and accounting fees incurred by DS&S in conjunction with an ongoing government investigation. As of July 31, 2005, the fair value of the guarantee for legal and accounting fees is not material to us, and we have not been required to perform on this guarantee.

INTESA Joint Venture

INTESA. INTESA, a Venezuelan joint venture we formed in fiscal 1997 with Venezuela s national oil company, PDVSA, to provide information technology services in Latin America, is involved in various legal proceedings. We had previously consolidated our 60% interest in the joint venture, but the operations of INTESA were classified as discontinued operations as of January 31, 2003 and INTESA is currently insolvent. PDVSA has refused to take action to dissolve the joint venture or have it declared bankrupt.

Outsourcing Services Agreement and Guarantee. INTESA had derived substantially all its revenues from an outsourcing services agreement with PDVSA that it entered into at the time the joint venture was formed. The services agreement expired on June 30, 2002 and the parties were not able to reach agreement on a renewal. We guaranteed INTESA s obligations under the services agreement to PDVSA. Under the terms of the services agreement, INTESA s liability for damages to PDVSA in any calendar year is capped at $50 million. As a result, our maximum potential liability to PDVSA under the guarantee in any calendar year, based on our guarantee of their ownership interest in INTESA, is $20 million. To date, PDVSA has not asserted any claims.

Expropriation of Our Interest in INTESA. In fiscal 2003 and 2004, PDVSA and the Venezuelan government took certain actions, including denying INTESA access to certain of its facilities and assets, that prevented INTESA from continuing operations. In fiscal 2005, the Overseas Protection Insurance Company (OPIC), a U.S. governmental entity that provides insurance coverage against expropriation of U.S. business interests by foreign governments, determined that the Venezuelan government had expropriated our interest in INTESA without compensation and paid us approximately $6 million in settlement of our claim.

Employment Claims of Former INTESA Employees. INTESA is a defendant in a number of lawsuits brought by former employees seeking unpaid severance and pension benefits. PDVSA and SAIC Bermuda, our wholly-owned subsidiary and the entity that held our interest in INTESA, were added as defendants in a number of these suits. Based on the procedural standing of the cases and our understanding of applicable laws and facts, we believe that our exposure to any possible loss related to these employment claims is either remote or, if reasonably possible, immaterial.

Other Legal Proceedings Involving INTESA. The Attorney General of Venezuela initiated a criminal investigation of INTESA in fiscal 2003 alleging unspecified sabotage by INTESA employees. We believe this investigation is inactive. In connection with our expropriation claim, OPIC determined that INTESA did not sabotage PDVSA s infrastructure as alleged by PDVSA and the Venezuelan government. In addition, the SENIAT, the Venezuelan tax authority, filed a claim against INTESA in fiscal 2004 for approximately $30 million for alleged non-payment of VAT taxes in fiscal 1998.

Potential Financial Impact. Many issues relating to INTESA, including the termination of the services agreement and the employment litigation brought by former INTESA employees, remain unresolved. Due to the complex nature of the legal and factual issues involved in these matters and the uncertain economic and political environment in Venezuela, the outcome is not presently determinable; however, adverse resolutions could materially harm our business, consolidated financial position, results of operations and cash flows.

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Other Joint Ventures

In one of our investments in affiliates accounted for under the equity method, we are an investor in Danet Partnership GBR (GBR), a German partnership. GBR has an internal equity market similar to our limited market. We are required to provide liquidity rights to the other GBR investors in certain circumstances. These rights allow only the withdrawing investors in the absence of a change in control, and all GBR investors in the event of a change of control, to put their GBR shares to us in exchange for the current fair value of those shares. We may pay the put price in shares of our common stock or cash. We do not currently record a liability for these rights because their exercise is contingent upon the occurrence of future events which we cannot determine will occur with any certainty. The maximum potential obligation, if we assume all the current GBR investors are withdrawing from GBR, would be $12 million as of July 31, 2005. If we were to incur the maximum obligation and buy all the shares outstanding from the other investors, we would then own 100% of GBR.

We have a guarantee that relates only to claims brought by the sole customer of another of our joint ventures, Bechtel SAIC Company, LLC, for specific contractual nonperformance of the joint venture. We also have a cross-indemnity agreement with the joint venture partner, pursuant to which we will only be ultimately responsible for the portion of any losses incurred under the guarantee equal to our ownership interest of 30%. Due to the nature of the guarantee, as of July 31, 2005, we are not able to project the maximum potential amount of future payments we could be required to make under the guarantee but, based on current conditions, we believe the likelihood of having to make any payment is remote. No liability relating to this guarantee is currently recorded.

On September 15, 2004, we entered into an agreement with EG&G Technical Services, Inc. (EG&G), and Parsons Infrastructure & Technology Group, Inc. (Parsons), to form Research and Development Solutions, LLC (RDS), a Delaware limited liability company that will pursue contracts offered by the Department of Energy s National Energy Technical Laboratory. We, EG&G and Parsons, each have a one-third equal joint venture interest. In conjunction with a contract award to RDS, each joint venture partner was required to sign a performance guarantee agreement with the U.S. Government. Under this agreement, we unconditionally guarantee all of RDS s obligations to the U.S. Government under the contract award, which has an estimated total value of $217 million. We also have a cross-indemnity agreement with each of the other two joint venture partners to protect us from liabilities for any U.S. Government claims resulting from the actions of the other two joint venture partners and to limit our liability to our share of the contract work. As of July 31, 2005, the fair value of the guarantee is not material to us.

Gracian v. SAIC Class Action Lawsuit

On March 4, 2005, we were served with a class action lawsuit filed in California Superior Court for the County of San Diego brought by a former employee on behalf of herself and others similarly situated that alleged that we improperly failed to pay overtime to exempt salaried and professional employees in the State of California and required them to utilize their paid leave balances for partial day absences. The plaintiffs contended that our policy violated California law and sought, among other things, the unpaid vacation balance allegedly owed to plaintiffs, overtime compensation, penalties, interest, punitive damages and attorney fees. On May 31, 2005, the California Labor Commissioner issued a memorandum to the California Division of Labor Standards Enforcement Staff that interpreted California law in a way that supported our legal positions in this case. A California Court of Appeals, in another matter, published an opinion on July 21, 2005, which supported our position regarding charging comprehensive leave balances for partial day absences. On September 21, 2005, the plaintiffs voluntarily dismissed the lawsuit without prejudice.

Other

In the normal conduct of our business, we seek to monetize our patent portfolio through licensing agreements. We also have and will continue to defend our patent positions when we believe our patents have

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been infringed and are involved in such litigation from time to time. As described in Note 19 of the notes to consolidated financial statements for the six months ended July 31, 2005 included elsewhere in this prospectus, in accordance with the terms of the sale of Telcordia that was effective on March 15, 2005, we will receive 50% of any net proceeds Telcordia receives in the future in connection with the enforcement of certain patent rights.

As part of the terms of the sale of Telcordia, in addition to the indemnification related to the Telkom South Africa litigation, we also have indemnified the buyer for all income tax obligations on and through the date of close. While we believe we have adequate accruals for these tax contingencies, the ultimate resolution of these matters could differ from the amounts accrued. All of these future contingent payments or contingent purchase price proceeds will continue to be reflected as discontinued operations in the period in which they arise.

We are also involved in various investigations, claims and lawsuits arising in the normal conduct of our business, none of which, in the opinion of our management, will likely have a material adverse effect on our consolidated financial position, results of operations, or cash flows or ability to conduct business.

Accounting Change

Effective February 1, 2002, we implemented SFAS No. 142, Goodwill and Other Intangible Assets, which changed the accounting for goodwill from an amortization approach to an impairment-only approach. Upon adoption, we did not have a transitional goodwill impairment charge and, therefore, we did not have a cumulative effect of an accounting change.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates these estimates and assumptions on an on-going basis, including those relating to allowances for doubtful accounts, inventories, fair value and impairment of investments, fair value and impairment of intangible assets and goodwill, income taxes, warranty obligations, estimated profitability of long-term contracts, pension benefits, contingencies and litigation. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

We have several critical accounting policies that are both important to the portrayal of our financial condition and results of operations and require management s most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments complex and difficult have to do with making estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are as follows:

Revenue Recognition. As described under Revenue Recognition in Note 1 of the notes to the consolidated financial statements for the six months ended July 31, 2005 included elsewhere in this prospectus, our revenues are primarily recognized using the percentage-of-completion method as discussed in Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Under the percentage-of-completion method, revenues are recognized based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimating total costs at completion. Estimating costs at completion on these long-term contracts is complex and involves significant judgments about uncertain matters due to the long-term nature of the contracts and the technical nature of our services. We have procedures and processes in place to monitor the

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actual progress of a project against estimates. Should the estimates indicate that we will experience a loss on the contract, we recognize the estimated loss at the time it is determined. Additional information may subsequently indicate that the loss is more or less than initially recognized, which would require further adjustment in our financial statements. Any adjustment as a result of a change in estimate, whether it is a loss or an adjustment to revenue, is made on a prospective basis when events or estimates warrant an adjustment. Estimates are updated quarterly or more frequently if circumstances warrant it. Although our primary revenue recognition policy is the percentage-of-completion method, we do have contracts under which we use alternative methods to record revenue. Selecting the appropriate revenue recognition method involves judgment based on the contract and can be complex depending upon the structure and terms and conditions of the contract.

Costs incurred on projects for which we have been requested by the customer to begin work under a new contract, or extend or modify work under an existing contract (change order), and for which formal contracts or contract modifications have not been executed, are recognized as pre-contract costs and deferred as an asset if it is probable that we will recover the costs through the issuance of a contract or contract modification. When the formal contract or contract modification has been executed, the costs are charged to the contract and revenue is recognized based on the percentage-of-completion method of accounting.

Contract claims are costs incurred in excess of the executed contract price that we seek to collect from the customer and are expensed as incurred. Additional revenue related to claims is recognized when and if the amounts are awarded by the customer.

Income Taxes. As described under Income Taxes in Note 1 of the notes to consolidated financial statements for the six months ended July 31, 2005 included elsewhere in this prospectus, income taxes are provided utilizing the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. In addition, the provisions for federal, state, foreign and local income taxes are calculated on reported financial statement income before income taxes based on current tax law and also include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We also have recorded liabilities for tax contingencies for open years based upon our best estimate of the taxes ultimately expected to be paid. A significant portion of our income taxes payable balance is comprised of tax accruals that have been recorded for tax contingencies.

Recording our provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until final resolution of an examination by the Internal Revenue Service (IRS) or State agencies. Additionally, recording liabilities for tax contingencies involves significant judgment in evaluating our tax positions and developing our best estimate of the taxes ultimately expected to be paid.

Investments in Marketable and Private Equity Securities. As described under Investments In Marketable and Private Equity Securities in Note 1 of the notes to consolidated financial statements for the six months ended July 31, 2005 included elsewhere in this prospectus, our marketable debt and equity securities are carried on the balance sheet at fair value, with changes in fair value recorded through equity. When the fair value of a security falls below its cost basis and the decline is deemed to be other-than-temporary, we record the difference between cost and fair value as an unrealized loss. Investments accounted for on the cost method or equity method must be marked down to estimated fair value if an other-than-temporary decline occurs. In determining whether a decline is other-than-temporary, management considers a wide range of factors that may vary depending upon whether the investment is a marketable debt or equity security or a private investment. These factors include the duration and extent to which the fair value of the security or investment has been below its cost, recent financing rounds at a value that is below our carrying value, the operating performance of the entity, its liquidity and our investment intent. The private equity investments involve more judgment than the marketable equity securities because there is no readily available fair market value of a private equity security. Therefore, management, in

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addition to considering a wide range of other factors, must also use valuation methods to estimate the fair value of a private equity investment. Management judgments about these factors may impact the timing of when an other-than-temporary loss is recognized, and management s use of valuation methods to estimate fair value may also impact the amount of the impairment loss.

Goodwill Impairment. As described under Goodwill and Intangible Assets in Note 1 of the notes to consolidated financial statements for the six months ended July 31, 2005 included elsewhere in this prospectus, we account for our goodwill, which represents 46% of our consolidated long-term assets and 8% of consolidated total assets at January 31, 2005, under Statement of Financial Accounting Standards (SFAS, No. 142), Goodwill and Other Intangible Assets. SFAS No. 142 changed the accounting for goodwill from an amortization approach to an impairment-only approach. Goodwill is tested annually in our fourth fiscal quarter and whenever an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each of the reporting units based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with the carrying values, which includes the allocated goodwill. If the fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit s identifiable assets and liabilities from its estimated fair value calculated in step one. The impairment charge represents the excess of the carrying amount of the reporting unit s goodwill over the implied fair value of their goodwill. The revenue and profit forecasts used in step one are based on management s best estimate of future revenues and operating costs. Changes in these forecasts could cause a particular reporting unit to either pass or fail the first step in the impairment test, which could significantly change the amount of the impairment recorded from step two. In addition, the estimated future cash flows are adjusted to present value by applying a discount rate. Changes in the discount rate impact the impairment by affecting the calculation of the fair value of the reporting unit in step one.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB), issued SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123(R) focuses primarily on accounting for transactions in which share-based awards are granted to employees in exchange for services and requires recognition of compensation expense over the vesting period in an amount equal to the fair value of share-based payments, including stock options, granted to employees. SFAS No. 123(R) retained the guidance from SFAS No. 123 for share-based payment transactions to non-employees. We meet the definition of a non-public entity per SFAS No. 123(R) and have used the minimum value method in our pro forma disclosures. Therefore, we are required to adopt the provisions of the standard prospectively for any newly issued, modified or settled award after the date of our initial adoption, which is February 1, 2006. Upon adoption, restatement of earlier periods is not permitted. We are currently evaluating the effect that adoption of this statement will have on our consolidated financial position and results of operations.

In December 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal, as defined in the statement. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, which is February 1, 2006. We are currently evaluating the effect that adoption of this statement will have on our consolidated financial position and results of operations.

In December 2004, the FASB issued FASB Staff Position (FSP), FAS 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities

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Provided by the American Jobs Creation Act of 2004 (the Act). The FSP provides guidance on the application of SFAS No. 109 to the provisions of the tax deduction on qualified production activities contained within the Act. FSP 109-1 states that the manufacturers deduction should be accounted for as a special deduction in accordance with SFAS No. 109 and not as a tax rate reduction. We are currently evaluating the effect that adoption of this statement will have on our taxes in fiscal 2006 as the tax deduction is not effective for us until fiscal 2006.

Effects of Inflation

Our cost-reimbursement type contracts are generally completed within one year. As a result, we have generally been able to anticipate increases in costs when pricing our contracts. Bids for longer-term FFP and T&M contracts typically include sufficient provisions for labor and other cost escalations to cover cost increases over the period of performance. Consequently, revenues and costs have generally both increased commensurate with the general economy. As a result, net income as a percentage of total consolidated revenues has not been significantly impacted by inflation.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the normal course of business. Our current market risk exposures are primarily to interest rates and foreign currency fluctuations. The following information about our market sensitive financial instruments contains forward-looking statements.

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents, investments in marketable securities and long-term debt obligations.

We have established an investment policy to protect the safety, liquidity and after-tax yield of invested funds. This policy establishes guidelines regarding acceptability of instruments and maximum maturity dates and requires diversification in the investment portfolios by establishing maximum amounts that may be invested in designated instruments. We do not authorize the use of derivative financial instruments in our managed short-term investment portfolios, although our policy authorizes the limited use of derivative instruments to hedge interest rate risks.

The table below provides information about our financial instruments at January 31, 2005 that are sensitive to changes in interest rates. For debt obligations and short-term investments, the table presents principal cash flows in U.S. dollars and related weighted average interest rates by expected maturity dates. As described in Note 8 of the notes to the consolidated financial statements for fiscal, 2005 included elsewhere in this prospectus, the swap agreements we entered into in May 2003 are expected to substantially offset interest rate exposures related to the swap agreements previously entered into in January 2002. As a result, on a combined basis, these swaps are no longer exposed to changing interest rates and we have excluded these swap agreements from the table below.

	2006	2007	2008	2009	2010	There-after	Total	Estimated Fair Value as of January 31, 2005
				(dollars in millions)				
Assets:								
Cash equivalents (1)	$ 968						$ 968	$ 968
Average interest rate	2.37%							
Investment in marketable securities:								
Fixed rate	$ 399	$ 217	$ 113	$ 52			$ 781	$ 781
Average interest rate	2.48%	3.04%	3.56%	3.34%				
Variable rate	$ 438	$ 102	$ 45	$ 1			$ 586	$ 586
Average interest rate	2.71%	2.66%	2.74%	2.34%				
Liabilities:								
Short-term and long-term debt:								
Variable interest rate (2)	$ 66	$ 20			$ 1	$ 4	$ 91	$ 91
Average interest rate	2.90%	3.24%			3.24%	3.24%		
Fixed rate				$ 101		$ 1,100	$ 1,201	$ 1,308
Average interest rate				6.75%		6.24%		

(1) Includes $24 million denominated in British pounds.
(2) The fiscal 2006 amount includes $38 million denominated in Euros and $18 million denominated in Canadian dollars.

Short term interest rates related to these financial instruments have increased since January 31, 2005, while long term interest rates remained relatively consistent. At July 31, 2005, our investments in marketable securities and cash equivalents were higher than January 31, 2005 by approximately $265 million and $502 million, respectively. We also had a larger portion of our marketable securities invested in financial instruments bearing variable interest rates at July 31, 2005 than January 31, 2005. The combination of the increase in overall investments in cash equivalents and higher concentration of marketable securities bearing variable interest rates resulted in greater sensitivity to changes in interest rates.

Foreign Currency Risk. Although the majority of our transactions are denominated in U.S. dollars, some transactions are denominated in various foreign currencies. Our objective in managing our exposure to foreign currency exchange rate fluctuations is to mitigate adverse fluctuations in earnings and cash flows associated with foreign currency exchange rate fluctuations. Our policy allows us to actively manage cash flows, anticipated transactions and firm commitments through the use of natural hedges and forward foreign exchange contracts. We do not use foreign currency derivative instruments for trading purposes.

We assess the risk of loss in fair values from the impact of hypothetical changes in foreign currency exchange rates on market sensitive instruments by performing sensitivity analysis. The fair values for foreign exchange forward contracts are estimated using spot rates in effect on July 31, 2005. The differences that result from comparing hypothetical foreign exchange rates and actual spot rates as of July 31, 2005 are the hypothetical gains and losses associated with foreign currency risk. As of July 31, 2005, holding all other variables constant, a 10% weakening of the U.S. dollar against each hedged currency would decrease the fair values of the forward foreign exchange contracts by an immaterial amount.

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BUSINESS

Overview

We are a leading provider of scientific, engineering, systems integration and technical services and solutions to all branches of the U.S. military, agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, as well as to selected commercial markets. Our customers seek our domain expertise to solve complex technical challenges requiring innovative solutions for mission-critical functions in such areas as national security, intelligence and homeland defense. Increasing demand for our services and solutions is driven by priorities including the ongoing global war on terror and the transformation of the U.S. military.

From fiscal 2001 to fiscal 2005, our consolidated revenues increased at a compound annual growth rate of 15.5% to a company record of $7.2 billion, inclusive of acquisitions and exclusive of Telcordia Technologies, Inc., our commercial telecommunications subsidiary, which we divested in March 2005. As of July 31, 2005, we had a portfolio of more than 10,000 contracts and total consolidated negotiated backlog of approximately $9.9 billion, which included funded backlog of approximately $3.4 billion, compared to $9.0 billion and $3.4 billion, respectively, as of July 31, 2004.

Currently, we serve more than 500 U.S. federal, state and local government agencies through more than 10,000 contracts, including active task orders under indefinite delivery / indefinite quantity (IDIQ) contract vehicles, under which the U.S. Government issues task orders for specific services or products to be procured on previously negotiated terms. We believe we have a diversified portfolio of contracts, with revenues recognized in fiscal 2005 under our largest contract representing less than 3% of our total consolidated revenues. In addition to our national security customers, we provide services to various other U.S. federal civil agencies, including the U.S. National Aeronautics and Space Administration (NASA), the U.S. Department of Energy (DOE), the National Institutes of Health (NIH) and the National Cancer Institute (NCI). In May 2005, Washington Technology, a leading industry publication, ranked us number three in its list of Top Federal Prime Contractors in the United States based on IT, telecommunications and systems integration revenues. We expect to continue to derive the vast majority of our revenues and cash flows from our installed base of U.S. Government customers.

We view our 43,000 employees as our most valuable asset. We have historically attracted and retained our employees by providing challenging and important work, an entrepreneurial culture and broad employee stock ownership opportunities. Approximately 20,000 of our employees have national security clearances provided by the U.S. Government. Many U.S. Government programs require contractors to have high-level security clearances. Depending on the required level of clearance, security clearances can be difficult and time-consuming to obtain, and our large pool of cleared employees allows us to allocate the appropriate human resources to sensitive projects, facilitating our ability to win and execute contracts with the DoD, DHS and U.S. intelligence community. Our President and Chief Executive Officer, our four Corporate Executive Vice Presidents and our six Group Presidents have industry experience averaging 30 years and tenure with our company averaging 13 years.

Our Government segment provides a broad range of technical services and solutions in the following areas, which are described under Services and solutions:

- *Defense Transformation.* We develop leading-edge concepts, technologies and systems to solve complex challenges facing the U.S. military and its allies, helping them transform the way they fight.

- *Intelligence.* We develop solutions to help the U.S. defense, intelligence and homeland security communities build an integrated intelligence picture, allowing them to be more agile and dynamic in chaotic environments and produce actionable intelligence.

- *Homeland Security and Defense.* We develop technical solutions and provide systems integration and mission-critical support services to help federal, state, local and foreign governments and private-sector customers protect the United States and allied homelands.

- *Logistics and Product Support.* We provide logistics and product support solutions to enhance the readiness and operational capability of U.S. military personnel and weapon and support systems.

- *Systems Engineering and Integration.* We provide systems engineering and integration solutions to help our customers design, manage and protect complex IT networks and infrastructure.

- *Research and Development.* As one of the largest science and technology contractors to the U.S. Government, we conduct leading-edge research and development of new technologies with applications in areas such as national security, intelligence and life sciences.

The percentage of our total consolidated revenues generated by our Government segment for fiscal 2005, 2004 and 2003 was 94%, 93% and 91%, respectively. For the six months ended July 31, 2005 and 2004, the percentage of our total consolidated revenues generated by this segment was 94% in each period.

Our Commercial segment provides technology-driven consulting, systems integration and outsourcing services and solutions in selected commercial markets, currently IT support for oil and gas exploration and production, applications and IT infrastructure management for utilities and data lifecycle management for pharmaceuticals, in the United States and abroad. We apply domain-specific expertise, and adapt consulting and technology services and solutions developed for our Government segment customers, to fulfill the needs of our Commercial segment customers. These needs include enterprise IT optimization, data lifecycle management, asset management and business process analysis and transformation. The percentage of our total consolidated revenues generated by our Commercial segment for fiscal 2005, 2004 and 2003 was 7%, 7% and 9%, respectively. For each of the six months ended July 31, 2005 and 2004, the percentage of our total consolidated revenues generated by this segment was 7%.

Industry Background

Historically, we have derived approximately 85% of our revenues from various departments and agencies of the U.S. Government. According to the Congressional Budget Office, U.S. Government total discretionary spending in government fiscal 2005 will be approximately $960 billion and we estimate that more than $125 billion of this amount will be spent in areas in which we compete.

U.S. Government National Security Spending

Spending on national security accounts for the largest portion of the discretionary U.S. Government budget. The Office of Management and Budget (OMB) estimates that in government fiscal 2005 aggregate DoD and DHS spending, excluding supplemental budget requests, will be $431 billion and is expected to increase to $531 billion in government fiscal 2010, representing a compound annual growth rate of 4.3%.

Military

Global War on Terror. National security spending is driven primarily by the DoD. After substantial contraction in the DoD budget during the early 1990s with the end of the Cold War, spending on national security began to rebound significantly in 1999. This trend was accelerated by the U.S. Government s response to the September 11, 2001 terrorist attacks. According to the OMB, the DoD budget authority grew at a compound annual growth rate of 7.2% from government fiscal 2001 to 2005. As a result of the ongoing global war on terror and the U.S. military s continued deployment to Iraq and Afghanistan, we expect the U.S. Government to continue investing heavily in national security. According to the OMB, the DoD budget, excluding supplemental budget requests, is projected to increase at a 4.2% compound annual growth rate from $400 billion in government fiscal 2005 to $492 billion in government fiscal 2010.

Defense Transformation. Another key driver of recent U.S. Government national security spending has been defense transformation with a focus on command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR). Although it predated the September 11, 2001 terrorist attacks, the effort to transform the military has accelerated as a result of the global war on terror. We believe that U.S. Government spending on defense transformation will be driven by several interrelated goals, including

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(1) improved threat assessment, dissemination of actionable intelligence and advance warning of threats, (2) a more mobile, versatile and effective military and (3) the development of network-centric warfighting capabilities. We believe the DoD s annual investment in defense transformation will average more than $75 billion in each of the next five government fiscal years. Of this amount, we expect approximately $60 billion will be spent each year to acquire transformational systems and capabilities and $15 billion each year to improve and outsource business, logistics and product support functions. Of the spending on the acquisition of systems and capabilities, we estimate that approximately $30 billion will be spent each year on defense transformation-related research and development, testing and evaluation (RDT&E), a large portion of which will be spent on contractors like us. In addition, we estimate that annual spending on defense transformation-related business, logistics and product support functions will be $15 billion, of which $5 billion will be spent on contractors like us.

Intelligence

Budget data for government fiscal 1998, the most recent period for which intelligence-related budget data has been declassified, indicated an annual intelligence budget in excess of $26 billion. We believe that the U.S. Government s response to the global war on terror has resulted in increased spending by U.S. intelligence agencies and expect it to continue to grow in the foreseeable future. The Intelligence Reform and Terrorism Prevention Act of 2004 mandated better integration and timeliness of global and domestic threat assessment and dissemination of actionable information and created the office of Director of National Intelligence with budgetary authority over 15 intelligence agencies. We expect that the increased focus on coordination and interoperability among these intelligence agencies will require significant support by outside contractors like us.

Homeland Defense

In addition to spending on the global war on terror overseas, the U.S. Government has intensified its efforts to protect the United States against terrorism at home. The OMB baseline budget estimates for homeland defense spending reflect an increase from $31.3 billion in government fiscal 2005 to $39.0 billion in government fiscal 2010, representing a compound annual growth rate of 4.5%. We believe that a significant portion of future homeland defense spending will focus on protecting U.S. citizens from chemical, biological, radiological and nuclear (CBRN) attacks, protecting and fortifying critical infrastructure, enhancing information security, upgrading enterprise systems to better facilitate communications and facilitating coordination and communication within and among government agencies.

U.S. Government IT Spending

The U.S. Government is the largest single consumer of IT solutions, systems and services in the world. According to INPUT, an independent market research firm, the U.S. Government IT market is expected to grow from $71 billion in government fiscal 2005 to $92 billion in government fiscal 2010, representing a compound annual growth rate of 5.3%. INPUT estimates that the portion of total U.S. Government IT spending that is contracted to private sector providers like us will be $59 billion in government fiscal 2005 and will grow at a compound annual growth rate of 5.9% to $79 billion in government fiscal 2010. We believe that the U.S. Government s demand for IT systems and services is driven by the national security concerns stemming from the global war on terror, the ongoing transformation of the military and the increased reliance on IT outsourcing by the U.S. Government.

Commercial Services

We compete in targeted areas of the commercial business services market, which is driven largely by corporate investment in technology to enhance productivity, reduce costs and increase profitability. Competitive factors, including emerging technologies and globalization, are highlighting critical areas of corporate IT spending such as enterprise information technology optimization, data lifecyle management, asset management and business analysis and transformation. The ability of businesses to capture, access, analyze and transmit data rapidly throughout an organization and between remote geographic locations is becoming more critical. In addition, increased merger and acquisition activity is also generating higher corporate IT spending. With IT

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projects becoming more complex in scale and scope, businesses are increasingly turning to IT services providers for access to specialized expertise and systems engineering and integration capabilities that are either not readily available from internal resources or not in their core competency. As a result, we have focused our efforts in selected commercial markets in which we can leverage our specialized experience and skill sets, currently oil and gas, utilities and pharmaceuticals.

Oil and Gas. The oil and gas industry is experiencing a period of historically high levels of cash flow and profitability. At the same time, diminishing reserves at proven sites and disappointing trends in greenfield exploration are placing an increased premium on data integration and exploitation at all phases of the upstream exploration and development process. Also, the oil and gas industry is relying more heavily on data management and integration to match its upstream production capabilities with downstream distribution to its end-user customers more effectively and efficiently. According to IDC, total IT spending in the North American resource industries, which includes oil and gas, was approximately $5.7 billion in 2004.

Utilities. With the consolidation and deregulation of utilities in the United States and United Kingdom, utility companies are facing increased profitability and financial performance expectations from their stakeholders. Utilities resulting focus on more efficient power generation, distribution and asset management is driving investment in IT infrastructure and business processes. According to IDC, total IT spending in North America for the utilities market was approximately $16.9 billion in 2004.

Pharmaceuticals. Advances in medical knowledge and research tools have dramatically increased the sources and amount of information available to scientists in the fields of drug discovery and development. Simultaneously, the high costs of clinical trials, increased pressure on drug pricing and prescription reimbursement and product liability risks have increased the importance of systems to manage drug development data. We believe that these trends are driving spending on data integration and lifecycle management in every phase of the drug discovery and development process. Industry consolidation in the pharmaceuticals and life sciences sectors is also driving the necessity for data management and IT optimization. According to Life Science Insights, an IDC company, worldwide total IT spending for the life sciences sector, which includes pharmaceutical companies, was approximately $30.0 billion in 2004.

Competitive Strengths

To maximize our ability to consistently deliver innovative solutions to help meet our customers most challenging needs, and to grow our business and increase stockholder value, we rely on the following key strengths:

Skilled Personnel and Experienced Management. Our people are our most valuable asset. Our professional staff is highly educated, with approximately 9,600, or 44%, holding advanced degrees, including more than 1,400 holding doctoral degrees. As of July 31, 2005, we had 43,000 employees, approximately 20,000 of whom had national security clearances. Many U.S. Government programs require contractors to have high-level security clearances. Depending on the required level of clearance, security clearances can be difficult and time consuming to obtain, and our large pool of cleared employees allows us to allocate the appropriate human resources to sensitive projects, facilitating our ability to win and execute contracts with the DoD, DHS and U.S. intelligence community. In addition, our President and Chief Executive Officer, our four Corporate Executive Vice Presidents and our six Group Presidents have industry experience averaging 30 years and tenure with our company averaging 13 years.

Employee Ownership and Core Values. We believe that a cornerstone of our success has been our culture of employee ownership supported by our long-standing core values. Approximately 31,700 of our 43,000 employees own our stock. We believe that we have a high level of employee ownership relative to our competitors, and this better aligns our employees interests with those of our company, our other non-employee stockholders and our customers. Following this offering, we intend to continue to provide our employees with opportunities to own our stock through bonuses in stock or stock options, stock contributions to our employee

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benefit plans and participation in our employee stock purchase plan. We believe that our employee ownership culture, in addition to our core values, differentiate us from our competition. These core values include:

- commitment to ethical conduct;
- fostering entrepreneurship and innovation;
- pursuit of technical excellence; and
- focus on high level of customer satisfaction.

Knowledge of Customers Needs. Over the past 35 years, we have developed a deep and sophisticated knowledge of our customers, enabling us to design effective solutions that address their mission-critical needs and integrate these solutions with existing systems. We have also made strategic hires of managerial-level employees with significant government experience who have supplemented our knowledge of our customers business processes and who have extended our expertise into new areas.

Technical Expertise. We have deep technical expertise stemming from our work on our customers most challenging and complex problems. This technical expertise allows us to stay at the forefront of technology and innovation in key technical areas, such as:

- computer network technologies and infrastructure;
- data mining and management;
- high performance computing and storage;
- modeling and simulation;
- sensors, surveillance, and signal processing;
- supply chain management; and
- unmanned vehicles and robotics.

Trusted Services and Solutions Provider. We have provided platform-independent systems engineering and IT services and solutions to the U.S. Government and other customers since 1969. Over this time, we believe we have earned a reputation as a trusted provider of services and solutions for complex problems, including those with significant national security implications. We believe our position as a prime contractor on several key U.S. Government programs reflects the U.S. Government s confidence in our abilities to address its mission-critical needs. As a result of our strong record of performance, we have become one of the top three IT and systems integrators for the U.S. Government, as evidenced by industry publications:

- #2 Top Federal Prime IT Contractors INPUT (May 2005)
- #3 Top Federal Prime Contractors Washington Technology (May 2005)
- #3 Top Technology Contractors Government Executive (September 2004)
- #3 Top Systems Integrators Federal Computer Week (September 2004)
- #3 GSA Contractor Federal Computer Week (September 2004)
- #3 Top U.S. Government IT Vendors IDC (October 2004)

Proven Marketing and Business Development Organization. Our highly effective marketing and business development organization has helped us achieve high contract win rates and grow our business with existing and new customers. Our non-IDIQ contract win rates, based on award values, were 65%, 64% and 54% in fiscal 2005, 2004 and 2003, respectively.

Ability to Complete and Integrate Acquisitions. To complement our organic growth, we have completed and integrated approximately 70 acquisitions of small- and medium-sized companies over the past 10 years with an aggregate purchase price of approximately $1.6 billion. These acquisitions have provided us with highly skilled personnel including many with security clearances and specialized technical expertise, as well as valuable customer relationships, thereby enhancing our internally-developed capabilities. We believe that our ability to identify, acquire and integrate complementary businesses is a core strength that will continue to play a significant role in our growth and success.

Strong Relationships with Small Businesses. The U.S. Government is focused on supporting small and disadvantaged businesses through formal procurement regulations and set-asides. We have strong relationships with a large number of small and disadvantaged businesses that possess a wide range of skills and significant customer contacts. These relationships provide us access to specialized capabilities, allow us to participate with these businesses in programs with set-aside requirements and improve our competitive positioning in programs for which small and disadvantaged business participation is important.

Growth Strategy

We are focused on continuing to grow our business as a leading scientific, engineering, systems integration and technical services and solutions company. In our Government segment, we seek to become the leading provider of systems engineering, systems integration and technical services and solutions. In our Commercial segment, we seek to become a leading supplier of scientific, engineering and business solutions to our customers in additional targeted vertical markets. Elements of our growth strategy include:

Leverage our Existing Customer Relationships. We plan to continue expanding the scope of the services we provide to our existing customers. We are adept at penetrating, cross-selling to and building-out existing customer accounts through our successful performance and comprehensive knowledge of our customers needs, which has led to many long-term contract relationships. We believe our high level of customer satisfaction and deep knowledge of our customers business processes enhances our ability to cross-sell additional services.

Increase our U.S. Government Customer Base. We believe that the U.S. Government s increased emphasis on national security, intelligence and homeland security has significantly increased our market opportunity. We have extensive experience supporting the U.S. Government in the areas of contingency and emergency response and recovery planning, information assurance, critical infrastructure protection and command, control, communications and intelligence. We intend to leverage this broad experience to expand our customer base to include organizations in the U.S. Government for which we have not historically worked. We believe our ability to win new customers is enhanced by our position as a prime contractor on four of the five largest IT services GWACs, which are task-order or delivery-order contracts for IT services established by one agency for government-wide use. These contracts enable us to sell our services and solutions to virtually any U.S. Government agency. In addition we have used and intend to continue to use strategic hires as a cost-effective way to build out customer accounts, to establish new competencies and to penetrate new markets.

Pursue Strategic Acquisitions. In order to complement our organic growth, we plan to continue to pursue strategic acquisitions in areas that we expect to experience high growth. Our acquisition strategy is focused on companies that will enable us to cost-effectively add new customers, specific agency knowledge and/or technical expertise. We have acquired more than 70 companies over the past 10 years and we intend to continue to selectively acquire high quality companies that accelerate our access to existing or new markets that we believe have strong growth dynamics. Following the completion of this offering, we will have greater flexibility to make acquisitions through the issuance of publicly traded shares of our common stock.

Grow High Value-added Business in Selected Commercial Markets. We intend to grow in our current selected commercial markets and identify other markets in which we can leverage our specialized experience and skill sets.

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Services and Solutions

We offer a broad range of services and solutions to address our customers most complex and critical needs. Below is a summary of our principal services and some representative projects that illustrate the breadth of our capabilities. References below to total contract value mean the aggregate potential value of a given contract, assuming that all options are exercised under that contract. See Risk Factors Risks Relating to our Business.

Defense Transformation

We develop leading-edge concepts, technologies and systems to solve complex challenges facing the U.S. military and its allies, helping them transform the way they fight. To help ensure that U.S. military personnel are better equipped, protected and trained, we assist the DoD in developing and implementing advanced technologies into the current armed forces. As a leader in the emerging area of network-centric operations, we are helping the U.S. military to develop next-generation C4ISR capabilities, including advanced communications networks, shared situational awareness, improved collaborative planning and enhanced mobility and logistics. We received the 2004 Frost & Sullivan Competitive Strategy Leadership Award, which recognized us as one of the most trusted and influential high-level C4ISR systems integrators. Some examples of our defense transformation projects are described below.

U.S. Army s Future Combat Systems Program (FCS). The U.S. Army is undertaking a major program to design, prototype and build combat technologies and systems to serve as the centerpiece of the U.S. Army s transformation into a more mobile, versatile and effective force. We and The Boeing Company were selected in June 2003 by the U.S. Army as the lead systems integrator team for FCS. When completed, FCS will consist of 19 individual battlefield systems interconnected and commanded through an advanced network. The FCS network will be capable of monitoring and directing military equipment and personnel in all kinds of terrain and weather conditions and providing an integrated picture of the battlefield wherever located. This program highlights our ability to conceive and design a large system of systems employing leading-edge technology to address the military s future needs in new and innovative ways. The FCS Program is scheduled to run through December 31, 2014 and has a total contract value to us of approximately $3 billion. FCS currently is our largest non-IDIQ contract.

Global Information Grid-Bandwidth Expansion (GIG-BE). Providing military personnel with the right information at the right place and time requires a worldwide network with substantial bandwidth. We have provided significant contributions to the architecture of a new DoD global information network. Currently, we are the prime contractor supporting the Defense Information Systems Agency (DISA) in the development of the network s backbone, known as the GIG-BE program. GIG-BE is bringing an optical mesh network with 10-gigabyte-per-second connectivity to approximately 100 U.S. military bases, posts and stations worldwide. GIG-BE achieved initial operating capability in only 20 months, meeting the compressed schedule set forth by DISA and demonstrating our ability to rapidly develop and deploy highly complex network technology solutions. Under multiple task orders, the GIG-BE program has a total contract value to us of $450 million.

Net-Centric Enterprise Services. We are supporting the DoD s efforts to migrate from the current Global Command and Control System (GCCS) to the next generation of Joint Command and Control (JC2) based on a new services-based approach called Net-Centric Enterprise Service (NCES). We are helping define how a services-oriented architecture and web services technology should be integrated on an enterprise scale in support of warfighter operations. We are providing architecture, design, systems engineering, integration of commercial and government software, performance testing, security and information assurance engineering and deployment support to this migration effort. We believe our experience and capabilities developed in connection with the GIG-BE program, the GCCS-Joint program and the NCES initiatives have positioned us well for future major C4ISR programs.

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Intelligence

We develop solutions to help the U.S. defense, intelligence and homeland security communities build an integrated intelligence picture, allowing them to be more agile and dynamic in chaotic environments and produce actionable intelligence.

We provide operations, engineering and technical support for the development and improvement of technologies relating to intelligence collection, processing, dissemination, collaboration and implementation. Our intelligence services include activities related to (1) the support of intelligence and operations centers, (2) surveillance and reconnaissance through satellite technologies and unmanned aerial vehicle operations centers and (3) enhanced radar and sensors on weapon systems. We also support human intelligence and counterintelligence activities. Much of the information regarding our intelligence programs is classified. Some unclassified examples of our intelligence projects are provided below.

Geospatial Intelligence. Imagery, mapping and geospatial reference data are essential elements of all military activity. Our services include activities related to the acquisition, management, interpretation, integration, analysis and display of imagery and related mapping and intelligence data, referred to as geospatial intelligence. For example, we help U.S. Northern Command (NORTHCOM), the U.S. military command responsible for, among other things, U.S. homeland defense, and other government agencies provide timely, relevant, and actionable intelligence to homeland defenders. As part of this work, we developed, and now maintain, the geospatial component of NORTHCOM s intelligence operations. We are one of the largest contract producers of geospatial information for the National Geospatial-Intelligence Agency, having provided new imagery exploitation capabilities to 15 sites worldwide last year.

Surveillance and Reconnaissance. Unmanned vehicles have become an increasingly important intelligence-gathering tool. Our technologies are used in some of the most sophisticated unmanned aerial vehicles (UAV) ever developed. We previously integrated and recently upgraded the operations center and ground stations for the Predator UAV, which was widely used in Iraq, and our technical staff supports operational crews during all Predator missions. We have also played a key role in the design and integration of the high-altitude, long-range Global Hawk UAV, and, at the other end of the spectrum, we helped test and evaluate a hand-launched UAV called Dragon Eye, which provided U.S. Marines in Iraq with infrared surveillance videos of their operating area. Our wide-ranging system, software and engineering services are at the forefront of developing and fielding emerging UAV surveillance and reconnaissance technologies.

Homeland Security

We develop technical solutions and provide systems integration and mission-critical support services to help federal, state, local and foreign governments and private-sector customers protect the United States and allied homelands. Our innovation and breadth of solutions in homeland security was recently recognized when Frost & Sullivan named us as the 2005 Homeland Security Company of the Year.

We provide services and solutions including vulnerability analysis, infrastructure protection and emergency response and recovery. We contribute to critical counterintelligence plans and programs to assess vulnerabilities and help safeguard important events and infrastructure, including the 2004 national political conventions, the U.S. Capitol, House and Senate office buildings and the Library of Congress. We are also developing countermeasures to address a range of threats from dirty bombs to improvised nuclear devices to full-scale nuclear weapons. We are also working on multiple fronts to attack the toughest problems in bioagent detection. Following a disaster, managing critical infrastructure information is crucial for ensuring continuity of operations. We have designed more than a dozen emergency operations centers, primarily for state and local agencies, to manage the interoperability between new equipment and legacy responder systems. Some examples of our projects in homeland security are described below.

Protecting Against Chemical, Biological, Radiological, and Nuclear (CBRN) threats. We have an extensive understanding of the design and employment of weapons of mass destruction, which is critical to detection of,

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protection from and response to these threats. Our expertise spans the range of CBRN threats, as evidenced by the DoD s recent selection of us as the prime contractor under the Guardian Installation Protection Program to provide CBRN protection for up to 200 DoD installations. Commanders at these installations are facing the full range of CBRN threats and a confusing array of CBRN detection, protection and response choices. As the prime contractor for the Guardian project, we will help choose and field the appropriate integrated detection, protection and response capabilities. The Guardian program has a total contract value to us of $390 million.

Protecting Ports, Borders and Transportation. Only a small portion of the millions of cargo containers moving by ship, road and rail are screened for weapons of mass destruction or other hazards. To help address this threat, we developed the Integrated Container Inspection System (ICIS), which scans sealed containers for hazardous materials at cargo terminals and border crossings without disrupting normal traffic flow. ICIS employs several of our technologies, including (1) EXPLORANIUM detectors for low-level radiation scanning, (2) optical character recognition technology for automated container identification and (3) VACIS® inspection systems for identification of a wide range of substances, including weapons, hazardous materials and drugs. Nearly 300 VACIS systems are deployed globally, and the ICIS has been deployed in two pilot programs in Hong Kong. Our products and services are now deployed in 20 major ports in multiple countries, demonstrating international adoption of this solution.

Enterprise Systems Integration for Homeland Defense. Following the consolidation of 22 U.S. Government agencies into the Department of Homeland Security (DHS), we were selected under the STARS System Management and Integration program as the prime contractor to provide enterprise-wide integration services for the Immigration and Customs Enforcement element of the DHS. Some of the services included implementation of a data network backbone connecting the formerly separate agencies and the development of the first enterprise architecture in DHS. By laying this foundation, we helped the DHS map its IT systems to specific business functions, identify overlapping systems and more effectively identify needed IT programs. In fiscal 2006, we were selected as prime contractor under the follow-on Information Technology Engineering Support Services (ITESS) program to continue to provide integration services. The follow-on ITESS program has a total contract value to us of $446 million.

Logistics and Product Support

Maintaining and delivering a ready supply of fuel, parts, munitions, food and other supplies is a constant challenge for the U.S. military. Our logistics and product support solutions enhance the readiness and operational capability of U.S. military personnel and weapon and support systems.

To keep up with the pace of military operations, logisticians need intelligence sensors, communications networks and analytics, as well as the same best-in-class supply chain solutions that are used in the commercial sector, such as demand forecasting, total asset visibility and just-in-time inventory. To address these needs for the U.S. Air Force, we developed a supply chain management solution that we use to supply more than 127,000 items, cutting the cycle time to get aircraft back in the air. Our supply chain management system incorporates intelligent agent technology, which automatically tracks inventory levels in hundreds of thousands of bins as parts are consumed and forecasts when items should be reordered, cutting average supply delivery times from 21 to five days. This program has a total contract value to us of $431 million.

As a result of our success with the U.S. Air Force, we won a similar contract with the U.S. Navy, called Navy Aviation Depot Industrial Prime Vendor Generation II, which has a total contract value to us of $602 million.

Systems Engineering and Integration

Large government organizations face increasingly tough challenges to integrate and share massive amounts of data from geographically remote and disparate databases and legacy systems. We provide systems engineering and integration solutions to help our customers design, manage and protect complex IT networks and infrastructure. We support customers across the domains and mission areas of the U.S. Government, providing a range of services from full-scale systems deployment to systems engineering support services.

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With the increasing complexity of weapons systems and military tactics, the U.S. military has an increasing need for more sophisticated training tools and solutions. Through our software and systems-engineering organizations, we have pioneered innovative modeling and simulation technologies, including distributed simulation for training and distributed test and evaluation. Today, our expertise ranges from traditional areas, such as training and analysis simulation, to emerging areas, such as simulation-based acquisition. Currently, we lead the development of the DoD s architecture and middleware for seamlessly integrating live-virtual-constructive simulation for experimentation, training, test and evaluation and acquisition. As a leader in modeling and simulation, we support the U.S. s three premier military simulation training programs: the Army Warfighter Simulation (WARSIM), the Joint Simulation System (JSIMS), and the Air Force National Air and Space Model (NASM). Additionally, our expertise in semi-automated forces technology in the United States resulted in our selection to lead the software implementation of British doctrine and tactics for the U.K. Combined Arms Tactical Trainer. These four programs have an aggregate total contract value to us of $126 million. Our success with these programs demonstrates our ability to leverage our experience and capabilities to obtain new projects.

Research and Development

As one of the largest science and technology contractors to the U.S. Government, we conduct leading-edge research and development of new technologies with applications in areas such as national security, intelligence and life sciences. We believe that being at the forefront of science and technology provides us with a competitive advantage and positions us as a solution provider for our customers next-generation challenges. Some examples of our research and development projects are described below.

Advanced Robotics. We develop and test advanced robotic systems, including prototype unmanned robotic vehicles. An advanced autonomous robotic vehicle that we developed in collaboration with Carnegie Mellon University recently competed in a Defense Advanced Research and Projects Agency (DARPA) sponsored test, designed to prove the concept of integration of advanced robotic vehicles into unmanned military systems. The mapping and route planning software we developed for this project has provided valuable insights that could be used for geospatial intelligence requirements for future military robotic systems. For DARPA, we developed a networked system of 100 small robots that are able to intelligently collaborate on missions. In the future, these robots may be used to search and map terrorist-occupied or earthquake-damaged buildings, as well as track intruders.

Wireless Sensors. For DARPA, we are also exploring innovative ways to deploy tiny wireless sensors, known as Smart Dust, that can self-configure into a network and gather and fuse information into actionable intelligence information. For example, we are researching how these sensors could help the U.S. military improve situational awareness, reconnaissance, surveillance and target acquisition capabilities in urban areas.

Biopharmaceutical and Medical Research. We operate the National Cancer Institute (NCI) at Frederick, Maryland, one of the world s premier cancer and AIDS research facilities. We support a wide range of research areas for NCI, the National Institute of Allergy and Infectious Diseases, and the U.S. Army, including the development of nanotechnology applications for the prevention and treatment of cancer, as well as vaccines for HIV, anthrax and malaria. The NCI s new cancer Biomedical Informatics Grid will enable cross-disciplinary sharing of research between more than 600 cancer researchers from over 50 different cancer centers. We are developing important grid-based middleware, applications and security for this groundbreaking initiative.

Commercial Services

We help our Commercial segment customers become more competitive, offering technology-driven consulting, systems integration and outsourcing services and solutions primarily to customers in selected commercial markets, currently IT support for oil and gas exploration and production, applications and IT infrastructure management for utilities and data lifecycle management for pharmaceuticals, in the United States and abroad. We apply domain-specific expertise, as well as consulting and technology services and solutions

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adapted from our experience with our Government segment customers, to fulfill the needs of our Commercial segment customers. These needs include enterprise IT optimization, data lifecycle management, asset management and business process analysis and transformation. Some examples of our commercial projects are described below.

The Digital Oilfield. The oil and gas industry faces significant challenges to maximize exploration and production while minimizing capital risk and requirements. The industry employs highly specialized systems and solutions to meet these challenges. To help the largest global oil and gas company design its next generation oilfield and refinery called the Field of the Future, we are working with the company to implement and manage mission-critical geophysical data collection and decision support systems. Our solutions provide the architecture for more complete asset awareness, enabling improved decision making. We have similar projects with two other major oil and gas companies.

Asset Management for Utility Companies. Asset management has become increasingly important to utility companies as they look to streamline costs and create other efficiencies related to their extensive assets, many of which have useful lives spanning decades. A leading U.K. utility company sought to create more efficient methods to provide maintenance and emergency repairs of its physical assets used in electricity delivery, such as power substations, pole-mounted transformers, overhead lines and underground cables. We helped design and implement an asset management system for this utility company. This system provides field personnel with up-to-date, easy-to-access mapping information which is used to readily locate electricity substations, transformers and power cables, as well as to facilitate the use of fault diagnosis tools to enable technicians to efficiently and effectively address power loss problems across the utility s power grid.

Contracts

As of July 31, 2005, we had a portfolio of more than 10,000 active contracts, including active task orders under IDIQ contract vehicles. We have a diversified portfolio of contracts, with revenues recognized in fiscal 2005 under our largest contract representing less than 3% of our total consolidated revenues. Listed below are the 10 contracts which generated the most revenues in fiscal 2005 and which in the aggregate represented 14% of our total consolidated revenues.

Contract Title	Customer
Future Combat Systems (FCS)	U.S. Army
Trailblazer Technical Development Program	Confidential
Unified NASA Information Technology Services (UNITeS)	NASA
Global Information Grid-Bandwidth Expansion (GIG-BE)	U.S. Defense Information Systems Agency (DISA)
Data Services Installation & Maintenance	DISA
Information Technology Services Agreement	Entergy
Athens Olympics C4I System	Greek Ministry of Defense
Air Force Industrial Prime Vendor	U.S. Air Force
Safety, Reliability & Quality Assurance (SR&QA)	NASA
Omnibus 2000 Systems & Computer Resources Support	U.S. Army

Contract Procurement. The U.S. Government technology services procurement environment has evolved in recent years due to statutory and regulatory procurement reform initiatives. U.S. Government agencies traditionally have procured technology services and solutions through agency-specific contracts awarded to a single contractor. However, in recent years the number of procurement contracting methods available to U.S. Government customers for services procurements has increased substantially. Today, there are three predominant contracting methods through which U.S. Government agencies procure technology services: traditional single award contracts, GSA Schedule contracts, and single and multiple award IDIQ contracts. Each of these is described below:

- Traditionally, U.S. Government agencies have procured services and solutions through single award contracts which specify the scope of services that will be delivered and identify the contractor that will

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provide the specified services. When an agency has a requirement, interested contractors are solicited, qualified and then provided with a request for a proposal. The process of qualification, request for proposals and evaluation of bids requires the agency to maintain a large, professional procurement staff and can take a year or more to complete.

- GSA Schedule contracts are listings of services, products and prices of contractors maintained by the GSA for use throughout the U.S. Government. In order for a company to provide services under a GSA Schedule contract, the company must be pre-qualified and awarded a contract by GSA. When an agency uses a GSA Schedule contract to meet its requirements, the agency, or the GSA on behalf of the agency, conducts the procurement. The user agency, or the GSA on its behalf, evaluates the user agency s services requirements and initiates a competition limited to GSA Schedule qualified contractors. GSA Schedule contracts are designed to provide the user agency with reduced procurement time and lower procurement costs.

- Single and multiple award IDIQ contracts are contract forms used to obtain commitments from contractors to provide certain products or services on pre-established terms and conditions. Under these IDIQ contracts, the U.S. Government issues task orders for specific services or products it needs and the contractor supplies products or services in accordance with the previously agreed terms. The competitive process to obtain task orders is limited to the pre-selected contractor(s). If the IDIQ contract has a single prime contractor, the award of task orders is limited to that party. If the contract has multiple prime contractors, the award of the task order is competitively determined. Multiple-contractor IDIQ contracts that are open for any government agency to use for the procurement of services are commonly referred to as government-wide acquisition contracts, or GWACs. Due to the lower cost, reduced procurement time, and increased flexibility of GWACs, there has been greater use of GWACs among many agencies for large-scale procurements of technology services. IDIQ contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling but not committing the U.S. Government to purchase substantial amounts of products and services from one or more contractors.

Below is a list of our 10 largest non-IDIQ contracts based on total contract value to us, including funded backlog and negotiated unfunded backlog, as of July 31, 2005. For information regarding our backlog, see Backlog.

Top 10 Non-IDIQ Contracts by Total Contract Value

Contract Title	Customer	Total SAIC Contract Value	Contract Expiration Date
		(in millions)	
Future Combat Systems (FCS)	U.S. Army	$ 2,955	Dec 31, 2011
Navy Aviation Industrial Prime Vendor Generation II	U.S. Navy	602	Sep 30, 2014
Information Technology Services Agreement	Entergy	487	Dec 31, 2006
Information Technology Engineering & Support Services (ITESS)	DHS	446	Dec 31, 2010
Safety, Reliability & Quality Assurance (SR&QA)	NASA	439	Mar 31, 2006
Air Force Industrial Prime Vendor	U.S. Air Force	431	Jan 23, 2006
Guardian Installation Protection Program	U.S. Army	390	Apr 27, 2010
Trailblazer Technical Development Program	Confidential	348	Apr 4, 2006
Information Technology & Telecommunications Services Outsourcing	San Diego County	314	Dec 13, 2006
Systems Engineering & Integration Contract (SEIC)	U.S. Air Force	196	Sep 30, 2017
		$ 6,608	

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Below is a list of our 10 largest GSA Schedule or IDIQ contract vehicles as of July 31, 2005, based on total contract vehicle ceiling value that could be awarded to all contractors, including us.

Top 10 GSA Schedule or IDIQ Contract Vehicles by Total Contract Vehicle Ceiling Value (1)

Contract Title	Customer	Total Contract Vehicle Ceiling Value to All Contractors	Contract Vehicle Expiration Date
		(in millions)	
SeaPort Enhanced (2)	U.S. Navy	$ 45,409	Apr 4, 2019
Millennia	GSA Federal Technology Service	25,000	Apr 27, 2009
Millennia Lite	GSA Federal Technology Service	20,000	Apr 21, 2009
Defense Medical Information Systems (D/SIDDOMS III)	Defense Contracting Command	8,320	Dec 14, 2013
Flexible Acquisition Sustainment Tool (FAST)	U.S. Air Force	7,441	Feb 23, 2008
Simulation, Training & Instrumentation Command (STRICOM) Omnibus	U.S. Army	4,000	Sep 20, 2008
DISN Global Solutions	DISA	3,000	Sep 30, 2008
Weapons of Mass Destruction Defeat Technology	Defense Threat Reduction Agency	1,260	Apr 30, 2008
Next Generation Engineering	DISA	1,000	Jan 11, 2009
Gateway Communications Systems/Defense Messaging Systems	U.S. Department of the Interior	1,000	Oct 22, 2006
		$ 116,430	

(1) Total contract ceiling value represents the maximum amount of contract awards that could be awarded to all contractors, including us, eligible to compete for task orders under the contract vehicle.
(2) Contract with AMSEC, LLC, our 55% owned joint venture.

Backlog

The approximate value of our total negotiated backlog as of January 31, 2005, 2004, 2003 and July 31, 2005 and 2004 was as follows:

	As of January 31			As of July 31	
	2005	2004	2003	2005	2004
			(in millions)		
Government Segment:					
Funded backlog	$ 3,333	$ 3,127	$ 2,499	$ 3,036	$ 3,174
Negotiated unfunded backlog	5,217	4,033	2,733	6,462	5,285

Total negotiated backlog	$ 8,550	$ 7,160	$ 5,232	$ 9,498	$ 8,459
Commercial Segment:					
Funded backlog	$ 313	$ 228	$ 230	$ 318	$ 260
Negotiated unfunded backlog	114	187	157	116	326
Total negotiated backlog	$ 427	$ 415	$ 387	$ 434	$ 586
Total Consolidated:					
Funded backlog	$ 3,646	$ 3,355	$ 2,729	$ 3,354	$ 3,434
Negotiated unfunded backlog	5,331	4,220	2,890	6,578	5,611
Total consolidated negotiated backlog	$ 8,977	$ 7,575	$ 5,619	$ 9,932	$ 9,045

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Funded backlog represents the portion of backlog for which funding currently is appropriated or otherwise authorized and is payable to us upon completion of a specified portion of work, less revenues previously recognized. Our funded backlog does not include the full potential value of our contracts because the U.S. Government and our other customers often appropriate or authorize funds for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a number of years. Negotiated unfunded backlog represents (1) firm orders for which funding has not been appropriated or otherwise authorized and (2) unexercised contract options. When a definitive contract or contract amendment is executed and funding has been appropriated or otherwise authorized, funded backlog is increased by the difference between the funded dollar value of the contract or contract amendment and the revenue recognized to date. Negotiated unfunded backlog does not include any estimate of future potential task orders that might be awarded under IDIQ, GWAC or GSA Schedule contract vehicles.

We expect to recognize as revenues a substantial portion of our funded backlog within 12 months. However, the U.S. Government may cancel any contract or purchase order at any time. Most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and potential fees in such cases. See Risk Factors Risks Relating to Our Business We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our operating results.

Key Customers

Our largest customer is the U.S. Government, in the aggregate accounting for 86%, 85% and 84% of our total consolidated revenues in fiscal 2005, 2004 and 2003, respectively. Within the U.S. Government, our largest customers for each of the last three fiscal years were the U.S. Army, U.S. Navy and U.S. Air Force.

The percentage of total consolidated revenues attributable to each of these three major customers for the last three fiscal years was as follows:

	Year Ended January 31		
	2005	2004	2003
U.S. Army	13%	13%	13%
U.S. Navy	13	12	12
U.S. Air Force	11	11	12

Competition

Competition for U.S. Government contracts is intense. We compete against a large number of major, established multinational corporations which may have greater financial capabilities than we do and smaller, more specialized companies that concentrate their resources on particular areas. As a result of the diverse requirements of the U.S. Government and our commercial customers, we frequently form teams with other companies to compete for large contracts, while bidding against team members in other situations. Because of the current industry trend toward consolidation, we expect major changes in the competitive landscape. See Risk Factors Risks Relating to Our Business We face aggressive competition. We believe that our principal competitors include the following companies:

- among contractors focused principally on U.S. Government IT and other technical services, we compete primarily with companies such as Anteon International Corporation, CACI International Inc, ManTech International Corporation, SRA International, Inc. and The Titan Corporation, which was recently acquired by L-3 Communications;

- among the large defense contractors which provide U.S. Government IT services in addition to other hardware systems and products, we compete primarily with engineering and technical services divisions of The Boeing Company, General Dynamics Corporation, Lockheed Martin Corporation, Northrop Grumman Corporation and Raytheon Company; and

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- among the diversified commercial and U.S. Government IT providers, we compete primarily with companies such as Accenture Ltd, BearingPoint, Inc., Booz Allen Hamilton Inc., Computer Sciences Corporation, Electronic Data Systems Corporation, International Business Machines Corporation and Unisys Corporation.

We compete on factors including, among others, our technical expertise, our ability to deliver cost-effective solutions in a timely manner, our reputation and standing with government and commercial customers, pricing and the size and scale of our company.

Patents and Proprietary Information

Our technical services and products are not generally dependent upon patent protection. We claim a proprietary interest in certain of our products, software programs, methodology and know-how. This proprietary information is protected by copyrights, trade secrets, licenses, contracts and other means.

We actively pursue opportunities to license our technologies to third parties and enforce our patent rights. We also evaluate potential spin-offs of our technologies.

In connection with the performance of services for customers in the Government segment, the U.S. Government has certain rights to data, software codes and related material that we develop under U.S. Government-funded contracts and subcontracts. Generally, the U.S. Government may disclose such information to third parties, including, in some instances, competitors. In the case of subcontracts, the prime contractor may also have certain rights to the programs and products that we develop under the subcontract.

Research and Development

We conduct research and development activities under customer-funded contracts and with IR&D funds. IR&D efforts consist of projects involving basic research, applied research, development and systems and other concept formulation studies. In fiscal 2005, 2004 and 2003, we spent approximately $25 million, $19 million and $19 million, respectively, on IR&D, which was included in selling, general and administrative expenses.

Seasonality

The U.S. Government s fiscal year ends on September 30 of each year. It is not uncommon for U.S. Government agencies to award extra tasks or complete other contract actions in the weeks before the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds. As a result of this cyclicality in the U.S. Government budget process, we have from time to time experienced higher revenues in our third fiscal quarter, ending October 31, and lower revenues in our fourth fiscal quarter, ending January 31. We have not experienced this cyclicality in recent years.

Regulation

We are heavily regulated in most fields in which we operate. We deal with numerous U.S. Government agencies and entities, including all of the branches of the U.S. military, the DoD, NASA, intelligence agencies, the Nuclear Regulatory Commission and the DHS. When working with these and other U.S. Government agencies and entities, we must comply with and are affected by laws and regulations relating to the formation, administration and performance of contracts. These laws and regulations, among other things:

- require certification and disclosure of all cost or pricing data in connection with various contract negotiations;
- impose acquisition regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under various cost-based U.S. Government contracts; and

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- restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

In order to help ensure compliance with these laws and regulations, all of our employees are required to attend ethics training at least bi-annually.

Internationally, we are subject to special U.S. Government laws and regulations (such as the Foreign Corrupt Practices Act), local government regulations and procurement policies and practices (including regulations relating to import-export control, investments, exchange controls and repatriation of earnings) and varying currency, political and economic risks. Some international customers require contractors to comply with industrial cooperation regulations, sometimes referred to as offset programs. Offset programs may require in-country purchases, manufacturing and financial support projects as a condition to obtaining orders or other arrangements. Offset programs generally extend over several years and may provide for penalties in the event we fail to perform in accordance with offset requirements.

See Risk Factors Risks Relating to Our Business We may be liable for penalties under a variety of procurement rules and regulations and changes in government regulations or practices could adversely affect our business, prospects, financial condition or operating results.

Environmental Matters

Our operations, including the environmental consulting and investigative services we provide to third parties, and our ownership or operation of real property are subject to various foreign, federal, state and local environmental protection and health and safety laws and regulations and we incur costs to comply with those laws. Failure to comply with those laws could result in civil or criminal sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. Government, or could cause us to have to incur costs to change or upgrade or close some of our operations or properties. Some environmental laws hold current or previous owners or operators of businesses and real property liable for contamination, even if they did not know of and were not responsible for the contamination. Environmental laws may also impose liability on any person who disposes, transports, or arranges for the disposal or transportation of hazardous substances to any site. In addition, we may face liability for personal injury, property damage and natural resource damages relating to contamination for which we are otherwise liable or relating to exposure to or the mishandling of chemicals or other hazardous substances in connection with our current and former operations or services.

Although we do not currently anticipate that the costs of complying with, or the liabilities associated with, environmental laws will materially adversely affect us, we cannot ensure that we will not incur material costs or liabilities in the future. See Risk Factors Risks Relating to Our Business Our services and operations sometimes involve using, handling or disposing of hazardous materials, which could expose us to potentially significant liabilities.

Employees and Consultants

As of July 31, 2005, we employed 43,000 full and part-time employees. We also use consultants to provide specialized technical and other services on specific projects. To date, we have not experienced any strikes or work stoppages and we consider our relations with our employees to be good.

The highly technical and complex services and products provided by us are dependent upon the availability of professional, administrative and technical personnel having high levels of training and skills and, in many cases, security clearances. Because of our growth and the increased competition for qualified personnel, it has become more difficult to meet all of our needs for these employees in a timely manner. However, such difficulties have not had a significant impact on us to date. We intend to continue to devote significant resources to recruit and retain qualified employees.

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Properties

As of August 15, 2005, we conducted our operations in approximately 500 offices located in 43 states, the District of Columbia and various foreign countries. We occupy a total of approximately 9.5 million square feet of space. Of this total, we own approximately 2.6 million square feet, and the balance is leased. Our major locations are in the San Diego, California and Washington, D.C. metropolitan areas, where we occupy approximately 1.4 million square feet and 2.6 million square feet of space, respectively.

We own and occupy the following properties:

Location	Number of Buildings	Square Footage	Acreage
McLean, Virginia	4	900,000	18.3
San Diego, California	7	677,000	22.2
Vienna, Virginia	2	280,000	14.7
Virginia Beach, Virginia	2	159,200	22.5
Huntsville, Alabama	1	100,000	18.0
Columbia, Maryland	1	95,500	7.3
Orlando, Florida	1	85,000	18.0
Oak Ridge, Tennessee	1	83,000	12.5
Dayton, Ohio	2	79,400	4.5
Reston, Virginia	1	62,000	2.6
Richland, Washington	1	23,700	3.1

The nature of our business is such that there is no practicable way to relate occupied space to industry segments. We consider our facilities suitable and adequate for our present needs. See Note 16 of the notes to consolidated financial statements on page F-36 of this prospectus for information regarding commitments under leases. See Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations.

Legal Proceedings

Telkom South Africa. Our former Telcordia Technologies, Inc. subsidiary instituted arbitration proceedings before the ICC against Telkom South Africa in March 2001 as a result of a contract dispute. Telcordia is seeking to recover damages of approximately $130 million, plus interest at a rate of 15.5%. Telkom South Africa counterclaimed, seeking substantial damages from Telcordia, including repayment of approximately $97 million previously paid to Telcordia under the contract and the excess costs of reprocuring a replacement system, estimated by Telkom South Africa to be $234 million. On September 27, 2002, Telcordia prevailed in the initial phase of the arbitration. The arbitrator found that Telkom repudiated the contract and dismissed Telkom s counterclaims against Telcordia. The damages to be recovered by Telcordia were to be determined in a second phase of the arbitration. Telkom challenged the arbitration decision in the South African High Court (Transvaal Provincial Division), and, on November 27, 2003, the High Court judge ordered that the arbitration decision be set aside, that the arbitrator and the ICC be dismissed and that the case be re-arbitrated before a panel of three retired South African judges. Although the High Court judge denied Telcordia s motion for leave to appeal his ruling, on November 29, 2004, the South African Supreme Court of Appeal granted Telcordia s motion for leave to appeal the judge s ruling and will hear the appeal. Telcordia filed its appellate brief in September 2005. Pursuant to the South African Supreme Court of Appeals order, Telkom has until December 31, 2005 to file an outline of its brief and until January 31, 2006 to file its full brief with the court. In parallel proceedings in the United States District Court (New Jersey), Telcordia is seeking to have its ICC arbitration award confirmed. On January 24, 2005, the District Court declined to confirm Telcordia s award and in a February 17, 2005 opinion concluded that the District Court does not have personal jurisdiction over Telkom South Africa. Telcordia has appealed this ruling to the U.S. Court of Appeals for the Third Circuit.

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On March 15, 2005, we sold Telcordia to an affiliate of Warburg Pincus LLC and Providence Equity Partners Inc. Pursuant to the definitive stock purchase agreement, we are entitled to receive all of the net proceeds from any judgment or settlement with Telkom South Africa, and, if this dispute is settled or decided adversely against Telcordia, we are obligated to indemnify the buyer of Telcordia against any loss that may result from such an outcome.

Due to the complex nature of the legal and factual issues involved and the uncertainty of litigation in general, the outcome of the arbitration and the related court actions are not presently determinable; however, an adverse resolution could materially harm our business, consolidated financial position, results of operations and cash flows. Protracted litigation, regardless of outcome, could result in substantial costs and divert management s attention and resources.

INTESA. INTESA, a Venezuelan joint venture we formed in fiscal 1997 with Venezuela s national oil company, PDVSA, to provide information technology services in Latin America, is involved in various legal proceedings. We had previously consolidated our 60% interest in the joint venture, but the operations of INTESA were classified as discontinued operations as of January 31, 2003 and INTESA is currently insolvent. PDVSA has refused to take action to dissolve the joint venture or have it declared bankrupt.

Outsourcing Services Agreement and Guarantee. INTESA had derived substantially all its revenues from an outsourcing services agreement with PDVSA that it entered into at the time the joint venture was formed. The services agreement expired on June 30, 2002 and the parties were not able to reach agreement on a renewal. We guaranteed INTESA s obligations under the services agreement to PDVSA. Under the terms of the services agreement, INTESA s liability for damages to PDVSA in any calendar year is capped at $50 million. As a result, our maximum potential liability to PDVSA under the guarantee in any calendar year, based on our guarantee of their ownership interest in INTESA, is $20 million. To date, PDVSA has not asserted any claims.

Expropriation of Our Interest in INTESA. In fiscal 2003 and 2004, PDVSA and the Venezuelan government took certain actions, including denying INTESA access to certain of its facilities and assets, that prevented INTESA from continuing operations. In fiscal 2005, the Overseas Protection Insurance Company (OPIC), a U.S. governmental entity that provides insurance coverage against expropriation of U.S. business interests by foreign governments, determined that the Venezuelan government had expropriated our interest in INTESA without compensation and paid us approximately $6 million in settlement of our claim.

Employment Claims of Former INTESA Employees. INTESA is a defendant in a number of lawsuits brought by former employees seeking unpaid severance and pension benefits. PDVSA and SAIC Bermuda, our wholly-owned subsidiary and the entity that held our interest in INTESA, was added as defendants in a number of these suits. Based on the procedural standing of these cases and our understanding of applicable laws and facts, we believe that our exposure to any possible loss related to these employment claims is either remote or, if reasonably possible, immaterial.

Other Legal Proceedings Involving INTESA. The Attorney General of Venezuela initiated a criminal investigation of INTESA in fiscal 2003 alleging unspecified sabotage by INTESA employees. We believe this investigation is inactive. In connection with our expropriation claim, OPIC determined that INTESA did not sabotage PDVSA s infrastructure as alleged by PDVSA and the Venezuelan government. In addition, the SENIAT, the Venezuelan tax authority, filed a claim against INTESA in fiscal 2004 for approximately $30 million for alleged non-payment of VAT taxes in fiscal 1998.

Potential Financial Impact. Many issues relating to INTESA, including the termination of the services agreement and the employment litigation brought by former INTESA employees, remain unresolved. Due to the complex nature of the legal and factual issues involved in these matters and the uncertain economic and political environment in Venezuela, the outcome is not presently determinable; however, adverse resolutions could materially harm our business, consolidated financial position, results of operations and cash flows.

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Other. In the normal conduct of our business, we seek to monetize our patent portfolio through licensing. We also have and will continue to defend our patent position when we believe our patents have been infringed and are involved in such litigation from time to time. On March 15, 2005, we sold our Telcordia Technologies, Inc. subsidiary. Pursuant to the terms of the definitive stock purchase agreement, we will receive 50% of the net proceeds Telcordia receives in the future in connection with the prosecution of certain patent rights. We are also involved in various investigations, claims and lawsuits arising in the normal conduct of our business, none of which, in the opinion of our management, is expected to have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business.

About New SAIC

We formed SAIC, Inc., or New SAIC, as a Delaware corporation on August 12, 2005. To date, it has not conducted any activities other than those incident to its formation, the preparation of this prospectus and the preparation of a Registration Statement on Form S-4 with respect to the reorganization merger. Upon completion of the reorganization merger, Old SAIC will be a wholly-owned subsidiary of New SAIC. At the time of the reorganization merger, the then-current directors and executive officers of Old SAIC will become the directors and executive officers of New SAIC.

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MANAGEMENT

Directors and Executive Officers

The following is a list of the names and ages as of the date of this prospectus of all of Old SAIC s directors and key officers, indicating all positions and offices held by each such person and each such person s principal occupation or employment during at least the past five years. Except as otherwise noted, each of the persons listed below has served in his or her present capacity for Old SAIC for at least the past five years. All such persons have been elected to serve until their successors are elected or until their earlier resignation or retirement.

We expect that each of the officers and directors of Old SAIC listed below will serve in their present capacities with both Old SAIC and New SAIC immediately following our planned reorganization merger and this offering, and all of the persons who have not yet been appointed to their positions in New SAIC have consented to being named in this prospectus.

Name of director or officer	Age	Position(s) with the company and prior business experience
Carl M. Albero	70	Group President since February 2004. Mr. Albero has held various positions with us since 1987, including serving as a Sector Vice President from 1998 to February 2004. Mr. Albero has also served as Chairman of the Board of our AMSEC LLC joint venture since July 1999 and previously served as Chief Executive Officer of AMSEC LLC from July 1999 to April 2004.
Duane P. Andrews	60	Chief Operating Officer since January 2005, Corporate Executive Vice President since 1998, and a Director since October 1996. Mr. Andrews also served as President and Chief Operating Officer of Federal Business from December 2003 to January 2005, Executive Vice President for Corporate Development from October 1995 to January 1998. Prior to joining us, Mr. Andrews served as assistant secretary of defense for command, control, communications and intelligence from 1989 to 1993.
Kenneth C. Dahlberg	60	Chairman of the Board since July 2004 and Chief Executive Officer, President and Director since November 2003. Prior to joining us, Mr. Dahlberg served as Corporate Executive Vice President of General Dynamics Corp. from March 2001 to October 2003. Mr. Dahlberg served as President of Raytheon International from February 2000 to March 2001, and from 1997 to 2000 he served as President and Chief Operating Officer of Raytheon Systems Company. Mr. Dahlberg held various positions with Hughes Aircraft from 1967 to 1997.
Thomas E. Darcy	55	Corporate Executive Vice President since December 2003 and Chief Financial Officer since October 2000. From October 2000 to December 2003, Mr. Darcy was an Executive Vice President. Prior to joining us, Mr. Darcy was with the accounting firm currently known as PricewaterhouseCoopers LLP from July 1973 to September 2000, where he served as partner from 1985 to 2000.
Wolfgang H. Demisch	61	Director since 1990. Mr. Demisch has been a principal of Demisch Associates LLC, a consulting firm, since 2003. He was a Managing Director of Dresdner Kleinwort Wasserstein, formerly Wasserstein Perella Securities, Inc., from 1998 to 2002.

Name of Director or Officer	Age	Position(s) with the Company and Prior Business Experience
Jere A. Drummond	66	Director since 2003. Mr. Drummond was employed by BellSouth Corporation from 1962 until his retirement in December 2001. He served as Vice Chairman of BellSouth Corporation from January 2000 until his retirement. He was President and Chief Executive Officer of BellSouth Communications Group, a provider of traditional telephone operations and products, from January 1998 until December 1999. He was President and Chief Executive Officer of BellSouth Telecommunications, Inc. from January 1995 until December 1997. Mr. Drummond is also a member of the board of directors of Borg-Warner Automotive, AirTran Holdings, Inc. and Centillium Communications, Inc.
Steven P. Fisher	45	Treasurer since January 2001 and Senior Vice President since July 2001. Mr. Fisher has held various positions with us since 1988, including serving as Assistant Treasurer and Corporate Vice President for Finance from 1997 to 2001 and Vice President from 1995 to 1997.
Donald H. Foley	61	Chief Engineering and Technology Officer since January 2005, Executive Vice President since July 2000, and a Director since July 2002. Dr. Foley has held various positions with us since 1992, including serving as Group President from February 2004 to January 2005 and a Sector Vice President from 1992 to July 2000.
John J. Hamre	55	Director since 2005. Dr. Hamre has served as the President and Chief Executive Officer of the Center for Strategic & International Studies, a public policy research institution, since 2000. Prior to joining us, Dr. Hamre served as U.S. Deputy Secretary of Defense from 1997 to 2000 and Under Secretary of Defense (Comptroller) from 1993 to 1997. Dr. Hamre is also a member of the board of directors of ChoicePoint, Inc., ITT Industries, Inc., and MITRE Corporation.
John R. Hartley	39	Senior Vice President and Corporate Controller since August 2005. Mr. Hartley has held various positions with our finance organization since 2001. For 12 years prior to that, he was with the accounting firm currently known as Deloitte & Touche LLP.
Mark V. Hughes, III	60	Group President since February 2004. Mr. Hughes has held various positions with us since 1990, including serving as an Executive Vice President from July 2003 to February 2004 and as a Sector Vice President from 1991 to July 2003.
Anita K. Jones	63	Director since 1998. Dr. Jones is the Quarles Professor of Engineering at the University of Virginia where she has taught since 1989. From 1993 to 1997, Dr. Jones was on leave of absence from the University to serve as Director of Defense Research and Engineering in the U.S. Department of Defense. Dr. Jones also served as a Director of the Company from 1987 to 1993.
Harrry M. J. Kraemer, Jr.	50	Director since 1997. Mr. Kraemer has been an executive partner of Madison Dearborn Partners, LLC, a private equity investment firm, since April 2005, and has served as an adjunct professor at the Kellogg School of Management at Northwestern University since January 2005. Mr. Kraemer previously served as the Chairman of Baxter International, Inc., or Baxter, a health-care products, systems and services company, from January 2000 until April 2004, as Chief Executive Officer of Baxter from January 1999 until April 2004 and as

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Name of Director or Officer	Age	Position(s) with the Company and Prior Business Experience
		President of Baxter from April 1997 until April 2004. Mr. Kraemer also served as the Senior Vice President and Chief Financial Officer of Baxter from November 1993 to April 1997.
Claudine B. Malone	69	Director since 1993. Ms. Malone has served as the President of Financial & Management Consulting, Inc., a consulting company, since 1982. Ms. Malone is also a member of the board of directors of Hasbro, Inc., Lafarge North America, and Novell, Inc.
Larry J. Peck	58	Group President since February 2004. Mr. Peck has held various positions with us since 1978, including serving as a Sector Vice President from 1994 to February 2004.
Lawrence B. Prior, III	49	Group President since February 2005. Prior to joining us, Mr. Prior served as Chief Financial Officer and then President and Chief Executive Officer of LightPointe Communications, Inc. from 2000 until 2004.
Arnold L. Punaro	59	Executive Vice President, Business Development, Government Affairs and Communications since February 2005. Mr. Punaro has held various positions with us since 1997 including Sector Vice President and Senior Vice President, Director of Corporate Development. Mr. Punaro also served as the Staff Director of the Senate Armed Services Committee and retired as a Major General in the United States Marine Corps.
William A. Roper, Jr.	59	Corporate Executive Vice President since April 2000. Mr. Roper served as Senior Vice President from 1990 to 1999, Chief Financial Officer from 1990 to October 2000 and Executive Vice President from 1999 to 2000. Mr. Roper has served as a director of VeriSign, Inc. since November 2003.
Edward J. Sanderson, Jr.	56	Director since 2002. Mr. Sanderson retired from Oracle Corporation in 2001 after having served as an Executive Vice President since 1995. At Oracle, Mr. Sanderson was responsible for Oracle Product Industries, Oracle Consulting, and the Latin American Division. Prior to that he was President of Unisys World-wide Services and partner at both McKinsey & Company and Accenture (formerly Andersen Consulting).
Douglas E. Scott	48	Secretary since July 2003, Senior Vice President since January 1997 and General Counsel since 1992. Mr. Scott has held various positions with us since 1987, including serving as a Corporate Vice President from 1992 to January 1997.
George T. Singley III	60	Group President since February 2004. Mr. Singley has held various positions with us since 1998, including serving as a Sector Vice President from 2001 to February 2004 and Group Senior Vice President from 2000 to 2001.
Theoren P. Smith, III	51	Group President since February 2005. Dr. Smith served as Sector Vice President from July 2002 until February 2004 and Executive Vice President, Federal Business from February 2004 until February 2005. From 2000 to 2002, Dr. Smith served as Global Chief Technology Officer at Cable & Wireless, PLC and as President of Cable & Wireless USA, Inc., which filed for bankruptcy protection in December 2003. Dr. Smith also served as Senior Vice President and Chief Technology Officer at Road Runner, LLC from 1999 to 2000.

Name of Director or Officer	Age	Position(s) with the Company and Prior Business Experience
Joseph P. Walkush	53	Executive Vice President since July 2000 and a Director since April 1996. Mr. Walkush has held various positions with us from 1976 to 1979 and since 1981, including serving as a Sector Vice President from 1994 to 2000.
John H. Warner, Jr.	64	Chief Administrative Officer since December 2003, Corporate Executive Vice President since 1996 and a Director since 1988. Dr. Warner has held various positions with us since 1973, including serving as Executive Vice President from 1989 to 1996.
A. Thomas Young	67	Director since 1995. Mr. Young retired from Lockheed Martin Corp. in 1995 after having served as an Executive Vice President from March 1995 to July 1995. Prior to its merger with Lockheed Corporation, Mr. Young served as the President and Chief Operating Officer of Martin Marietta Corp. from 1990 to 1995. Mr. Young is also on the board of directors of the Goodrich Corporation.

Board of Directors Composition and Committees

Our certificate of incorporation provides for a classified board of directors consisting of three classes, which shall be as equal in number as possible. The total number of authorized directors is to be between 10 and 18, with the exact size of the board to fixed by resolution of the board. Immediately following the completion of this offering, we expect to have 13 directors.

Immediately prior to the completion of this offering, the board of directors of New SAIC will have the following standing committees: an audit committee, a compensation committee, an ethics and corporate responsibility committee, an executive committee and a nominating and corporate governance committee. Except as noted below, we expect that the membership for the New SAIC board committees immediately following the completion of this offering will be the same as the current membership for Old SAIC s corresponding board committees.

Audit Committee. The purpose of the audit committee is to assist the board of directors in providing oversight of: (1) the integrity of our financial statements, including the financial reporting process, system of internal control and audit process, (2) our compliance with legal and regulatory requirements, (3) the registered public accountant s qualifications and independence, (4) the performance of our internal audit function and registered public accountants and (5) financial reporting risk assessment and mitigation. The current members of the Old SAIC audit committee are C.B. Malone (Chair), W.H. Demisch, J.A. Drummond, A.K. Jones and H.M.J. Kraemer, Jr. Our board of directors has determined that each member is an independent director under our corporate governance guidelines. Our board of directors has also determined that J.A. Drummond, H.M.J. Kraemer, Jr. and C.B. Malone qualify as audit committee financial experts as defined by the rules under the Securities Exchange Act of 1934.

Compensation Committee. The compensation committee s responsibilities include: (1) determining the compensation of the chief executive officer and reviewing and approving the compensation of the other executive officers, (2) approving and evaluating compensation plans, policies and programs, including incentive compensation and equity-based plans for employees and officers, (3) preparing an annual report on executive compensation for inclusion in our proxy statement or annual report on Form 10-K, in accordance with the rules and regulations of the Securities and Exchange Commission and (4) reviewing and making recommendations to the board of directors regarding director compensation. The current members of the Old SAIC compensation committee are E.J. Sanderson, Jr. (Chair), W.H. Demisch, A.K. Jones and H.M.J. Kraemer, Jr. Our board of directors has determined that each member is an independent director under our corporate governance guidelines.

Ethics and Corporate Responsibility Committee. The ethics and corporate responsibility committee duties include: (1) reviewing and making recommendations regarding the ethical responsibilities of our employees and

consultants under our administrative policies and procedures, (2) reviewing and assessing our policies and procedures addressing the resolution of conflicts of interest involving us, our employees, officers and directors and addressing any potential conflict of interest involving us and a director or an executive officer, (3) reviewing and establishing procedures for the receipt, retention and treatment of complaints regarding violation of our policies, procedures and standards related to ethical conduct and legal compliance and (4) reviewing and evaluating the effectiveness of our ethics, compliance and training programs and related administrative policies. The current members of the Old SAIC ethics and corporate responsibility committee are A.K. Jones (Chair), J.A. Drummond, J.J. Hamre, C.B. Malone and J.H. Warner, Jr.

Executive Committee. The executive committee s charter provides that, to the extent permitted by Delaware law, it shall have and may exercise all powers and authorities of the board of directors with respect to the following: (1) taking action on behalf of the board of directors during intervals between regularly scheduled meetings of the board of directors if it is impractical to delay action on a matter until the next regularly scheduled meeting of the board of directors, (2) overseeing and assisting management in the formulation and implementation of scientific research policies, (3) authorizing and approving the offer, issuance or sale of our capital stock, (4) authorizing the filing of registration statements, reports and other documents with the Securities and Exchange Commission and with state securities commissions, (5) authorizing the calling of the annual meeting of our stockholders, (6) within certain limits established by the board or directors, approving the acquisition of the business or assets of another company, (7) authorizing the preparation and filing of documentation to effect a merger between us and one or more subsidiary corporations, (8) reviewing and approving various financial matters, including matters pertaining to our capital structure, our financial projections, plans and strategies, our capital budget and capital budgeting processes, plans and strategies and our treasury operations, investment strategies, banking and cash management arrangements and financial risk management, including our policies and procedures related thereto and (9) authorizing the opening of bank accounts in our name, approving the establishment of loans or letters of credit and guaranteeing the repayment of indebtedness or contractual performance of our majority-owned subsidiaries. The current members of the Old SAIC executive committee are A.T. Young (Chair), D.P. Andrews, K.C. Dahlberg, J.J. Hamre, H.M.J. Kraemer, Jr. and E.J. Sanderson, Jr.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee s responsibilities include: (1) identifying and recommending individuals qualified to become members of the board of directors, consistent with the criteria approved by the board of directors; (2) reviewing and making recommendations regarding the composition and procedures of the board of directors; (3) developing and recommending to the board of directors a set of corporate governance principles; (4) making recommendations regarding the size, composition and charters of the committees of the board of directors; (5) reviewing and developing long-range plans for chief executive officer and management succession and (6) developing and overseeing an annual self-evaluation process of the board of directors and its committees. The current members of the Old SAIC nominating and corporate governance committee are J.A. Drummond (Chair), D.P. Andrews, K.C. Dahlberg, C.B. Malone, J.H. Warner, Jr. and A.T. Young. Our board of directors has determined that the following members of the Old SAIC nominating and corporate governance committee are independent under our corporate governance guidelines: J.A. Drummond, C.B. Malone and A.T. Young. Immediately prior to the completion of this offering, the membership of the nominating and corporate governance committee will be modified so that it will be comprised solely of independent directors.

Lead Director. In the event that our chairman of the board is not independent, the nominating and corporate governance committee will nominate an independent director to serve as our lead director, who is then approved by a majority of the independent directors. The lead director has the following principal responsibilities: (1) chairing meetings of the independent directors in executive session; (2) facilitating communications between other members of the board and the chairman of the board and/or the chief executive officer; (3) acting as a liaison to stockholders who request direct communication with the board; (4) consulting with the chairman of the board in the preparation of the agenda for each board meeting and in determining the need for special meetings of the board; (5) consulting with the chairman of the board and/or the chief executive officer on matters relating to corporate governance and board performance; and (6) acting as chairman of the board if the chief executive officer serving in that role is unable to perform those duties. Currently, Old SAIC s lead director is A.T. Young.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee has, at any time, been one of our officers or employees. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Director Compensation

We intend to establish director compensation policies for New SAIC subsequent to the completion of this offering that will be substantially similar to the existing policies of Old SAIC. However, where we have described director compensation previously consisting of shares of Old SAIC class A common stock, we instead expect to issue twice as many shares of New SAIC class A preferred stock, after giving effect to the conversion of each share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock in our planned reorganization merger.

All non-employee directors are paid an annual retainer of $25,000 and the chairperson of a committee is paid an additional annual retainer of $10,000, except for the chairperson of the audit committee who is paid an additional annual retainer of $12,500. The lead director is also paid an additional annual retainer of $2,500. Non-employee directors also receive $1,500 for each meeting of the board of directors and $2,000 for each meeting of a committee on which they serve and are reimbursed for expenses incurred while attending meetings or otherwise performing services as a director. The directors are eligible to defer their fees into our Keystaff Deferral and Key Executive Stock Deferral Plans. In addition, a stock bonus of 1,000 shares of Old SAIC class A common stock is offered to independent director nominees as an inducement to join the board of directors.

Directors are eligible to receive stock options under the 1999 Stock Incentive Plan. For services rendered as a director during fiscal 2005, W.H. Demisch, J.A. Drummond, A.K. Jones, H.M.J. Kraemer, Jr., C.B. Malone, E.J. Sanderson, Jr. and A.T. Young each received options to purchase 12,000 shares of Old SAIC class A common stock at $42.27 per share, which was the stock price on the date of grant. All such options vest as to 20%, 20%, 20% and 40% on the first, second, third and fourth year anniversaries of the date of grant, respectively.

See Certain Relationships and Related Party Transactions for information with respect to transactions between us and certain persons related to or entities in which certain directors may be deemed to have an interest.

Indemnification of Directors and Officers

In conjunction with this offering, we intend to enter into separate indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our certificate of incorporation. These agreements, among other things, will provide that we will indemnify, subject to applicable law and the terms thereof, our directors and executive officers for certain expenses (including attorneys fees), judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of such person s service as a director or executive officer of us or any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

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EXECUTIVE COMPENSATION

We have not paid our executive officers any compensation for their service to New SAIC since its formation in August 2005. The following table sets forth information regarding the annual and long-term compensation for services to Old SAIC for fiscal 2005, 2004 and 2003, of those persons who were, at January 31, 2005 (1) the Chief Executive Officer and (2) the other four most highly compensated executive officers of Old SAIC, whom we collectively refer to as our Named Executive Officers. The following summary compensation table sets forth the annual and long-term compensation earned by the Named Executive Officers for the relevant fiscal year, whether or not paid in such fiscal year:

Summary Compensation Table

		Annual Compensation			Long-term Compensation		
Name and principal position(s)	Year	Salary (1)	Bonus (2)	Other Annual Compensation (3)	Restricted Stock Awards (4)	Number of Securities Underlying Options	All Other Compensation (5)
K.C. Dahlberg Chairman, Chief Executive Officer and President	2005	$ 1,000,000	$ 1,500,000	$ 77,897(6)	$ 299,989	260,000	$
	2004	250,000(7)	1,010,000(8)	229,459(9)	2,687,686	225,000	
D.P. Andrews Chief Operating Officer	2005	628,846	799,996	2,473	199,993	125,000	9,052
	2004	504,519	699,992	1,305	199,984	100,000	13,445
	2003	467,308	600,014	3,127	200,000	75,000	13,308
W.A. Roper, Jr. Corporate Executive Vice President	2005	476,590	799,996	6,275	130,003	55,000	9,052
	2004	475,962	500,009	5,825	149,988	60,000	13,442
	2003	473,847	399,993	7,845	150,007	75,000	13,308
T.E. Darcy Chief Financial Officer	2005	480,000	599,996	400	130,003	80,000	6,402
	2004	470,000	599,992	400	99,992	75,000	10,945
	2003	425,001	500,014	500	100,014	75,000	10,958
J.H. Warner, Jr. Chief Administrative Officer	2005	475,962	550,018	5,375	99,996	55,000	9,052
	2004	475,962	510,015	4,725	99,992	50,000	13,445
	2003	428,365	449,994	4,800	125,011	45,000	13,308

(1) Includes amounts paid in lieu of unused comprehensive leave.

(2) Includes the award of the following number of shares of Old SAIC class A common stock with a market value as of the date of grant (calculated by multiplying the fair market value of Old SAIC class A common stock on the date of grant by the number of shares awarded) for fiscal 2005, 2004 and 2003, respectively, as follows: (a) K.C. Dahlberg: 10,000 shares with a market value of $405,500, 0 shares and 0 shares; (b) D.P. Andrews: 2,466 shares with a market value of $99,996, 2,738 shares with a market value of $99,992 and 3,497 shares with a market value of $100,014; (c) W.A. Roper, Jr.: 2,466 shares with a market value of $99,996, 1,917 shares with a market value of $70,009 and 1,748 shares with a market value of $49,993; (d) T.E. Darcy: 2,466 shares with a market value of $99,996, 2,738 shares with a market value of $99,992 and 3,497 shares with a market value of $100,014; and (e) J.H. Warner, Jr.: 1,850 shares with a market value of $75,018, 2,191 shares with a market value of $80,015 and 2,797 shares with a market value of $79,994.

(3) Represents amounts paid or reimbursed by us on behalf of the Named Executive Officers for athletic, airline and country club memberships, financial planning and tax preparation services and relocation expenses.

(4) The amount reported represents the market value on the date of grant (calculated by multiplying the fair market value of the class A common stock on the date of grant by the number of shares awarded), without giving effect to the diminution in value attributable to the restrictions on such stock. Restricted stock vests as to 20%, 20%, 20% and 40% on the first, second, third and fourth year anniversaries of the date of grant, respectively. See Continued Vesting on Vesting Stock and Options for Retirees for rights to continued vesting after retirement for certain holders. The amount reported represents the following number of restricted shares of class A common stock awarded for fiscal 2005, 2004 and 2003, respectively: (a) K.C. Dahlberg: 7,398 shares, 84,545 shares and 0 shares; (b) D.P. Andrews: 4,932 shares, 5,476 shares and 6,993 shares; (c) W.A. Roper, Jr.: 3,206 shares, 4,107 shares and 5,245 shares; (d) T.E. Darcy: 3,206 shares, 2,738 shares and 3,497 shares; and (e) J.H. Warner, Jr.: 2,466 shares, 2,738 shares and 4,371 shares. As of January 31, 2005, the aggregate restricted stock holdings (other than restricted stock which has been deferred into the Key Executive Stock Deferral Plan) for the Named Executive Officers were as follows: (a) K.C. Dahlberg: 0 shares; (b) D.P. Andrews: 9,118 shares, with a market value as of such date of $369,735; (c) W.A. Roper, Jr.: 0 shares; (d) T.E. Darcy: 4,048 shares, with a market value as of such date of $164,146; and

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(e) J.H. Warner, Jr.: 3,411 shares, with a market value as of such date of $138,316. Dividends are payable on such restricted stock if and when declared. Although the Company has never declared or paid a dividend on its capital stock, we intend to pay a special dividend immediately prior to the completion of this offering. See The Merger and the Special Dividend.

(5) Represents amounts contributed or accrued by us for the Named Executive Officers under our 401(k) Profit Sharing Plan and Employee Stock Retirement Plan (ESRP).

(6) Includes $67,897 for country club dues.

(7) Mr. Dahlberg joined us as Chief Executive Officer in November 2003. Accordingly, compensation for 2004 is for a partial year.

(8) Includes $660,000 paid as a cash sign-on bonus.

(9) Represents the reimbursement of expenses incurred in connection with the relocation of K.C. Dahlberg and his family to our principal place of business.

Option Grants in Last Fiscal Year

The following table sets forth information regarding grants of options to purchase shares of class A common stock pursuant to our 1999 Stock Incentive Plan made during fiscal 2005 to the Named Executive Officers:

Name	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees in Fiscal 2005	Exercise Price (Per Share)(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3) 5%	10%
K.C. Dahlberg	30,000	*	$36.52	3/7/09	$ 302,694	$ 668,875
	30,000	*	37.34	5/18/09	309,491	683,893
D.P. Andrews	100,000(4)	1.4%	36.52	4/1/09	1,008,980	2,229,583
W.A. Roper, Jr.	60,000(4)	*	36.52	4/1/09	605,388	1,337,750
T.E. Darcy	75,000(4)	1.0	36.52	4/1/09	756,735	1,672,187
J.H. Warner, Jr.	50,000(4)	*	36.52	4/1/09	504,490	1,114,791

* Less than 1% of the total options granted to employees in fiscal 2005.

(1) All such options vest as to 20%, 20%, 20% and 40% on the first, second, third and fourth year anniversaries of the date of grant, respectively. See Management Summary of Compensation Plans Continued Vesting on Vesting Stock and Options for Retirees for rights to continued vesting after retirement for certain holders.

(2) The exercise price is equal to the fair market value of the Old SAIC class A common stock on the date of grant.

(3) The potential realizable value is based on an assumption that the fair market value of the Old SAIC class A common stock will appreciate at the annual rate shown (compounded annually) from the date of grant until the end of the five-year option term. These values are calculated based on the regulations promulgated by the Securities and Exchange Commission and should not be viewed in any way as an estimate or forecast of the future performance of our common stock.

(4) Although the listed grants of options were made during fiscal 2005, such grants relate to service for fiscal 2004.

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Option Exercises and Fiscal Year-end Values

The following table sets forth information regarding the exercise of options during fiscal 2005 and unexercised options to purchase Old SAIC class A common stock granted during fiscal 2005 and prior years under our 1998 Stock Option Plan and 1999 Stock Incentive Plan to the Named Executive Officers and held by them at January 31, 2005:

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at January 31, 2005		Value of Unexercised In-the-money Options at January 31, 2005(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
K.C. Dahlberg			45,000	240,000	$ 394,200	$ 1,794,000
D.P. Andrews	60,000	$ 1,143,900	215,000	260,000	2,529,450	1,964,800
W.A. Roper, Jr.	45,000	857,925	243,000	222,000	2,908,290	1,835,760
T.E. Darcy			217,921	201,438	2,179,157	1,537,743
J.H. Warner, Jr.	60,000	733,200	66,000	144,000	610,710	1,119,140

(1) Based on the fair market value of the Old SAIC class A common stock as of such date less the exercise price of such options.

Employment and Severance Agreements

Old SAIC and Mr. Dahlberg are parties to two letter agreements, each dated October 3, 2003 (Dahlberg Letter Agreements) pursuant to which Mr. Dahlberg serves as Old SAIC s Chief Executive Officer. Pursuant to the Dahlberg Letter Agreements, Mr. Dahlberg received or will receive: (1) a base salary of $1,000,000 per year, (2) a cash sign-on bonus of $660,000, (3) an award of 84,545 shares of vesting Old SAIC class A common stock, (4) an award of a vesting option to purchase up to 225,000 shares of Old SAIC class A common stock, (5) reimbursement of expenses incurred in connection with the relocation of Mr. Dahlberg and his family to our principal place of business, (6) a gross up to Mr. Dahlberg s salary to cover the federal, state and local income and employment tax liability on the relocation benefits, (7) a country club membership, (8) first class seating for business travel, (9) up to $10,000 for financial planning and/or tax preparation within the first two years of employment and (10) disability insurance. The Dahlberg Letter Agreements provide that in the event Mr. Dahlberg s employment is involuntarily terminated before November 2006, for reasons other than cause, we would continue Mr. Dahlberg s base salary, target short-term bonus and benefits until November 2006. In order to receive these severance benefits, Mr. Dahlberg would be required to sign a release and a non-compete/non-solicitation agreement. At the end of the severance period, Mr. Dahlberg would be provided with at least two years of non-paid consulting status during which his unvested options and stock would continue to vest. For purposes of the Dahlberg Letter Agreements, cause is defined as (1) a willful failure to substantially perform his duties, (2) gross misconduct or (3) conviction of a felony.

Old SAIC has entered into severance agreements with certain key officers. The severance agreements provide that if the officer is involuntarily terminated without cause or resigns for good reason within a 24 month period following a change in control, the officer will be paid all accrued salary and a pro rata bonus for the year of termination and a single lump sum equal to three times the officer s then current salary and bonus amount. The officer will also receive such life insurance, disability, medical, dental, hospitalization, financial counseling and tax consulting benefits as are provided to other similarly situated executives who continue in the employ of Old SAIC for the 36 months following termination and up to 12 months of outplacement counseling. Vesting will be accelerated as provided in Old SAIC s various equity incentive and deferral plans. The officer is not entitled to receive a gross up payment to account for any excise tax that might be payable under the Internal Revenue Code, although he or she may elect to receive the full value of the severance payments and pay the excise tax or have the severance payments reduced to the extent necessary to avoid an excise tax.

Other than these agreements, we have not entered into any employment agreements with our executive officers.

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Equity Compensation Plans

Information with respect to our equity compensation plans as of January 31, 2005 is set forth below:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding Securities reflected in column (a))(c)
Equity compensation plans approved by security holders (1)	36,824,540(2)	$31.44	36,233,366(3)(4)
Equity compensation plans not approved by security holders (5)			(5)
Total	36,824,540	$31.44	36,233,366

(1) The following equity compensation plans approved by security holders are included in this plan category: the 1999 Stock Incentive Plan, the Restated Bonus Compensation Plan and the 2004 Employee Stock Purchase Plan. No information is provided with respect to the New SAIC equity compensation plans described below. See Summary of Compensation Plans.

(2) Represents shares of Old SAIC class A common stock reserved for issuance upon the exercise of outstanding options awarded under the 1999 Stock Incentive Plan. Does not include shares to be issued pursuant to purchase rights under the 2004 Employee Stock Purchase Plan.

(3) Represents 9,628,035 shares of Old SAIC class A common stock under the 2004 Employee Stock Purchase Plan and 26,605,331 shares under the 1999 Stock Incentive Plan. The maximum number of shares that may be awarded under the 1999 Stock Incentive Plan is limited to the sum of (a) 24 million shares, (b) the number of shares available for awards under the 1998 Stock Option Plan as of September 30, 1999 and (c) the number of shares which become available under the 1998 Stock Option Plan after September 30, 1999 as a result of forfeitures, expirations, cancellations or sales of shares acquired through the exercise of options to us to satisfy tax withholding obligations. In addition, the 1999 Stock Incentive Plan provides for an automatic share reserve increase on the first day of each calendar year after 1999 by an amount equal to 5% of outstanding shares of Old SAIC class A common stock on such day. However, shares reserved for future awards under the 1999 Stock Incentive Plan is limited to 15% of total outstanding shares of Old SAIC class A common stock.

(4) The Restated Bonus Compensation Plan provides for bonus awards that may be paid in cash, restricted stock or vested stock. The Restated Bonus Compensation Plan does not provide for a maximum number of shares available for future issuance however, the bonus pool for each fiscal year cannot exceed 7.5% of our revenues for the fiscal year.

(5) The Stock Compensation Plan and the Management Stock Compensation Plan are not approved by security holders and are included in this plan category. These plans do not provide for a maximum number of shares available for future issuance.

Summary of Compensation Plans

Set forth below is a summary of the stock-based compensation plans maintained by Old SAIC, which will be assumed by New SAIC following the reorganization merger, and the new stock-based compensation plans to be adopted by New SAIC in connection with the reorganization merger. All shares of Old SAIC class A common stock outstanding under these compensation plans will be converted into shares of New SAIC class A preferred stock and all stock options and other rights to receive shares of Old SAIC class A common stock under these compensation plans will be assumed by New SAIC pursuant to the reorganization merger and will thereafter represent the right to acquire shares of New SAIC class A preferred stock. The special dividend will be paid with respect to Old SAIC class A common stock held by the Old SAIC stock-based compensation plans following the

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reorganization merger and conversion of such shares into New SAIC class A preferred stock. See Capitalization and The Merger and the Special Dividend.

1999 Stock Incentive Plan

General. In 1999, our board of directors and stockholders approved the 1999 Stock Incentive Plan. The 1999 Stock Incentive Plan was adopted as a successor to our 1998 Stock Option Plan. The 1999 Stock Incentive Plan provides our and our affiliates employees, directors and consultants the opportunity to receive stock options, stock appreciation rights, vested stock awards, restricted stock awards, restricted stock units, performance awards and other similar types of stock awards. Options granted under the 1999 Stock Incentive Plan may be either incentive stock options, as defined under Section 422 of the Code or nonqualified stock options. The 1999 Stock Incentive Plan terminates on April 9, 2019, but no incentive stock options may be granted under the plan after April 9, 2009.

If the 2006 Equity Incentive Plan becomes effective, we will cease granting awards under the 1999 Stock Incentive Plan. If the 2006 Equity Incentive Plan does not become effective, the 1999 Stock Incentive Plan will continue in operation pursuant to its terms.

Share Reserve. We are authorized to grant stock options and stock awards for the purchase of 6,000,000 shares of Old SAIC class A common stock, plus the shares described below, under the 1999 Stock Incentive Plan. Shares of Old SAIC class A common stock available for issuance under the 1998 Stock Option Plan as of September 30, 1999 and shares of Old SAIC class A common stock subject to outstanding options under the 1998 Stock Option Plan as of September 30, 1999 that may be returned to us because the options are forfeited, expire or are canceled without delivery of shares of stock, the shares are retained to satisfy tax withholding on option exercises or the options result in the forfeiture of shares of stock back to us will continue to be available for issuance under the 1999 Stock Incentive Plan.

Automatic Annual Increase of Share Reserve. The 1999 Stock Incentive Plan provides that the share reserve will be cumulatively increased for each year after 1999 by a number of shares that is equal to 5% of the outstanding shares of Old SAIC class A common stock as of the first business day of each calendar year, provided that in no event will the number of shares authorized for issuance exceed 15% of the outstanding shares of Old SAIC class A common stock. If the 2006 Equity Incentive Plan becomes effective, this annual share increase will cease.

Administration. The 1999 Stock Incentive Plan is administered by our board of directors or a committee or employee as the board of directors may appoint to administer the plan. The board, board committee or employee is referred in the 1999 Stock Incentive Plan as the administrator.

Eligibility. Awards under the 1999 Stock Incentive Plan may be granted to our employees, directors and consultants. Incentive stock options may be granted only to our employees. The administrator determines the individuals who are granted awards under the 1999 Stock Incentive Plan.

Nontransferability of Awards. Unless otherwise provided in an award agreement, awards granted under the 1999 Stock Incentive Plan are not transferable except to a designated beneficiary upon death and may be exercised during the awardee s lifetime only by the awardee or by his or her legal representative.

Right of Repurchase. Pursuant to Old SAIC s certificate of incorporation, all shares of Old SAIC class A common stock acquired pursuant to awards under the 1999 Stock Incentive Plan are subject to our right of repurchase upon the participant s termination of employment or affiliation with us at the fair market value of Old SAIC class A common stock. These restrictions will lapse following the completion of the merger. See, The Merger and the Special Dividend.

Stock Options. An option represents the right to purchase shares of Old SAIC class A common stock upon the payment of a pre-established exercise price. The 1999 Stock Incentive Plan authorizes the administrator to determine the exercise price of options at the time the options are granted. Unless otherwise specified in an award agreement, the exercise price will be the fair market value of Old SAIC class A common stock on the date of the grant. The exercise price of an incentive stock option may not be less than 100% of the fair market value of our class A common stock on the date of grant. The exercise price of a nonqualified stock option may not be less than 85% of the fair market value of our class A common stock on the date of grant. The 1999 Stock Incentive Plan authorizes the administrator to determine the vesting schedule applicable to options, as well as the means of payment for shares issued on exercise of an option. The term of an option may be no more than ten years from the date of grant, except that an incentive stock option granted to a 10% stockholder may not have a term of more than five years. No option may be exercised after the expiration of its term.

Stock Awards. Stock awards may be restricted stock awards, vested stock awards, restricted stock units, stock appreciation rights, performance awards or other similar stock awards. Restricted stock awards and vested stock awards are grants of a specific number of shares of our class A common stock that either vest or have restrictions that lapse over time in accordance with a vesting schedule. Restricted stock units represent a promise to deliver shares of our class A common stock, or an amount of cash or property equal to the value of the underlying shares, at a future date. Stock appreciation rights are rights to receive cash and/or shares of our class A common stock based on the amount by which the fair market value of a specific number of shares of our class A common stock on the exercise date exceeds the exercise price established by the administrator. Performance awards are rights to receive amounts, in cash or shares of class A common stock, based upon our or a participant s performance during the period between the date of grant and a pre-established future date. The terms and conditions of a stock award will be found in an award agreement. Vesting and restrictions on the ability to exercise stock awards may be conditioned upon the achievement of one or more goals, as determined by the administrator in its discretion. Recipients of restricted shares may have voting rights and may receive dividends on the granted shares prior to the time the restrictions lapse.

Change in Control. The 1999 Stock Incentive Plan provides that, except as provided in an award agreement, outstanding awards will become fully vested upon the occurrence of a change of control. The reorganization merger will not constitute a change of control.

Amendment and Termination. Our board of directors may at any time amend, suspend or terminate the 1999 Stock Incentive Plan. However, no amendment may, without stockholder approval, increase the maximum number of shares for which awards may be granted or change the class of employees eligible to participate in the 1999 Stock Incentive Plan.

2004 Employee Stock Purchase Plan

General. In 2004, our board of directors and stockholders approved the 2004 Employee Stock Purchase Plan. The 2004 Employee Stock Purchase Plan was adopted as a successor to our 2001 Employee Stock Purchase Plan. The 2004 Employee Stock Purchase Plan provides our employees with an opportunity to purchase Old SAIC class A common stock through voluntary payroll deductions. The 2004 Employee Stock Purchase Plan terminates on July 31, 2007, unless earlier terminated by our board of directors.

If the 2006 Employee Stock Purchase Plan becomes effective, we will cease issuing shares under the 2004 Employee Stock Purchase Plan. If the 2006 Employee Stock Purchase Plan does not become effective, the 2004 Employee Stock Purchase Plan will continue in operation pursuant to its terms.

Share Reserve. We have reserved a total of 6,000,000 shares of Old SAIC class A common stock for purchase under the 2004 Employee Stock Purchase Plan.

Administration. The 2004 Employee Stock Purchase Plan is administered by a committee of the board.

Eligibility. Generally, all of our employees are eligible to participate in the 2004 Employee Stock Purchase Plan, except for employees of subsidiaries that have not been designated as eligible for participation. However, no person may participate in the 2004 Employee Stock Purchase Plan who owns stock having more than 5% of the total combined voting power or value of all classes of our capital stock.

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Purchase of Shares. Shares of class A common stock purchased under the 2004 Employee Stock Purchase Plan may be acquired in our limited market or purchased from us out of authorized but unissued shares. Shares are purchased for the account of each participant on four predetermined purchase dates during the year.

Payroll Deductions. The 2004 Employee Stock Purchase Plan permits participants to purchase shares of Old SAIC class A common stock through payroll deductions of between 1% and 10% of the participant s compensation up to a maximum of $25,000 per year. Compensation is defined by a committee of the board and includes at a minimum regular wages, salary or commissions paid to the employee.

Company Contribution. We contribute a certain percent of the purchase price of each share of Old SAIC class A common stock purchased under the 2004 Employee Stock Purchase Plan. The percent we contribute is determined by a committee of the board within a range between 0% and 15% of the purchase price.

Purchase Price. Unless otherwise determined by our board of directors, the purchase price of each share of Old SAIC class A common stock purchased under the 2004 Employee Stock Purchase Plan is equal to the fair market value of the Old SAIC class A common stock.

Withdrawals. Participants may withdraw from the 2004 Employee Stock Purchase Plan, terminate their election to purchase shares and obtain repayment of the balance of any funds held in their accounts, without interest, at any time prior to the purchase of shares.

Restrictions on Shares Purchased. All shares purchased pursuant to the 2004 Employee Stock Purchase Plan are subject to our right of repurchase upon the participant s termination of employment or affiliation with us at fair market value of shares of Old SAIC class A common stock. These restrictions will lapse following the completion of the merger. See, The Merger and the Special Dividend.

Qualification Under the Code. The 2004 Employee Stock Purchase Plan is designed to qualify as an employee stock purchase plan under Section 423(b) of the Code.

Nontransferability. Amounts credited to a participant employee s stock purchase account may not be transferred by a participant other than by will or the laws of descent and distribution.

Amendment and Termination. Our board of directors has the authority to amend or terminate the 2004 Employee Stock Purchase Plan, except that no amendment may, without stockholder approval, increase the maximum number of shares available for purchase under the 2004 Employee Stock Purchase Plan or deny to participating employees the right to withdraw from the 2004 Employee Stock Purchase Plan and obtain all amounts then held in their stock purchase accounts.

Amended and Restated 1984 Bonus Compensation Plan

General. Our 1984 Bonus Compensation Plan was approved by our directors and stockholders in 1984 and amended and restated by our directors and stockholders in 1999. The Amended and Restated 1984 Bonus Compensation Plan provides for the grant of annual and long-term bonuses and other stock- and cash-based performance awards. The Restated Bonus Compensation Plan will continue in effect until terminated by our board of directors.

Authorized Awards. The Restated Bonus Compensation Plan authorizes the grant to eligible participants of bonus awards in each of our fiscal years with an aggregate fair market value of up to the bonus pool for that year. The bonus pool for each fiscal year is established by the committee of our board of directors administering the Restated Bonus Compensation Plan, but may not exceed 7.5% of our consolidated revenue for the year. The maximum fair market value of awards that may be granted to any individual during a fiscal year under the Restated Bonus Compensation Plan is $25,000,000. Bonus awards may be denominated in cash or shares of Old SAIC class A common stock, or any combination of cash and stock.

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Administration. The Restated Bonus Compensation Plan is administered by a committee of our board of directors as determined in accordance with the provisions of the Restated Bonus Compensation Plan.

Eligibility. Employees, directors and consultants of us and our affiliates are eligible to participate in the Restated Bonus Compensation Plan. The committee, in its discretion, determines the eligible individuals who will be granted bonus awards.

Form of Bonus Award. Bonus awards under the Restated Bonus Compensation Plan may be granted in the form of cash, restricted stock or vested stock. Restricted stock awards are grants of Old SAIC shares of class A common stock subject generally to forfeiture and transfer restrictions which lapse in accordance with a vesting schedule or upon the satisfaction of specified conditions. Vested stock awards are grants of shares of Old SAIC class A common stock that have rights that vest in accordance with a vesting schedule or upon the satisfaction of specified conditions. The vesting schedule or conditions are established by the committee at the time of grant.

Bonus Programs. Awards under the Restated Bonus Compensation Plan are granted under one of several programs, as described below:

- *CEO Bonus Program.* The CEO bonus program provides for the grant of bonus awards to employees who are involved in corporate development or administration or are senior employees. Awards are made upon recommendation of our chief executive officer and may be granted up to the aggregate amount of the CEO bonus fund for the year.
- *Group Bonus Program.* The group bonus fund provides for the grant of bonus awards to individuals who contribute to the success of each of our major operating groups. Awards are granted upon recommendation of each group manager and may be granted up to the amount of the group bonus fund for the year.
- *Performance Awards.* Performance awards are rights to receive amounts, in cash or shares of Old SAIC class A common stock, based upon our or a participant s performance during the period between the date of grant and a pre-established future date.

Nontransferability. Except as otherwise provided in the award agreement, bonus awards granted pursuant to the Restated Bonus Compensation Plan are not transferable except to a designated beneficiary upon death. All shares of Old SAIC class A common stock acquired pursuant to bonus awards under the Restated Bonus Compensation Plan are subject to our right of repurchase upon the participant s termination of employment or affiliation with us at the fair market value.

Change in Control. The Restated Bonus Compensation Plan provides that, except as provided in the award agreement, outstanding bonus awards become fully vested on the occurrence of a change in control. The reorganization merger will not constitute such a change in control.

Amendment and Termination. Our board of directors or its committee administering the Restated Bonus Compensation Plan may at any time amend, suspend or terminate the Restated Bonus Compensation Plan.

Management Stock Compensation Plan

General. Our Management Stock Compensation Plan was approved by our board of directors in 1996. The Management Stock Compensation Plan is an unfunded compensation arrangement established to make deferred awards of Old SAIC class A common stock to selected management and highly compensated employees. The Management Stock Compensation Plan will continue in effect until all amounts have been distributed in accordance with the terms of the plan or our board of directors terminates the plan.

Administration. The Management Stock Compensation Plan is administered by a committee appointed by our board of directors.

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Eligibility. Awards under the Management Stock Compensation Plan may be granted to members of our management or highly compensated employees as determined by a committee appointed by our board of directors.

Participation and Awards. Awards are made by an individual or group of individuals appointed by our board called the awarding authority. The awarding authority has discretion to designate those employees who are to receive share units to be credited to an account created for that employee.

Awards Held in Trust. Within a reasonable period of time following the date of an award, we contribute to a trust fund, formed for purposes of the Management Stock Compensation Plan, shares of Old SAIC class A common stock or an amount of money sufficient for the trustee to purchase shares of Old SAIC class A common stock corresponding to the share units awarded.

Vesting and Forfeiture. Each account is subject to a vesting schedule not to exceed seven years. Vesting ceases upon termination of the awardee s employment for any reason other than death of the awardee. In the event of the death of an awardee, all of his or her accounts become immediately vested. The unvested portion of an awardee s account upon termination of employment is immediately forfeited by the awardee, and the unvested shares are returned to us or reallocated in accordance with the committee s directions and the terms of the trust.

Distribution. Generally, an awardee may elect to have the vested portion of his or her account distributed within a reasonable period of time following the date it becomes vested or the awardee s employment terminates. If the awardee fails to make an election, his or her account is distributed in full within a reasonable period of time following the seventh anniversary of the date of the award. Each distribution is made in the form of Old SAIC class A common stock unless the committee determines that distribution of Old SAIC class A common stock is impossible or creates an adverse impact on us, in which case the committee may determine to make the distribution in cash.

Nontransferability. No awardee may assign any of the benefits or payments or proceeds which the awardee may expect to receive under the Management Stock Compensation Plan except pursuant to the laws of descent and distribution or to a designated beneficiary in the event of the awardee s death.

Change in Control. Every account will become fully vested and will be immediately distributed to the awardees upon the occurrence of a change in control. The reorganization merger will not constitute such a change in control.

Amendment and Termination. Our board of directors may at any time amend or terminate the Management Stock Compensation Plan for any reason. In the event of an amendment or termination, benefits will either be paid out when due under the terms of the Management Stock Compensation Plan or as soon as possible as determined by the committee in its sole discretion.

Stock Compensation Plan

General. Our Stock Compensation Plan was approved by our board of directors in 1996 and was amended in 2001. The Stock Compensation Plan is an unfunded compensation arrangement established to make deferred awards of Old SAIC class A common stock to selected employees.

The Stock Compensation Plan will continue in effect until all amounts have been distributed in accordance with the terms of the plan or our board of directors terminates the plan.

Administration. The Stock Compensation Plan is administered by a committee appointed by our board of directors.

Eligibility. Awards under the Stock Compensation Plan may be granted to our employees.

Participation and Awards. Awards are made by an individual or group of individuals appointed by our board called the awarding authority. The awarding authority has discretion to designate those employees who are to receive share units to be credited to an account created in favor of that employee.

Awards Held in Trust. Within a reasonable period of time following the date of an award, we contribute to a trust fund, formed for purposes of the Stock Compensation Plan, shares of Old SAIC class A common stock or an amount of money sufficient for the trustee to purchase shares of Old SAIC class A common stock corresponding to the share units awarded.

Vesting and Forfeiture. Each account is subject to a vesting schedule not to exceed seven years. Vesting ceases upon termination of the awardee s employment for any reason other than death of the awardee. In the event of the death of an awardee, all of his or her accounts become immediately vested. The unvested portion of an awardee s account upon termination of employment is immediately forfeited by the awardee, and the unvested shares are returned to us or reallocated in accordance with the committee s directions and the terms of the trust.

Distribution. Generally, an awardee may elect to have the vested portion of his or her account distributed within a reasonable period of time following the date it becomes vested or the awardee s employment terminates. If the awardee fails to make this election, his or her account is distributed in full within a reasonable period of time following the seventh anniversary of the date of the award. Each distribution is made in the form of stock unless the committee determines that distribution of Old SAIC class A common stock is impossible or creates an adverse impact on us, in which case the committee may determine to make the distribution in cash.

Nontransferability. No awardee may transfer any of the benefits or payments or proceeds which the awardee may expect to receive under the plan except pursuant to the laws of descent and distribution or to a designated beneficiary in the event of awardee s death.

Change in Control. Every account will become fully vested and will be immediately distributed to the awardees upon the occurrence of a change in control. The reorganization merger will not constitute such a change in control.

Amendment and Termination. Our board of directors may at any time amend or terminate the Stock Compensation Plan for any reason. In the event of an amendment or termination, benefits will either be paid out when due under the terms of the Stock Compensation Plan or as soon as possible as determined by the committee in its sole discretion.

2006 Equity Incentive Plan

General. In August 2005, our board of directors approved the 2006 Equity Incentive Plan which, subject to the approval of our stockholders, will become effective upon the closing of the merger. The 2006 Equity Incentive Plan provides for the grant of stock options, restricted stock, restricted stock units, deferred stock, stock appreciation rights, performance shares and other similar types of stock awards, as well as cash awards. Options granted under the 2006 Equity Incentive Plan may be either incentive stock options, as defined under Section 422 of the Code or nonstatutory stock options. The 2006 Equity Incentive Plan will terminate in fiscal 2016 unless it is extended or terminated earlier pursuant to its terms.

Share Reserve. We have reserved a total of up to shares of New SAIC class A preferred stock, plus the shares described below, for issuance under the 2006 Equity Incentive Plan. Shares that are forfeited or repurchased by us at the original purchase price or less, are issuable upon exercise of awards that expire or become unexercisable for any reason without having been exercised are restored by our board of directors or a designated committee pursuant to provisions in the 2006 Equity Incentive Plan that permit options to be settled in shares on a net appreciation basis at our election, or are not delivered to a holder in consideration for applicable tax withholding will continue to be available for issuance under the 2006 Equity Incentive Plan.

Automatic Annual Increase of Share Reserve. The 2006 Equity Incentive Plan provides that the share reserve will be automatically increased beginning February 1, 2007 and on each February 1 for nine years thereafter. The number of shares that may be added each year will equal the least of shares, 5% of the outstanding shares of New SAIC common stock as of the last day of the immediately preceding fiscal year (measured on an as-converted basis with respect to our outstanding shares of class A preferred stock) and a number of shares set by our board of directors.

Administration. The 2006 Equity Incentive Plan will be administered by our board of directors or a committee of our board of directors, either of which may further delegate certain of its responsibilities to a delegated officer in certain instances. The board, committee or officer is referred to in the 2006 Equity Incentive Plan as the administrator.

Eligibility. Awards under the 2006 Equity Incentive Plan may be granted to our employees, directors and consultants. Incentive stock options may be granted only to our employees. The administrator determines which individuals are granted awards under the 2006 Equity Incentive Plan.

Termination of Awards. Generally, if an awardee s service to us terminates other than by reason of death, disability or for cause, vested awards will remain exercisable for a period of 90 days following the termination of the awardee s service, or if earlier, until the expiration of the term of the award. If an awardee s service to us terminates for cause, all of his or her awards will immediately terminate as of the date of termination unless otherwise provided for in the award agreement. Unless otherwise provided for by the administrator, if an awardee dies or becomes disabled while an employee, consultant or director, the vesting of all of the awardee s unvested awards will accelerate, and all of awardee s awards will remain exercisable until the expiration of the term of the award.

Nonassignability of Awards. Unless otherwise determined by the administrator, awards granted under the 2006 Equity Incentive Plan are not assignable other than by will, the laws of descent and distribution, a domestic relations order or to a designated beneficiary upon death and may be exercised, purchased or settled during the awardee s lifetime only by the awardee.

Stock Options. An option represents the right to purchase shares of class A preferred stock upon the payment of a pre-established exercise price.

Exercise Price. The administrator determines the exercise price of options at the time the options are granted. The exercise price of an incentive stock option may not be less than 100% of the fair market value of New SAIC class A preferred stock on the date of grant. The exercise price of a nonstatutory stock option may not be less than 85% of the fair market value of New SAIC class A preferred stock on the date of grant.

Exercise of Option; Form of Consideration. The administrator determines when options vest and become exercisable. The means of payment for shares issued on exercise of an option are specified in each option agreement. The 2006 Equity Incentive Plan permits payment to be made by cash, check, wire transfer, other shares of New SAIC class A preferred stock (with some restrictions), broker-assisted same day sales, cancellation of any debt owed by us or any of our affiliates to the optionholder, or in certain instances a delivery of cash or stock for any net appreciation in the shares at the time of exercise over the exercise price or by other means of consideration permitted by applicable law.

Term of Options. The term of an option may be no more than 10 years from the date of grant. No option may be exercised after the expiration of its term. An incentive stock option granted to a 10% stockholder may not have a term of more than five years.

Stock Awards. Stock awards may be restricted stock grants, restricted stock units, deferred stock, stock appreciation rights, performance shares or other similar stock awards. Restricted stock grants are awards of a specific number of shares of New SAIC class A preferred stock. Restricted stock units represent a promise to deliver shares of New SAIC class A preferred stock, or an amount of cash or property equal to the value of the underlying shares, at a future date. Deferred stock is a grant of shares of New SAIC class A preferred stock that are distributed in the future upon vesting. Stock appreciation rights are rights to receive cash and/or shares of

New SAIC class A preferred stock based on the amount by which the fair market value of a specific number of shares of New SAIC class A preferred stock on the exercise date exceeds the exercise price established by the administrator. Performance shares are rights to receive amounts, in cash or shares of New SAIC class A preferred stock, based upon our or the awardee s performance during the period between the date of grant and a pre-established future date.

Each stock award is evidenced by a stock award agreement between us and the participant. The 2006 Equity Incentive Plan allows the administrator broad discretion to determine the terms of individual stock awards including the number of shares subject to a stock award; the purchase price of the shares, if any, and the means of payment for the shares; the performance criteria; the terms, conditions and restrictions on the grant, issuance, vesting and forfeiture of the shares subject to the stock award; and the restrictions on the transferability of the stock award.

Cash Awards. Cash awards may be granted either alone, in addition to, or in tandem with other awards granted under the 2006 Equity Incentive Plan. A cash award granted under the 2006 Equity Incentive Plan may be made contingent on the achievement of performance conditions. The agreement for the cash award may contain provisions regarding the target and maximum amount payable to the participant as a cash award, performance conditions, restrictions on the alienation or transfer of the cash award prior to actual payment, forfeiture provisions, and further terms and conditions, as may be determined from time to time by the administrator.

Change in Control. The 2006 Equity Incentive Plan provides that in the event of our merger with or into another corporation, a sale of substantially all of our assets or another change of control transaction as determined by the administrator, the successor entity may assume or substitute all outstanding awards. If the successor entity does not assume or substitute all outstanding awards, the vesting of all awards will accelerate and any repurchase rights relating to awards will terminate. In addition, in the event of a change of control transaction, all outstanding awards of non-employee directors will automatically vest in full. If a successor entity assumes or substitutes all awards and a participant is involuntarily terminated by the successor entity for any reason other than death, disability or cause within 18 months following the change of control, all outstanding awards will immediately vest and be exercisable for a period of six months following termination.

Amendment and Termination. Our board of directors may amend, suspend or terminate the 2006 Equity Incentive Plan. However, we will solicit stockholder approval for any amendment to the 2006 Equity Incentive Plan to the extent necessary to comply with applicable laws or NYSE listing requirements. Generally, no action by our board of directors or stockholders may alter or impair any award previously granted under the 2006 Equity Incentive Plan without the written consent of the awardee.

2006 Employee Stock Purchase Plan

General. Our board of directors adopted the 2006 Employee Stock Purchase Plan in August 2005, and subject to stockholder approval and the closing of the merger, the plan will become effective on March 1, 2006. The 2006 Employee Stock Purchase Plan provides our employees with an opportunity to purchase our class A preferred stock at a discounted purchase price through accumulated payroll deductions. The 2006 Employee Stock Purchase Plan will terminate in 2016 unless it is terminated earlier pursuant to its terms.

Share Reserve. The 2006 Employee Stock Purchase Plan provides that an aggregate of up to shares of New SAIC class A preferred stock will be reserved and available for issuance under the 2006 Employee Stock Purchase Plan, plus additional shares that may be added to the 2006 Employee Stock Purchase Plan as described below. The 2006 Employee Stock Purchase Plan provides that additional shares will automatically be added to the shares reserved for issuance under the 2006 Employee Stock Purchase Plan beginning February 1, 2007 and on each February 1 thereafter for nine more years. The number of shares that may be added each year will equal the least of shares, 1% of New SAIC outstanding common stock as of the last day of the immediately preceding fiscal year (measured on an as-converted basis with respect to New SAIC outstanding class A preferred stock) and a number of shares established by our compensation committee.

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Administration. The 2006 Employee Stock Purchase Plan will be administered by the compensation committee of our board of directors or a committee consisting of management employees which has been delegated administrative responsibilities.

Eligibility. Generally, any person who is employed by us or any of our majority-owned subsidiaries designated by our board of directors is eligible to participate in the 2006 Employee Stock Purchase Plan, provided that the employee is employed on the first day of an offering period and subject to certain limitations imposed by Section 423(b) of the Code.

Offering Periods. Unless and until the compensation committee determines to implement longer periods, except for the first offering period, each offering period will have a duration of three months and will commence on April 1, July 1, October 1 or January 1 of each year. Each offering period will have only one purchase period which will run simultaneously with the offering period. The first offering period will begin on March 1, 2006 and will end on June 30, 2006.

Payroll Deductions. The 2006 Employee Stock Purchase Plan permits participants to purchase our class A preferred stock through payroll deductions of between 1% and 10% of the participant s compensation, up to a maximum of $25,000 per year and up to a maximum of 2,500 shares per offering period. Compensation includes base salary, wages, bonuses, incentive compensation, commissions, overtime, shift premiums and draws against commissions, but excludes long-term disability or workers compensation payments, car allowances, relocation payments and expense reimbursements.

Purchase Price. The purchase price per share at which shares are purchased under the 2006 Employee Stock Purchase Plan is % of the fair market value of New SAIC class A preferred stock on the purchase date. The compensation committee has authority to change the purchase price within a range of 85% to 100% of the lower of the fair market value of the New SAIC class A preferred stock on the offering date or the purchase date.

Holding Period. The compensation committee has the authority to establish a minimum holding period for shares purchased under the 2006 Employee Stock Purchase Plan.

Withdrawals. Participants may withdraw from the 2006 Employee Stock Purchase Plan, terminate their election to purchase shares and obtain repayment of the balance of any funds held in their accounts, without interest, at any time prior to the purchase of shares.

Qualification Under the Code. The 2006 Employee Stock Purchase Plan is designed to qualify as an employee stock purchase plan under Sections 421 and 423 of the Code.

Nonassignability. Neither payroll deductions credited to a participant s account nor any rights with regard to the exercise of an option or to receive shares under the 2006 Employee Stock Purchase Plan may be assigned, transferred, pledged or otherwise disposed of in any way other than by will, the laws of descent and distribution or designation of a beneficiary in event of death.

Change in Control. In the event of a change in control transaction of us, the 2006 Employee Stock Purchase Plan will continue with regard to offering periods that commenced prior to the closing of the proposed transaction and shares will be purchased based on the fair market value of the successor entity s stock on each purchase date, unless otherwise provided by the compensation committee.

Amendment and Termination of the 2006 Employee Stock Purchase Plan. Our board of directors may amend, terminate or extend the 2006 Employee Stock Purchase Plan, but we will obtain stockholder approval for any amendment to the 2006 Employee Stock Purchase Plan to the extent required by applicable laws or NYSE listing requirements. Unless approved by our stockholders, our board of directors will not make any amendment that would increase the maximum number of shares that may be issued under the 2006 Employee Stock Purchase Plan or change the designation or class of persons eligible to participate under the 2006 Employee Stock Purchase Plan. Generally, no action by our board of directors or stockholders may impair any outstanding option without the written consent of the participant.

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Continued Vesting on Vesting Stock and Options for Retirees

Certain qualifying retirees may continue holding and vesting in their vesting stock (including units of vesting stock held in the Key Executive Stock Deferral Plan) and stock options after retirement, if they have held such securities for at least 12 months prior to retirement. Qualifying retirement is defined as terminating service with us (1) after age 59 $^{1}/2$ with at least ten years of service with us, (2) after age 59 $^{1}/2$ when age at termination plus years of service with us equals at least 70 or (3) after reaching the applicable mandatory retirement age regardless of their length of service with us for officers and directors subject to the reporting requirements of Section 16 of the Securities Exchange of 1934, so-called Section 16 Officers and Directors. We have the right to terminate this continued vesting in certain circumstances. We also have the right to repurchase shares held by retirees after their options are exercised and/or their shares are fully vested. If a retiree is a participant in our Alumni Program (a program for eligible retirees where we have no repurchase right on their shares during the first five years after termination, but would have the right to repurchase the shares during the second five years on an established schedule with the ability to accelerate the repurchase during the second five years), we have the right to repurchase shares held by the retiree upon the termination of the retiree s participation in the Alumni Program. However, for Section 16 Officers and Directors retiring after reaching mandatory retirement age, this policy change will apply to all unvested stock and options held by them, regardless of when the vesting stock and options were awarded.

Deferred Compensation Plans

We maintain two deferred compensation plans, the Keystaff Deferral Plan and the Key Executive Stock Deferral Plan, for the benefit of key executives and directors that allow eligible participants to elect to defer all or a portion of their annual bonus compensation. We make no contributions under the Keystaff Deferral Plan but do credit participant accounts for deferred compensation amounts and interest earned. Interest is accrued based on the Moody s Seasoned Corporate Bond Rate (6.03% in 2005). Deferred balances will generally be paid upon termination unless the participant has met the 10-year service requirement to defer distribution to age 65. Under the Key Executive Stock Deferral Plan, eligible participants may elect to defer all or a portion of their annual bonus compensation. We make no contributions to the accounts of participants, which generally correspond to shares of Old SAIC class A common stock held in a trust for the benefit of participants. Deferred balances will generally be paid upon retirement or termination.

Employee Stock Retirement Plan

We have an Employee Stock Retirement Plan (ESRP), in which eligible employees participate. Cash or stock contributions to the ESRP are based upon amounts determined annually by our board of directors and are allocated to participants accounts based on their annual eligible compensation. We recognize the fair value of Old SAIC class A common stock or the amount of cash contributed in the year of contribution as compensation expense. The vesting requirements for the ESRP are the same as the vesting requirements for our contributions to the 401(k) Plan. Any participant who leaves us, whether by retirement or otherwise, may be able to elect to receive either cash or shares of our common stock as a distribution from their account. Shares of Old SAIC class A common stock distributed from the ESRP bear a limited put option that, if exercised, would require us to repurchase all or a portion of the shares at their then current fair value during two specified 60-day periods following distribution. If the shares are not put to us during the specified periods, the shares no longer bear a put option, and we will not be required to repurchase the shares. Although we have no current intention to do so, if necessary, we believe we have the ability to eliminate the limited put option feature on shares held by the ESRP. We intend to seek IRS guidance concerning the treatment of the special dividend payable with respect to shares held in the ESRP. Based on that guidance, we may amend certain terms of this plan.

401(k) Plan

We have one principal 401(k) Profit Sharing Plan (401(k) Plan), which is the result of the merger of our Profit Sharing Retirement Plan with our Cash or Deferred Arrangement effective November 28, 2003. The

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401(k) Plan is qualified under Section 401(a) of the Code and its associate trust are exempt from federal income taxation under Section 501(a) of the Code. The 401(k) Plan allows eligible participants to defer a portion of their income through payroll deductions. Such deferrals are fully vested, are not taxable to the participant until distributed from the 401(k) Plan upon termination, retirement, permanent disability or death and may be matched by us. In addition, we may also provide a profit sharing contribution. Participants interests in our matching and profit sharing contributions vest ratably over five years. Participants also become fully vested upon reaching age 59 $^{1}/_{2}$, permanent disability or death. We currently provide a matching contribution to a 50% match for each dollar an employee contributes to the 401(k) Plan, up to 6% of the employee s eligible compensation. We intend to seek IRS guidance concerning the treatment of the special dividend payable with respect to shares held in the 401(k) Plan. Based on that guidance, we may amend certain terms of this plan.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In conjunction with the retirement of J.R. Beyster from the board of directors, in fiscal 2005, we made a $4 million cash donation in the name of J.R. Beyster, our former Chairman of the Board, Chief Executive Officer and President, to the UC San Diego Foundation for the benefit of the Beyster Institute, a part of the Rady School of Management at the University of California, San Diego. The Beyster Institute at the Rady School of Management engages in teaching, research, public education and outreach related to advancing and encouraging others in the field of employee ownership and entrepreneurship. The Beyster Institute was previously a part of the Foundation for Enterprise Development (the Foundation), a non-profit organization established by J.R. Beyster, which is engaged in a broad range of research and education activities. In addition, in fiscal 2005, we donated $150,000 in cash to the Foundation and committed to donate $150,000 per year for four more years. In each of fiscal 2004 and fiscal 2003, we made total annual contributions of $700,000 to the Foundation, in the form of cash, rent-free occupancy in our facilities and donated services. J.R. Beyster is the President and a member of the Board of Trustees of the Foundation and M.A. Walkush, sister of J.P. Walkush, an Executive Vice President and a Director, and a consulting employee of us, is a consultant and a Senior Fellow for the Foundation. Each of T.E. Darcy, a Corporate Executive Vice President and Chief Financial Officer, and J.P. Walkush have previously served as members of the Board of Trustees of the Foundation. M.A. Walkush received $95,774 in cash compensation from us for services rendered during fiscal 2003.

On July 9, 2004, we and J.R. Beyster entered into a letter agreement in conjunction with J.R. Beyster s retirement from the board of directors. Pursuant to this letter, in fiscal 2005, we (1) paid J.R. Beyster $104,000 as compensation for providing business and strategic support to assist with the transition to our new Chairman, Chief Executive Officer and President, (2) provided J.R. Beyster and his spouse with medical, dental, vision and life insurance benefits equivalent to those generally provided to our employees, (3) transferred ownership of the company car utilized by J.R. Beyster and (4) provided travel agency services to J.R. Beyster and his spouse.

J.R. Beyster, as Trustee of the Beyster Family Trust, entered into a Rule 10b5-1 trading plan with Bull, Inc., our wholly-owned broker-dealer subsidiary. The Rule 10b5-1 trading plan, dated June 15, 2004, directed Bull, Inc. to sell on behalf of the Beyster Family Trust 190,639 shares of Old SAIC class A common stock in Old SAIC s limited market in the July 2004 trade and 190,639 shares of Old SAIC class A common stock in Old SAIC s limited market in the October 2004 trade, provided the sale price was at or above $25.00 per share. Pursuant to this trading plan, the Beyster Family Trust sold 190,639 shares of Old SAIC class A common stock in Old SAIC s limited market in the July 2004 trade and 190,639 shares of Old SAIC class A common stock in Old SAIC s limited market in the October 2004 trade.

D.M. Albero, son of C.M. Albero, Group President and Chairman of the Board of AMSEC LLC, is an employee of AMSEC LLC. For services rendered during fiscal 2005, D.M. Albero received a salary of $103,061, a cash bonus of $8,000 and 65 vesting shares of Old SAIC class A common stock, which had a market value on the date of grant of $2,479. Such vesting shares of Old SAIC class A common stock vest as to 20%, 20%, 20% and 40% on the first, second, third and fourth year anniversaries of the date of grant, respectively. For services rendered during fiscal 2004, D.M. Albero received $109,463 in cash compensation. D.M. Albero is a Senior Consulting Analyst.

J.F. Beyster, son of J.R. Beyster, is an employee of our company. For services rendered during each of fiscal 2005, 2004 and 2003, J.F. Beyster received a salary of $70,162, $70,692 and $60,720, respectively. J.F. Beyster is a Mechanical Engineer.

M.A. Beyster, daughter of J.R. Beyster, is an employee of our company. For services rendered during fiscal 2005, M.A. Beyster received a salary of $146,332 and a cash bonus of $9,000. For services rendered during fiscal 2004, M.A. Beyster received $133,535 in cash compensation, 82 shares of Old SAIC class A common stock, which had a market value on the date of the grant of $2,995, 55 shares of Old SAIC vesting class A common stock, which had a market value on the date of the grant of $2,009 and options to acquire 300 shares of Old SAIC class A common stock at $36.52 per share, which was the fair market value on the date of the grant. For services

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rendered during fiscal 2003, M.A. Beyster received $128,000 in cash compensation, 70 shares of Old SAIC class A common stock, which had a market value on the date of the grant of $2,002, 105 shares of Old SAIC vesting class A common stock, which had a market value on the date of the grant of $3,003 and options to acquire 300 shares of Old SAIC class A common stock at $28.60 per share, which was the fair market value on the date of the grant. Such shares of Old SAIC vesting class A common stock and options both vest as to 20%, 20%, 20% and 40% on the first, second, third and fourth year anniversaries of the date of grant, respectively. M.A. Beyster is currently a Business Development Manager in our Life Science Office developing business in pharmaceutical and biotechnology firms, and has previously served as a Business Development Manager for each of our Pfizer Bio Sciences Division and our Engineering and Environmental Management Services Group.

B.D. Rockwood, son of Stephen D. Rockwood, our former Executive Vice President and Chief Technology Officer and Director, is an employee of our company. For services rendered during fiscal 2005, B.D. Rockwood received a salary of $185,000, a cash bonus of $14,000, 148 shares of Old SAIC class A common stock which had a market value on the date of grant of $6,001, 123 shares of Old SAIC vesting class A common stock which had a market value on the date of grant of $4,988 and options to acquire 1,250 shares of Old SAIC class A common stock at $40.55 per share, which was the fair market value on the date of grant. For services rendered during fiscal 2004, B.D. Rockwood received $181,279 in cash compensation, 55 shares of Old SAIC class A common stock, which had a market value on the date of grant of $2,009, 41 shares of Old SAIC vesting class A common stock, which had a market value on the date of grant of $1,497 and options to acquire 500 shares of Old SAIC class A common stock at $36.52 per share, which was the fair market value on the date of the grant. Such vesting shares of class A common stock and options both vest as to 20%, 20%, 20% and 40% on the first, second, third and fourth year anniversaries of the date of grant, respectively. B.D. Rockwood is a Director of Business Operations in the Security and Transportation Technology business unit, and has previously served as a Business Developer in such business unit.

W.A. Downing, a former director whose term expired in June 2005, also provided services to us and received compensation at a fixed hourly rate in addition to his annual retainer and meeting fees as a director. In fiscal 2005, 2004 and 2003, W.A. Downing received compensation of $332,500, $387,813 and $280,000, respectively, for these services.

During fiscal 2003, NetworkCar, Inc. (NetworkCar), a startup company in which SAIC Venture Capital Corporation (VCC) owned equity interests, merged with The Reynolds and Reynolds Company, an unaffiliated third party. At the time of the transaction, two of our executive officers and directors at such time, J.E. Glancy and J.P. Walkush, owned equity interests in and were members of the Board of Directors of NetworkCar. J.E. Glancy made his equity investment prior to VCC s initial investment. J.E. Glancy also acquired debt interests in NetworkCar at a time when it needed additional funding for operations; VCC declined to participate in this financing. In connection with the merger, VCC, J.E. Glancy and J.P. Walkush received net amounts of approximately $1,650,000, $740,500 and $170,000, respectively, for their debt and equity interests in NetworkCar. Ryan Glancy, J.E. Glancy s son, was an employee of NetworkCar and received approximately $122,760 for his equity ownership interest in NetworkCar as well as a $75,000 compensatory payment. Ryan Glancy was also entitled to receive up to $50,000 over a one-year period, offset by any claims for indemnification. In order to obtain the consent of certain unaffiliated common stockholders whose votes were necessary to approve the merger, certain other stockholders (including VCC and J.E. Glancy) agreed to have a portion of the $9,500,000 aggregate cash consideration that the NetworkCar stockholders otherwise would have received pursuant to applicable organizational and contractual documents reallocated to the common stockholders (primarily NetworkCar employees). To accomplish this reallocation, VCC and J.E. Glancy (along with two other stockholders) agreed to make certain capital contributions to NetworkCar. As a result, VCC and J.E. Glancy received approximately $780,000 and $175,000 less, respectively, than they would have received in the merger, and J.P. Walkush and Ryan Glancy received approximately $9,000 and $12,500 more, respectively, than they would have received in the merger in the absence of the reallocation and capital contributions.

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PRINCIPAL STOCKHOLDERS

The following table presents information concerning the beneficial ownership of the shares of Old SAIC class A common stock as of September 1, 2005 by each of our current directors, our Chief Executive Officer, each of the other Named Executive Officers and all of our executive officers and current directors as a group. To our knowledge, no person, other than Vanguard Fiduciary Trust Company (Vanguard), in its capacity as trustee of certain of our retirement plans) beneficially owned more than 5% of the outstanding shares of Old SAIC class A common stock as of this date. Unless otherwise noted below, the address for each beneficial holder is c/o SAIC, Inc., 10260 Campus Point Drive, San Diego, California 92121.

		Percentage of Outstanding Common Stock		
			Immediately after this Offering	
Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Prior to this Offering (2)	Class A Preferred Stock (3)(4)	Total Voting Power (3)(5)
D.P. Andrews	406,578	*		
K.C. Dahlberg	87,441	*		
T.E. Darcy	258,416	*		
W.H. Demisch	132,509	*		
J.A. Drummond	3,400	*		
D.H. Foley	161,881	*		
J.J. Hamre	1,000	*		
A.K. Jones	58,724	*		
H.M.J. Kraemer, Jr.	71,561	*		
C.B. Malone	110,618	*		
W.A. Roper, Jr.	264,667	*		
E.J. Sanderson, Jr.	8,837	*		
J.P. Walkush	269,726	*		
J.H. Warner, Jr.	349,580	*		
A.T. Young	51,921	*		
Vanguard Fiduciary Trust Company, as trustee 400 Vanguard Boulevard Malvern, PA 19355 (6)	78,166,601	43.9%		
All executive officers and directors as a group (22 persons)	3,012,182	1.7%		

* Less than 1%.

(1) The beneficial ownership depicted in the table includes: (i) the approximate number of shares allocated to the account of the individual by the Trustee of the Company s ESRP and 401(k) Profit Sharing Plan as follows: D.P. Andrews (15,284 shares), K.C. Dahlberg (441 shares), T.E. Darcy (588 shares), D.H. Foley (8,452 shares), W.A. Roper, Jr. (23,667 shares), J.P. Walkush (23,686 shares), J.H. Warner, Jr. (110,712 shares) and all executive officers and directors as a group (275,174 shares); (ii) shares subject to options exercisable within 60 days following September 1, 2005 as follows: D.P. Andrews (210,000 shares), K.C. Dahlberg (57,000 shares), T.E. Darcy (121,037 shares), W.H. Demisch (25,200 shares), J.A. Drummond (2,400 shares), D.H. Foley (125,000 shares), A.K. Jones (25,200 shares), H.M.J. Kraemer, Jr. (25,200 shares), C.B. Malone (25,200 shares), W.A. Roper, Jr. (216,000 shares), E.J. Sanderson, Jr. (6,000 shares), J.P. Walkush (74,000 shares), J.H. Warner, Jr. (119,000 shares), A.T. Young (25,200 shares) and all executive officers and directors as a group (1,375,581 shares); (iii) shares held by spouses, minor children or other relatives sharing a household with the individual as follows: T.E. Darcy (239 shares) and all executive officers and directors as a group (6,139 shares) and (iv) shares held by certain trusts established by the individual as follows: T.E. Darcy (134,023 shares), W.H. Demisch (93,309 shares), C.B. Malone (85,418 shares), W.A. Roper, Jr. (25,000 shares), J.H. Warner, Jr. (116,506 shares) and all executive officers and directors as a group (600,217 shares). The beneficial

ownership depicted in the table does not include the following shares held in a rabbi trust in the form of share units for the account of the individual in the Key Executive Stock Deferral Plan or the Management Stock Compensation, which shares are not deemed to be beneficially owned by the individual as follows: D.P. Andrews (39,091 shares), K.C. Dahlberg (91,943 shares), T.E. Darcy (22,624 shares), W.H. Demisch (21,333 shares), J.A. Drummond (1,614 shares), D.H. Foley (14,511 shares), A.K. Jones (1,232 shares), H.M.J. Kraemer, Jr. (17,231 shares), W.A. Roper, Jr. (182,403 shares), J.P Walkush (46,492 shares), J.H. Warner, Jr. (43,837 shares), A.T. Young (27,621 shares) and all executive officers and directors as a group (606,523 shares).

(2) Based on 173,580,550 shares of Old SAIC class A common stock outstanding as of September 1, 2005 and assuming the conversion of the 215,793 shares of Old SAIC class B common stock outstanding as of September 1, 2005 into shares of Old SAIC class A common stock at a conversion ratio of 20 for 1.

(3) Based on a total of 177,896,410 shares of Old SAIC class A and class B common stock outstanding as of September 1, 2005 (calculated on an as-converted basis and after giving effect to the planned reorganization merger) and assumes the issuance of shares of common stock in this offering.

(4) Represents percentage of outstanding New SAIC class A preferred stock held by each beneficial owner after the completion of this offering.

(5) Represents relative voting power held by each beneficial owner, after accounting for 10 for 1 voting rights of New SAIC class A preferred stock.

(6) Shares held by Vanguard are voted as directed by the plan participants.

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THE MERGER AND THE SPECIAL DIVIDEND

Prior to completion of this offering, we will ask our stockholders to adopt and approve a merger agreement, pursuant to which Old SAIC will become a wholly-owned subsidiary of New SAIC and our capital structure will be changed as described below. A majority in voting power of all issued and outstanding shares of Old SAIC common stock entitled to vote is required for adoption of the merger agreement. The holders of Old SAIC class A common stock will be entitled to one vote per share and the holders of Old SAIC class B common stock will be entitled to 20 votes per share. We expect to complete the merger before the completion of this offering, and the completion of the merger is a condition to the completion of this offering. The principal effects of the merger are described below.

The Merger

The merger is structured so that Old SAIC will become a wholly-owned subsidiary of New SAIC. When the merger occurs:

- Each share of outstanding Old SAIC class A common stock will be converted into the right to receive two shares of New SAIC class A preferred stock and each share of outstanding Old SAIC class B common stock, subject to the exercise of appraisal rights, will be converted into the right to receive 40 shares of New SAIC Class A preferred stock. All of the outstanding shares of Old SAIC class A and class B common stock will be converted into and allocated among four series of New SAIC class A preferred stock on the following basis:
  - 10 percent will be designated series A-1 preferred stock;
  - 30 percent will be designated series A-2 preferred stock;
  - 30 percent will be designated series A-3 preferred stock; and
  - 30 percent will be designated series A-4 preferred stock.
- Shares of New SAIC class A preferred stock may not be sold or transferred to anyone other than a permitted transferee, or converted into New SAIC common stock, until the relevant restriction period expires. The restriction period will expire:
  - on April 1, 2006 for shares of series A-1 preferred stock;
  - 180 days after the date of this prospectus for shares of series A-2 preferred stock;
  - 270 days after the date of this prospectus for shares of series A-3 preferred stock; and
  - 360 days after the date of this prospectus for shares of series A-4 preferred stock.

- After the merger, New SAIC will own all of Old SAIC s common stock, meaning that Old SAIC will be a wholly-owned subsidiary of New SAIC.

Immediately after the merger and the completion of this offering:

- shares of class A preferred stock will constitute from 80% to 90% of our total outstanding capital stock and substantially all of our total voting power; and
- shares of common stock will constitute from 10% to 20% of our total outstanding capital stock.

The Special Dividend

Prior to the reorganization merger, Old SAIC intends to declare a special dividend payable to holders of Old SAIC class A and class B common stock. The dividend is expected to range from $8 to $10 per share of Old SAIC class A common stock and from $160 to $200 per share of Old SAIC class B common stock, which is equivalent to $4 to $5 per share of New SAIC class A preferred stock, and will be paid within 25 days after the completion of this offering. If this offering is not completed, Old SAIC will not pay the special dividend. Purchasers in this offering will not participate in the special dividend.

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DESCRIPTION OF CAPITAL STOCK

Authorized Capitalization

New SAIC s capital structure consists of the following:

- 2 billion authorized shares of common stock;
- 1.5 billion authorized shares of class A preferred stock, of which 50 million will be designated series A-1 preferred stock, 150 million will be designated series A-2 preferred stock, 150 million will be designated series A-3 preferred stock and 1.15 billion will be designated series A-4 preferred stock; and
- 10 million authorized shares of undesignated preferred stock.

Comparison of Capital Stock

The following table compares the class A preferred stock and common stock of New SAIC:

	Class A Preferred Stock	Common Stock
Public Market	None	We have applied for listing of our common stock on the New York Stock Exchange.
Voting	10 votes per share on all matters to be voted upon by our stockholders. There is cumulative voting for the election of directors.	One vote per share on all matters to be voted upon by our stockholders. There is cumulative voting for the election of directors.
Conversion	Class A preferred shares are convertible into common shares on a 1 for 1 basis after an initial restriction period that expires at different times for each of series A-1, A-2, A-3 and A-4 preferred shares (the Restriction Periods). The Restriction Period expires: • on April 1, 2006 for shares of series A-1 preferred stock;	Not convertible.

- 180 days after the date of this prospectus for shares of series A-2 preferred stock;
- 270 days after the date of this prospectus for shares of series A-3 preferred stock; and
- 360 days after the date of this prospectus for shares of series A-4 preferred stock.

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	Class A Preferred Stock	Common Stock
Transfer Restrictions	Class A preferred shares may not be transferred to anyone other than a permitted transferee until the applicable Restriction Periods have expired. Class A preferred shares that are transferred after expiration of the applicable restriction period to someone who is not a permitted transferee automatically will convert into common stock. A permitted transferee of an employee includes the employee s immediate family members or a trust established by that employee for the sole benefit of one or more of his or her immediate family members. See Shares Eligible for Future Sale.	None with respect to common stock issued in this offering. See Shares Eligible for Future Sale.
Mergers or Consolidations	In the event of any merger or consolidation to which we are a party (whether or not we are the surviving entity), the holders of class A preferred stock and common stock shall be entitled to receive, on a per share basis, the same amount and form of stock and other securities and property (including cash).	
Dividends and Other Distributions	Subject to the rights of any other series of preferred stock that may come into existence from time to time, the holders of class A preferred stock and the holders of common stock will be entitled to share equally, on a per share basis, in such dividends and other distributions of cash, property or shares of capital stock as may be declared thereon by the board of directors out of funds legally available for payment; provided, however, that in the event such dividend is paid in the form of shares of capital stock or rights to acquire capital stock, the holders of class A preferred stock shall receive class A preferred stock or rights to acquire class A preferred stock, as the case may be, and the holders of common stock shall receive common stock or rights to acquire common stock, as the case may be.	
Subdivisions or Combinations	If we split, subdivide or combine the outstanding shares of class A preferred stock, the outstanding shares of common stock shall be proportionately split, subdivided or combined in the same manner and on the same basis; and if we split, subdivide or combine the outstanding shares of common stock, the outstanding shares of class A preferred stock shall be proportionately split, subdivided or combined in the same manner and on the same basis.	

Liquidation

Subject to the rights of any other series of preferred stock that may come into existence from time to time, in the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of class A preferred stock and the holders of common stock will be entitled to share equally, on a per share basis, all assets of whatever kind available for distribution to the holders of capital stock.

Additional Preferred Stock

We have authorized 10 million shares of undesignated preferred stock. Our board of directors has the authority to issue shares of this preferred stock, from time to time, on terms that it may determine, in one or more series, and to fix the designations, voting powers, preferences and relative participating, optional or other special rights of each series, and the qualifications, limitations or restrictions of each series, to the fullest extent permitted by Delaware law. The issuance of shares of our undesignated preferred stock could have the effect of decreasing the market price of our common stock, impeding or delaying a possible takeover and adversely affecting the voting and other rights of the holders of common stock. We have no present intention to issue any shares of this undesignated preferred stock.

Anti-takeover Effects of Various Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws

Certain provisions of Delaware law and of our certificate of incorporation and bylaws contain provisions that may have anti-takeover effects.

Delaware Anti-takeover Statute

We are subject to Section 203 of the General Corporation Law of the State of Delaware. Subject to specific exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the time of the transaction in which the person became an interested stockholder, unless:

- the business combination, or the transaction in which the stockholder became an interested stockholder was approved by the board of directors prior to the time the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding those shares owned by persons who are directors and also officers and employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or
- on or subsequent to the time a person became an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Business combinations include mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to various exceptions, an interested stockholder is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the corporation s outstanding voting stock based on the percentage of the votes of such voting stock. These restrictions could prohibit or delay the accomplishment of mergers or other takeover or change-in-control attempts with respect to us and, therefore, may discourage attempts to acquire us.

In addition, various provisions of our certificate of incorporation and bylaws, which are summarized below, may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for our shares.

Mergers with Related Persons

Our certificate of incorporation generally requires that mergers and certain other business combinations between us and a related person must be approved by the holders of securities having 80% of our outstanding voting power, as well as by the holders of a majority of the voting power of such securities that are not owned by the related person. A related person means any holder of 5% or more of our outstanding voting power. Under Delaware law, unless the certificate of incorporation provides otherwise, only a majority of our outstanding voting power is required to approve certain of these transactions, such as mergers and consolidations, while certain other of these transactions would not require stockholder approval.

These requirements of our certificate of incorporation do not apply, however, to a business combination with a related person, if the transaction:

- is approved by our board of directors before the related person acquired beneficial ownership of 5% or more of our outstanding voting power;
- is approved by a majority of the members of our board of directors who are not affiliated with the related person and who were directors before the related person became a related person; or
- involves only us and one or more of our subsidiaries and certain other conditions are satisfied.

No Stockholder Action by Written Consent; Calling of Special Meetings of Stockholders

Our certificate of incorporation prohibits stockholder action by written consent and provides that special meetings of our stockholders may be called only by the board of directors, a majority of the board of directors or a committee designated by the board of directors.

Advance Notice Requirements for Stockholder Proposals

Our bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, including the nomination of persons for election to the board of directors, must provide timely notice of their proposal in writing to the corporate secretary. To be timely, a stockholder s notice generally must be delivered or mailed and received at our principal offices not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day, prior to the first anniversary of the preceding year s annual meting (provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which we first publicly announce of the date of the meeting). These provisions may impede stockholders ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders.

Limitations on Liability and Indemnification of Directors and Officers

As permitted by the General Corporation Law of the State of Delaware, our certificate of incorporation includes a provision that eliminates the personal liability of directors to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability:

- for breach of duty of loyalty to the corporation or its stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the General Corporation Law of the State of Delaware; and
- for transactions from which the director derived an improper personal benefit.

Our certificate of incorporation provides that we must indemnify our directors and officers to the fullest extent authorized by the General Corporation Law of the State of Delaware, subject to limited exceptions, and under specified circumstances advance and pay their expenses in defending any proceedings to the fullest extent

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not prohibited by applicable law. We are also authorized by the General Corporation Law of the State of Delaware to carry directors and officers insurance providing indemnification for our directors, officers and certain employees and to enter into separate indemnification agreements with our directors and executive officers. We currently maintain certain directors and officers coverage and we have entered into indemnification agreements with our directors, executive officers and board-appointed officers. We believe that these indemnification provisions, indemnification agreements and insurance are necessary to attract and retain qualified directors and executive officers.

The limitation of liability and indemnification provisions in our certificate of incorporation may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of defense, settlement and damage awards against directors and officers pursuant to these indemnification provisions.

Authorized but Unissued Shares

Our authorized but unissued shares of common stock, class A preferred stock and undesignated preferred stock will be available for future issuance without stockholder approval. We may issue these additional shares for a variety of corporate purposes, including raising additional capital, making acquisitions or joint ventures and incentivizing employees. The existence of authorized but unissued shares of common stock, class A preferred stock and undesignated preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Supermajority Provisions

The General Corporation Law of the State of Delaware provides generally that the affirmative vote of a majority in voting power of the shares entitled to vote on any matter is required to amend a corporation s certificate of incorporation, unless the certificate of incorporation requires a greater percentage.

Our certificate of incorporation provides that the following provisions of our certificate of incorporation may be amended only by a vote of at least two-thirds of the voting power of the outstanding shares of our stock entitled to vote:

- the authority of the board of directors to make, repeal, alter, amend and rescind bylaws;
- the provisions relating to the number, classification, election and removal of directors;
- the provisions relating to the inability of stockholders to act by written consent or call special meetings; and
- the provisions requiring approval of two-thirds of the voting power of our stock entitled to vote on the foregoing.

In addition, our certificate of incorporation provides that, under certain circumstances, any amendment of the article related to business combinations requires (1) the vote of at least 80% of the voting power of the outstanding shares of our stock entitled to vote and (2) the vote of at least a majority of the voting power of the outstanding shares of our stock entitled to vote other than shares of voting stock that are beneficially owned by a related person that directly proposed such amendment.

Transfer Agent and Registrar

will be the transfer agent and registrar for our class A preferred stock and common stock.

Listing

We have applied for our common stock to be listed on the New York Stock Exchange under the trading symbol SAI.

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MARKET FOR OLD SAIC COMMON STOCK

The Limited Market

Since our inception, Old SAIC s common stock has not been traded on any national or other securities exchange. In order to provide some liquidity for our stockholders, however, Old SAIC has maintained a limited secondary market, which we call the limited market, through our wholly owned broker-dealer subsidiary, Bull, Inc.

Historically, the limited market has had four trade dates each year, generally occurring in April, June, September and December. Trade dates typically occur one week after our board of directors meetings. We anticipate that the trade date scheduled for December 2005 will not be held and that the limited market will be discontinued following the completion of this offering.

All sales and purchases in the limited market are made at the prevailing price of the class A common stock, as determined by our board of directors or a committee of the board pursuant to the valuation process described below.

The purchase of class A common stock in the limited market has been restricted to:

- current employees of Old SAIC and eligible subsidiaries who desire to purchase class A common stock in an amount that does not exceed a pre-approved limit established by the board of directors or a designated committee of our board of directors;
- current employees, consultants and non-employee directors of Old SAIC and eligible subsidiaries who have been specifically approved by the board of directors or its designated committee or subcommittee to purchase a specified number of shares which may exceed the pre-approved limit; and
- trustees or agents of the retirement and benefit plans of Old SAIC and its eligible subsidiaries.

No one, other than these authorized buyers, has been eligible to purchase class A common stock in the limited market.

Historically, we have been authorized, but not obligated, to purchase shares of class A common stock in the limited market on each trade date, but only if and to the extent that the number of shares offered for sale by stockholders exceeds the number of shares sought to be purchased by authorized buyers, and we, in our discretion, determine to make such purchases. However, the number of shares we have purchased in the limited market on any given trade date has been subject to legal and contractual restrictions. To the extent that the aggregate number of shares sought to be purchased by authorized buyers exceeds the aggregate number of shares offered for sale by stockholders, we have been authorized, but not obligated, to sell authorized but unissued shares of class A common stock in the limited market. In making this determination, we have historically considered a variety of factors, including our cash position and cash flows, investment and capital activities, financial performance, financial covenants, the number of shares outstanding and the amount of the over-subscription in the limited market.

Valuation Process

In establishing the stock price of the class A common stock of Old SAIC, our board of directors has considered a broad range of valuation data and financial information, including analysis provided by Houlihan Lokey Howard & Zukin Financial Advisors, Inc., an independent appraisal firm. The board has also historically considered valuation data and financial information relating to publicly traded companies considered by our appraiser to be comparable to Old SAIC or relevant to the valuation of our stock. The valuation process has included a valuation formula, which has been used since 1972, that has an earnings component and an equity component and includes a variable called the market factor. After considering the analysis of the independent appraisal firm and other valuation data and information, our board of directors has historically set a market factor

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at the value that causes the formula to yield a stock price that the board believes represents a fair market value for the class A common stock within a broad range of financial criteria. The stock price and market factor, as determined by our board of directors, have historically remained in effect until subsequently changed by the board of directors or its designated committee. Our board of directors has historically reviewed the stock price at least four times each year, generally during its regularly scheduled board meetings.

This valuation process has only taken place with respect to the common stock of Old SAIC and will not take place with the common stock of New SAIC. The New SAIC common stock will be listed on the New York Stock Exchange and the price of that stock will be established by the public market. The historic price of Old SAIC class A common stock may not be indicative of the price that the public market will establish for New SAIC common stock.

Stock Price Table

The following table sets forth information concerning the stock price (rounded to the nearest cent) for the class A and class B common stock of Old SAIC in effect for the periods beginning on the dates indicated. In accordance with the certificate of incorporation of Old SAIC, the price of the Old SAIC class B common stock is equal to 20 times the stock price applicable to the Old SAIC class A common stock.

Date	Shares Outstanding(1)	Weighted Average Shares Outstanding(2)	Price Per Share of Class A Common Stock	Price Per Share of Class B Common Stock	Percentage Price Change(3)
April 11, 2003	190,974,359	203,232,903	$ 29.02	$ 580.40	1.5%
July 11, 2003	192,229,993	197,175,777	30.50	610.00	5.1
October 10, 2003	190,791,535	192,079,951	31.79	635.80	4.2
January 9, 2004	190,348,029	189,499,866	36.52	730.40	14.9
April 16, 2004	191,418,123	188,561,115	37.34	746.80	2.2
July 16, 2004	191,943,098	188,653,945	37.31	746.20	(.1)
October 8, 2004	189,671,084	188,637,287	38.14	762.80	2.2
January 14, 2005	188,204,746	188,302,652	40.55	811.00	6.3
April 8, 2005	186,780,832	187,634,157	42.27	845.40	4.2
June 10, 2005	183,331,888	186,096,747	41.80	836.00	(1.1)
October 7, 2005	181,337,258	183,804,842	43.39	867.80	3.8

(1) The number of outstanding shares of common stock and common equivalent shares at the end of the fiscal quarter immediately preceding the date on which a price determination is to occur.
(2) The weighted average number of outstanding shares of common stock and common equivalent shares for the four fiscal quarters immediately preceding the price determination, as used by us in computing diluted earnings per share.
(3) Value shown represents the percentage change in the price per share of Old SAIC class A common stock from the prior valuation.

Holders of Capital Stock

As of September 9, 2005, there were 33,544 holders of record of Old SAIC class A common stock and 180 holders of record of Old SAIC class B common stock. Substantially all of the class A common stock and the class B common stock is owned of record or beneficially by our current and former employees, officers, directors and consultants and their respective family members and by our various employee benefit plans.

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U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a discussion of the material U.S. federal income and estate tax considerations applicable to non-U.S. holders with respect to their ownership and disposition of shares of our common stock. This discussion is not tax advice. Accordingly, all prospective non-U.S. holders of our common stock should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of our common stock. In general, a non-U.S. holder means a beneficial owner of our common stock who is not for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or any other organization taxable as a corporation for U.S. federal tax purposes, created or organized in the U.S. or under the laws of the U.S. or of any state thereof or the District of Columbia;
- an estate, the income of which is included in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust, that (1) is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended, existing and proposed U.S. Treasury Regulations promulgated thereunder, current administrative rulings and judicial decisions, in effect as of the date of this prospectus, all of which are subject to change or to differing interpretation, possibly with retroactive effect. Any change could alter the tax consequences to non-U.S. holders described in this prospectus. We assume in this discussion that a non-U.S. holder holds shares of our common stock as a capital asset (generally property held for investment).

This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder s individual circumstances nor does it address any aspects of U.S. state, local or non-U.S. taxes. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder and does not address the special tax rules applicable to particular non-U.S. holders, such as:

- insurance companies;
- tax-exempt organizations;
- financial institutions;
- brokers or dealers in securities;
- partnerships or other pass-through entities;

- regulated investment companies;
- pension plans;
- owners (directly, indirectly or constructively) of more than 5% of our common stock;
- owners that hold our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment;
- owners that have a functional currency other than the U.S. dollar; and
- certain U.S. expatriates.

There can be no assurance that the IRS will not challenge one or more of the tax consequences described in this prospectus, and we have not obtained, nor do we intend to obtain, an IRS ruling with respect to the U.S. federal income or estate tax consequences to a non-U.S. holder of the purchase, ownership, or disposition of our common stock. **We urge prospective investors to consult with their own tax advisors regarding the U.S. federal, state, local and non-U.S. income and other tax considerations of acquiring, holding and disposing of shares of our common stock.**

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Distributions on Our Common Stock

If we pay distributions on our common stock, these distributions generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a tax-free return of the non-U.S. holder s investment, up to such holder s tax basis in the common stock. Any remaining excess will be treated as capital gain, subject to the tax treatment described below in Gain on Sale, Exchange or Other Disposition of Our Common Stock.

Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be provided by an applicable income tax treaty between the U.S. and such holder s country of residence.

Dividends that are treated as effectively connected with a trade or business conducted by a non-U.S. holder within the United States (and if an applicable income tax treaty so provides, are also attributable to a permanent establishment or a fixed base maintained by such non-U.S. holder in the U.S.) are generally exempt from the 30% withholding tax if the non-U.S. holder satisfies applicable certification and disclosure requirements. However, such U.S. effectively connected income, net of specified deductions and credits, is taxed at the same graduated U.S. federal income tax rates applicable to U.S. persons. Any U.S. effectively connected income received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as specified by an applicable income tax treaty between the United States and such holder s country of residence.

A non-U.S. holder of our common stock who claims the benefit of an applicable income tax treaty between the United States and such holder s country of residence generally will be required to provide a properly executed IRS Form W-8BEN and satisfy applicable certification and other requirements. Non-U.S. holders are urged to consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

A non-U.S. holder that is eligible for a reduced rate of U.S. withholding tax under an income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim with the IRS.

Gain on Sale, Exchange or Other Disposition of Our Common Stock

A non-U.S. holder will not be subject to any U.S. federal income tax or withholding tax on any gain realized upon such holder s sale, exchange or other disposition of shares of our common stock unless:

- the gain is effectively connected with a U.S. trade or business of the non-U.S. holder (and if an applicable income tax treaty so provides, is also attributable to a permanent establishment or a fixed base maintained by such non-U.S. holder in the U.S.), in which case the gain will be subject to the graduated U.S. federal income tax applicable to U.S. persons and, if the non-U.S. holder is a foreign corporation, the additional branch profits tax described above in Distributions on Our Common Stock may apply;
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met, in which case the non-U.S. holder will be subject to a 30% tax (or a reduced rate under an applicable treaty) on the net gain derived from the disposition, which may be offset by U.S. source capital losses of the non-U.S. holder, if any;

or

- we are or have been, at any time during the five-year period preceding such disposition (or the non-U.S. holder s holding period if shorter) a U.S. real property holding corporation and our common stock has ceased to be regularly traded on an established securities market prior to the beginning of the calendar year in which the disposition occurs. Generally, a corporation is a U.S. real property holding corporation only if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a

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trade or business. Although there can be no assurance, we do not believe that we are, or have been, a U.S. real property holding corporation, or that we are likely to become one in the future. Furthermore, no assurance can be provided that our stock will be regularly traded on an established securities market for purposes of the rules described above.

U.S. Federal Estate Tax

Shares of our common stock that are owned or treated as owned by an individual non-U.S. holder at the time of death and certain lifetime transfers of an interest in our common stock made by such individual are considered U.S. situs assets and will be included in the individual s gross estate for U.S. federal estate tax purposes. Such shares, therefore, may be subject to U.S. federal estate tax, unless an applicable estate tax or other treaty provides otherwise.

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-U.S. holder the gross amount of the distributions on our common stock paid to such holder and the tax withheld, if any, with respect to such distributions. Non-U.S. holders may have to comply with specific certification procedures to establish that the holder is not a U.S. person in order to avoid backup withholding with respect to dividends on our common stock. The gross amount of dividends paid to a non-U.S. holder that fails to certify its non-U.S. holder s status in accordance with the applicable U.S. Treasury Regulations generally will be reduced by backup withholding at the applicable rate, currently 28%. Dividends paid to non-U.S. holders subject to the U.S. withholding tax, as described above in Distributions on Our Common Stock, generally will be exempt from U.S. backup withholding.

Information reporting and backup withholding will generally apply to the proceeds of a disposition of our common stock by a non-U.S. holder effected by or through the U.S. office of any foreign broker or any office of a U.S. broker, unless the holder certifies its status as a non-U.S. holder and satisfies certain other requirements, or otherwise establishes an exemption. Generally, information reporting and backup withholding will not apply to a payment of disposition proceeds where the transaction is effected outside the U.S. through a non-U.S. office of a non-U.S. broker. However, for information reporting purposes, certain brokers with substantial U.S. ownership or operations generally will be treated in a manner similar to U.S. brokers. Non-U.S. holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them.

Under the provisions of an applicable income tax treaty or agreement, copies of information returns may be made available to the tax authorities of the country in which the non-U.S. holder resides or is incorporated.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder s U.S. federal income tax liability, if any, provided that an appropriate claim is timely filed with the IRS.

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SHARES ELIGIBLE FOR FUTURE SALE

General

Upon completion of this offering, the shares of common stock sold in this offering, or shares if the underwriters exercise their over-allotment option in full, will be freely transferable without restriction or further registration under the Securities Act.

In connection with the merger to be completed before this offering, each share of outstanding Old SAIC common stock will be converted into the right to receive shares of New SAIC class A preferred stock that are convertible into New SAIC common stock on a 1 for 1 basis after certain restriction periods expire. The restriction period will expire:

- on April 1, 2006 for shares of series A-1 preferred stock;
- 180 days after the date of this prospectus for shares of series A-2 preferred stock;
- 270 days after the date of this prospectus for shares of series A-3 preferred stock; and
- 360 days after the date of this prospectus for shares of series A-4 preferred stock.

Because the shares of class A preferred stock will be issued pursuant to a registration statement on Form S-4, except for any such shares acquired by an affiliate, which shares will remain subject to the resale limitations of Rule 144 described below, the 355,005,758 outstanding shares of class A preferred stock will also be freely tradable without restriction under the Securities Act following the expiration of the restriction periods above. The 3,273,202 shares of class A preferred stock held by our executive officers and directors as of the date of this prospectus will, however, be subject to additional lock-up arrangements described below and will be eligible for resale pursuant to Rule 144 after the expiration of the lock-up agreements.

We have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. on behalf of the underwriters, we will not, during the period ending 180 days after the date of this prospectus, sell or otherwise dispose of any shares of our class A preferred stock or common stock, subject to certain exceptions. See Underwriters.

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our common stock.

Lock-Up Agreements

In connection with this offering, our directors and executive officers who, immediately prior to this offering, own shares of class A preferred stock or options to acquire shares of class A preferred stock will enter into lock-up agreements with the underwriters of this offering. Under these agreements, these directors and officers may not, during the period ending 180 days after the date of this prospectus, directly or indirectly sell or dispose of any common stock or any securities convertible into or exchangeable or exercisable for common stock without the prior written consent of Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. See Underwriters.

Rule 144

Generally, Rule 144 provides that a person (or persons whose shares are required to be aggregated), including our affiliates, who has beneficially owned shares for at least one year may sell, on the open market, in brokers transactions, a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock; and
- the average weekly trading volume of the common stock on the open market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

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In addition to this volume limitation, sales under Rule 144 are also subject to manner-of-sale restrictions, notice requirements and the availability of current public information about us.

Shares properly sold in reliance upon Rule 144 to persons who are not affiliates are freely tradable without restriction after the sale.

Equity Incentive Plans and Employee Stock Purchase Plans

Immediately after this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering shares of class A preferred stock reserved for issuance under our equity incentive plans and our employee stock purchase plans. This registration statement will also register an equal number of shares of common stock, which represents the shares of common stock issuable upon conversion of the class A preferred stock. Shares registered under that registration statement will (in the case of the equity incentive plans, upon the optionee s exercise and depending on vesting provisions and Rule 144 volume limitations applicable to our affiliates) be available for resale in the public.

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UNDERWRITERS

Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. are acting as joint book-running managers for the offering.

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. Incorporated	
Bear, Stearns & Co. Inc.	
Total	

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ a share under the public offering price. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares of common stock as the number listed next to the underwriter s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. If the underwriters over-allotment option is exercised in full, the total price to the public would be $, the total underwriters discounts and commissions would be $ and the total proceeds to us would be $.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

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We and all of our directors and executive officers have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period we issue a release regarding earnings or regarding material news or events relating to us; or

- prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the release or the occurrence of the material news or material event.

After the reorganization merger, our certificate of incorporation will provide that our preferred stock may not be transferred or converted into common shares until April 1, 2006, in the case of shares of series A-1 preferred stock and 180, 270 and 360 days after the date of this prospectus in the case of shares of the series A-2, A-3 and A-4 preferred stock, respectively.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. In addition, to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering, if the syndicate repurchases previously distributed common stock to cover syndicate short positions or to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the joint book-running managers to underwriters that may make Internet distributions on the same basis as other allocations.

We have applied for listing of our common stock on the New York Stock Exchange under the symbol SAI.

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From time to time in the ordinary course of their respective businesses, certain of the underwriters and their affiliates have engaged in and may in the future engage in commercial banking or investment banking transactions with us and our affiliates. Morgan Stanley is a lender under our credit facilities.

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

Pricing of the Offering

Prior to this offering, there has been no public market for the shares of our common stock. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. Among the factors considered in determining the initial public offering price will be our future prospects and those of our industry in general, our sales, earnings and other financial operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to ours.

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LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Heller Ehrman LLP, San Diego, California. Davis Polk & Wardwell, Menlo Park, California, is representing the underwriters.

EXPERTS

The consolidated financial statements of Science Applications International Corporation as of January 31, 2004 and 2005, and for each of the three years in the period ended January 31, 2005, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standard No. 142), and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Science Applications International Corporation as of July 31, 2005 and for the six months ended July 31, 2005, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report of such firm given upon their authority as experts in accounting and auditing.

The consolidated balance sheet of New SAIC, Inc. as of August 18, 2005, included in this prospectus has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, and has been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

Old SAIC files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. After the transaction, New SAIC will file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. Old SAIC s Securities and Exchange Commission filings are available to the public over the Internet at the Securities and Exchange Commission s web site at www.sec.gov. You may read and copy any reports, statements or other information that we file with the Securities and Exchange Commission at the Securities and Exchange Commission s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

We have filed a registration statement on Form S-1 to register with the Securities and Exchange Commission the shares of common stock of SAIC, Inc. offered by this prospectus. This prospectus is part of that registration statement and, as allowed by Securities and Exchange Commission rules, does not include all of the information you can find in the registration statement or the exhibits to the registration statement. You may obtain copies of the Form S-1 (and any amendments to that document) in the manner described above or by writing or telephoning us at the address or telephone number below.

You may request a copy of this information or the materials identified in the preceding paragraphs, at no cost, by writing or telephoning us at the following address or telephone number:

SAIC, Inc.

10260 Campus Point Drive

San Diego, California 92121

Attention: Douglas E. Scott, Esq.

Senior Vice President, General Counsel and Secretary

(858) 826-6000

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The

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information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

SAIC, Inc.

Science Applications International Corporation

Financial statement schedules are omitted because they are not applicable or the required information is shown on the consolidated financial statements or the notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM

To the Board of Directors and Stockholder

SAIC, Inc.

We have audited the accompanying consolidated balance sheet of SAIC, Inc. and subsidiary (the Company) (a wholly-owned subsidiary of Science Applications International Corporation) as of August 18, 2005. This financial statement is the responsibility of the Company s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated balance sheet presents fairly, in all material respects, the financial position of SAIC, Inc. and subsidiary as of August 18, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

San Diego, California

August 22, 2005

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SAIC, INC.

(a wholly-owned subsidiary of Science Applications International Corporation)

CONSOLIDATED BALANCE SHEET

		August 18, 2005
ASSETS		
Cash	$	1,000
STOCKHOLDER S EQUITY		
Common stock	$	100
Additional paid-in capital		900
Total stockholder s equity	$	1,000

See accompanying notes to consolidated balance sheet.

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NOTES TO CONSOLIDATED BALANCE SHEET

1. Organization and Purpose SAIC, Inc. (the Company) was incorporated on August 12, 2005 and capitalized on August 18, 2005 as a wholly-owned subsidiary of Science Applications International Corporation. Subject to the approval of the stockholders of Science Applications International Corporation, a wholly-owned subsidiary of the Company will merge with Science Applications International Corporation, and all of the outstanding common stock of Science Applications International Corporation will be exchanged for new class A preferred stock of the Company.

2. Stockholder s Equity The Company is authorized to issue 10,000 shares of $.01 par value common stock and has issued and outstanding 10,000 shares held by Science Applications International Corporation.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Science Applications International Corporation

We have audited the accompanying consolidated balance sheets of Science Applications International Corporation and its subsidiaries (the Company) as of January 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended January 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective February 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142.

/s/ DELOITTE & TOUCHE LLP

San Diego, California

March 29, 2005

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year ended January 31		
	2005	**2004**	**2003**
	(in millions, except per share amounts)		
Revenues	$ 7,187	$ 5,833	$ 4,835
Costs and expenses:			
Cost of revenues	6,337	5,100	4,211
Selling, general and administrative expenses	364	331	305
Goodwill impairment		7	13
Gain on sale of business units, net	(2)		(5)
Operating income	488	395	311
Non-operating income (expense):			
Net (loss) gain on marketable securities and other investments, including impairment losses	(16)	5	(134)
Interest income	45	49	37
Interest expense	(88)	(80)	(45)
Other (expense) income, net	(12)	5	6
Minority interest in income of consolidated subsidiaries	(14)	(10)	(7)
Income from continuing operations before income taxes	403	364	168
Provision for income taxes	131	140	61
Income from continuing operations	272	224	107
Discontinued operations (Note 21):			
Income from discontinued operations of Telcordia, net of income tax expense of $16 million, $19 million and $37 million in 2005, 2004 and 2003, respectively	133	127	152
Gain from discontinued operations of INTESA joint venture, net of income tax expense of $2 million and $3 million in 2005 and 2003, respectively	4		
Net income	$ 409	$ 351	$ 259
Earnings per share:			
Basic:			
Income from continuing operations	$ 1.49	$ 1.22	$ .55
Discontinued operations, net of tax	.74	.68	.77
	$ 2.23	$ 1.90	$ 1.32
Diluted:			
Income from continuing operations	$ 1.45	$ 1.19	$ .53
Discontinued operations, net of tax	.73	.67	.75
	$ 2.18	$ 1.86	$ 1.28

Common equivalent shares:			
Basic	183	185	196
Diluted	188	189	203

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

	January 31	
	2005	**2004**
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 983	$ 1,099
Investments in marketable securities	1,367	1,265
Receivables, net	1,563	1,282
Prepaid expenses and other current assets	173	158
Assets of discontinued operations	900	849
Total current assets	4,986	4,653
Property, plant and equipment	339	343
Intangible assets	50	36
Goodwill	468	301
Deferred income taxes	69	83
Other assets	98	124
	$ 6,010	$ 5,540
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 864	$ 692
Accrued payroll and employee benefits	433	401
Income taxes payable	200	178
Notes payable and current portion of long-term debt	70	50
Deferred income taxes	52	1
Liabilities of discontinued operations	680	659
Total current liabilities	2,299	1,981
Long-term debt, net of current portion	1,215	1,232
Other long-term liabilities	99	86
Commitments and contingencies (Note 22)		
Minority interest in consolidated subsidiaries	46	38
Stockholders equity:		
Common stock (Note 1)	2	2
Additional paid-in capital	2,278	1,962
Retained earnings	212	361
Other stockholders equity	(105)	(92)
Accumulated other comprehensive loss	(36)	(30)
Total stockholders equity	2,351	2,203
	$ 6,010	$ 5,540

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

	Common Stock						
	Shares	Amount	Additional paid-in capital	Retained earnings	Other stock-holders equity	Accumulated other comprehensive income (loss)	Comprehensive Income
				(in millions)			
Balance at February 1, 2002	205	$ 2	$ 1,551	$ 956	$ (56)	$ 71	
Net income				259			$ 259
Other comprehensive loss						(85)	(85)
Issuances of common stock	16		237				
Repurchases of common stock	(34)		(205)	(801)			
Income tax benefit from employee stock transactions			108				
Unearned stock compensation, net of amortization					(17)		
Balance at January 31, 2003	187	2	1,691	414	(73)	(14)	$ 174
Net income				351			$ 351
Other comprehensive loss						(16)	(16)
Issuances of common stock	15		322				
Repurchases of common stock	(16)		(108)	(404)			
Income tax benefit from employee stock transactions			56				
Stock compensation			1				
Unearned stock compensation, net of amortization					(19)		
Balance at January 31, 2004	186	2	1,962	361	(92)	(30)	$ 335
Net income				409			$ 409
Other comprehensive loss						(6)	(6)
Issuances of common stock	15		410				
Repurchases of common stock	(19)		(162)	(558)			
Income tax benefit from employee stock transactions			67				
Stock compensation			1				
Unearned stock compensation, net of amortization					(13)		
Balance at January 31, 2005	182	$ 2	$ 2,278	$ 212	$ (105)	$ (36)	$ 403

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended January 31		
	2005	**2004**	**2003**
		(in millions)	
Cash flows from operating activities:			
Net income	$ 409	$ 351	$ 259
Income from discontinued operations, net of tax	(137)	(127)	(152)
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Depreciation and amortization	56	37	31
Non-cash compensation	123	99	77
Impairment losses on marketable securities	20	19	108
(Gain) loss on disposal of property, plant and equipment	(16)	2	4
Gain on sale of marketable securities and other investments	(4)	(24)	(22)
Minority interest in income of consolidated subsidiaries	14	10	7
Other non-cash items	11	(4)	(5)
Loss on derivative instruments			48
Goodwill impairment		7	13
(Decrease) increase in cash, excluding effects of acquisitions and divestitures, resulting from changes in:			
Receivables	(219)	(161)	(68)
Prepaid expenses and other current assets	1	(65)	(22)
Deferred income taxes	59	13	(107)
Other assets	3	(1)	12
Accounts payable and accrued liabilities	158	169	47
Accrued payroll and employee benefits	30	45	35
Income taxes payable	77	34	99
Other long-term liabilities	7	(37)	7
Total cash flows from operating activities	592	367	371
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(42)	(115)	(30)
Acquisitions of business units, net of cash acquired	(212)	(193)	(9)
Payments for businesses acquired in previous years	(20)		
Purchases of debt and equity securities available-for-sale	(229)	(175)	(720)
Proceeds from sale of investments in marketable securities and other investments	132	32	984
Proceeds from disposal of property, plant and equipment	33		
Investments in affiliates	(9)	(9)	(12)
Other	(2)	(1)	
Total cash flows (used in) from investing activities	(349)	(461)	213
Cash flows from financing activities:			
Proceeds from notes payable and issuance of long-term debt	27	351	794
Payments on settlement of treasury lock contracts		(5)	(8)
Payments on notes payable, long-term debt and capital lease obligations	(24)	(3)	(2)
Dividends paid to minority interest stockholders	(4)	(3)	(3)
Sales of common stock	75	40	26
Repurchases of common stock	(552)	(406)	(911)
Total cash flows used in financing activities	(478)	(26)	(104)

(Decrease) increase in cash and cash equivalents from continuing operations	(235)	(120)	480
Cash flows from operating activities of discontinued operations	179	141	185
Cash used in investing activities of discontinued operations	(60)	(16)	(13)
Increase in cash and cash equivalents from discontinued operations	119	125	172
Cash and cash equivalents at beginning of year	1,099	1,094	442
Cash and cash equivalents at end of year	$ 983	$ 1,099	$ 1,094
Supplemental schedule of non-cash investing and financing activities:			
Common stock exchanged upon exercise of stock options	$ 168	$ 107	$ 96
Capital lease obligations for property and equipment		$ 9	$ 1
Fair value of assets acquired in acquisitions	$ 284	$ 345	$ 23
Cash paid in acquisitions			