SAIC, Inc.
Form S-4/A
November 09, 2005
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As filed with the Securities and Exchange Commission on November 8, 2005

Registration No. 333-128022

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2
TO

FORM S-4

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

Telephone: (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

Telephone: (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 the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, 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, 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. ¨

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 proxy statement/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 proxy statement/prospectus is not an offer to sell these securities nor a solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated November 8, 2005

Science Applications International Corporation

To our stockholders:

A special meeting of stockholders of Science Applications International Corporation, or Old SAIC, will be held at the SAIC Conference Center, 1710 SAIC Drive, McLean, Virginia, on December , 2005, at 10:00 a.m. For the convenience of our stockholders, the meeting will be videocast to Conference Room 2040 in Building D of our offices at 10260 Campus Point Drive, San Diego, California and at other locations, and will be webcast on our website (www.saic.com) and on our internal website, ISSAIC.

At the special meeting, stockholders will vote on a proposed merger, the purpose of which is to facilitate our becoming a publicly traded company. In the merger, Old SAIC will become a wholly-owned subsidiary of a newly-formed parent company, SAIC, Inc., or New SAIC. Holders of Old SAIC stock will be entitled to receive two shares of class A preferred stock of New SAIC for every share of class A common stock and 40 shares of class A preferred stock for every share of class B common stock.

After the merger we intend to offer shares of New SAIC common stock to the public in an initial public offering, or IPO. The new common stock will have the same economic rights as the new class A preferred stock, but holders of the new class A preferred stock will be entitled to 10 votes per share whereas holders of the new common stock will be entitled to one vote per share. Upon completion of the IPO, we anticipate that our current stockholders will own from 80% to 90% of New SAIC s outstanding capital stock and will possess substantially all of the voting power.

The board of directors of Old SAIC also will declare a special cash dividend payable to all holders of record of Old SAIC common stock, including Old SAIC s directors and executive officers, prior to the merger. The special dividend is expected to range from approximately $8 to $10 per share of Old SAIC class A common stock and approximately $160 to $200 per share of Old SAIC class B common stock, which is the equivalent of a range from approximately $4 to $5 per share of new class A preferred stock. Payment of the dividend will be contingent on completion of the IPO.

We are pursuing the IPO because, after a review of our options, we have determined that it will best address our long-term objectives. The principal purpose of the IPO is to better enable us to use our cash and cash flows generated from operations to fund organic growth and to use both cash and common stock to finance growth through acquisitions. Creating a public market for our common stock will eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market or in other transactions.

We are also asking you to approve and adopt our 2006 Equity Incentive Plan and 2006 Employee Stock Purchase Plan. These plans will enhance our ability to attract and retain employees, who are key to our continued success. The 2006 Employee Stock Purchase Plan will allow eligible employees to purchase shares of our new class A preferred stock or new common stock at a discount through payroll deductions.

Our board of directors has unanimously determined that the merger and the related transactions are advisable and in the best interests of our stockholders, and unanimously recommends that you vote FOR each of the proposals described in the enclosed proxy statement/prospectus.

You should carefully consider the risk factors relating to the transactions, our stock and our business, which are described beginning on page 29 of the enclosed proxy statement/prospectus.

Sincerely,

K. C. Dahlberg

Chairman of the Board and Chief Executive Officer

November , 2005

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Science Applications International Corporation

10260 Campus Point Drive

San Diego, California 92121

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on December , 2005

A special meeting of stockholders of Science Applications International Corporation, or Old SAIC, a Delaware corporation, will be held at the SAIC Conference Center, 1710 SAIC Drive, McLean, Virginia, on December , 2005, at 10:00 a.m. (local time). For the convenience of our stockholders, the meeting will be videocast to Conference Room 2040 in Building D of our offices at 10260 Campus Point Drive, San Diego, California and at other locations, and will be webcast on our website (www.saic.com) and on our internal website, ISSAIC. The meeting is being held for the purpose of voting on the following:

1. A proposal to approve and adopt an Agreement and Plan of Merger, dated as of November 7, 2005, among Old SAIC, SAIC, Inc., and SAIC Merger Sub, Inc., pursuant to which Old SAIC will become a wholly-owned subsidiary of a newly-formed parent company, SAIC, Inc., or New SAIC, and holders of Old SAIC stock will be entitled to receive shares of class A preferred stock of New SAIC for their common stock of Old SAIC.

2. A proposal to approve and adopt the 2006 Equity Incentive Plan.

3. A proposal to approve and adopt the 2006 Employee Stock Purchase Plan.

4. Any other business as may properly come before the special meeting, or any adjournments, postponements or continuations thereof.

The proposals listed above are more fully described in the proxy statement/prospectus accompanying this notice. You are encouraged to carefully read the proxy statement/prospectus and the attached annexes.

Our board of directors has unanimously approved and recommends that you vote FOR each of the proposals listed above.

Only stockholders of record at the close of business on November 4, 2005, are entitled to notice of and to vote at the special meeting and at any and all adjournments, postponements or continuations thereof.

This proxy statement/prospectus is being first mailed to stockholders on or about November , 2005.

By Order of the Board of Directors

D. E. SCOTT

Senior Vice President,

General Counsel and Secretary

San Diego, California

November , 2005

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YOUR VOTE IS IMPORTANT

Even if you expect to attend the special meeting, to ensure that your shares are represented at the meeting, please submit your proxy (1) by the Internet, (2) by telephone or (3) by mail no later than 11:59 P.M. Eastern Time on December , 2005. For specific instructions, please refer to the section titled The Special Meeting, Voting and Proxies beginning on page 44 of this proxy statement/prospectus and the instructions on the enclosed proxy. Submitting a proxy will not prevent you from attending the special meeting and voting in person, if you so desire.

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QUESTIONS AND ANSWERS

The following questions and answers are provided for your convenience and briefly address some commonly asked questions about the proposed transactions, including the merger, the public offering and the special dividend. A more detailed description of these matters can be found in the other parts of this proxy statement/prospectus. We urge you to read the entire proxy statement/prospectus carefully.

In this proxy statement/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. In addition, we sometimes refer to the common stock of Science Applications International Corporation as Old SAIC common stock, and when the distinction is important, as class A common stock and class B common stock. We also sometimes refer to the class A preferred stock of SAIC, Inc. as new class A preferred stock and to the common stock of SAIC, Inc. as new common stock.

Overview of the Transactions

Q1. What transactions do we intend to complete?

A. We intend to complete the following transactions:

- a merger pursuant to which Old SAIC will become a wholly-owned subsidiary of New SAIC, and each share of outstanding class A common stock will be converted into the right to receive two shares of class A preferred stock of New SAIC and each share of outstanding class B common stock will be converted into the right to receive 40 shares of class A preferred stock of New SAIC
- an initial public offering, or IPO, of new common stock of New SAIC through which we will raise cash from outside investors
- a special dividend which we will pay to our current stockholders

Q2. Why are we pursuing these transactions?

A. We are pursuing these transactions because, after a review of our options, we have determined that an IPO will best address our long-term objectives. The merger is a necessary step for us to take in order to effect our IPO. The IPO will provide us with greater financial flexibility to grow our business. We also believe these transactions enable us to implement our vision and long-term strategy while preserving our core values, and focus on providing an environment where our employees entrepreneurial spirit can flourish. Specifically, we believe the IPO is the preferred alternative because it will:

- Enable us to use our cash and cash flows generated from operations to fund organic growth and growth through acquisitions. Although we had no legal obligation to do so over the past five years, we have used more than $2.5 billion of cash to provide liquidity to our stockholders by purchasing shares in our limited secondary market and in other transactions. We have maintained excess cash to address this ongoing imbalance in our stock system caused by an excess of shares sold by selling stockholders as compared to the number of shares purchased by buyers other than us. In referring to our stock system, we include the issuance, purchase or sale of our common stock in the limited market, as well as the various benefit program and retirement plan

transactions. We expect that this significant stock system imbalance, and the related need to maintain excess cash, would have continued for the foreseeable future without the IPO. Creating a public market for our common stock will eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market or in other transactions.

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Provide us with the ability to use our publicly-traded common stock to pursue stock-based acquisitions that otherwise might not be available to us. We intend to continue our disciplined approach to internal investments and acquisitions that support our strategic growth plans.

Our board of directors has carefully studied this question and unanimously believes that creating a publicly traded stock is in the best interests of SAIC and our stockholders and employees.

Q3. Why are we pursuing these transactions now?

A. Our senior management and board of directors have determined that our stockholders will be best served by conducting an IPO while the business environment is favorable and our business operations and our balance sheet are strong. If the imbalance in our stock system were to continue, we might be unable to make the necessary investments to support our organic growth and growth through acquisitions.

Q4. Did we consider any other options besides the IPO?

A. Yes. As we outlined in a letter to employees dated June 6, 2005, our senior management and board of directors reviewed various alternatives that would enable us to preserve our culture, implement our vision and long-term strategy and address the stock system imbalance. After reviewing our options including seeking private equity capital, issuing additional long-term debt and various means for increasing employee purchases of our common stock we have determined that an IPO will best address our needs.

Q5. Why didn t we tell our employees and stockholders about the IPO sooner?

A. We informed our employees and stockholders in June 2005 that our board of directors was conducting a review of strategic alternatives, including a possible IPO, that would best position us for long-term success. Once our board of directors authorized management to pursue the IPO, the federal securities laws restricted us from providing information about the proposed merger and IPO until the required filings could be made with the SEC the so-called quiet period.

Q6. How will the merger and the IPO affect our corporate structure?

A. Old SAIC will become a wholly-owned subsidiary of New SAIC, a newly formed company that is named SAIC, Inc. The stockholders of Old SAIC and the investors purchasing stock in the IPO will become the stockholders of New SAIC. The diagram on pages 16-17 illustrates the merger and its effect on our corporate structure.

Q7. Will our new corporate structure affect the way we conduct business?

A. The merger and the new corporate structure are necessary for us to complete our IPO. They will not affect our day-to-day business operations, the way we conduct business with our customers or the way we interact with our employees.

Q8. How long will it take to complete the proposed transactions?

A. It is difficult to predict, but it depends to a great extent on the SEC s review of this and other documents related to the merger and the IPO. Typically in transactions of this type, the SEC will review the filings made by the company and make comments before the proxy

statement/prospectus for the special meeting of stockholders and the prospectus for the IPO can be finalized. We will hold the special meeting of stockholders on December , 2005, and we expect to complete the IPO early next calendar year.

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Q9. Will New SAIC essentially be the same company after we have outside investors?

A. We believe that much of our success can be attributed to our culture of employee ownership and the entrepreneurial spirit and commitment to growing our business it inspires in our employee owners. We do not believe the IPO will change those important aspects of our culture. We expect to sell in the IPO a number of shares that will be sufficient to create a public trading market in our new common stock with satisfactory liquidity. After the IPO, New SAIC will remain predominantly owned by the existing stockholders. Immediately after the IPO, new class A preferred stock will constitute from 80% to 90% of our outstanding capital stock and substantially all of our voting power. In addition, we will be issuing additional shares of new class A preferred stock or new common stock in the future to our employees, directors and consultants pursuant to our benefit plans.

Q10. Will our relationships with customers, suppliers and employees change?

A. No. A key to our success will continue to be the strong relationships that we maintain with each of these groups and we do not anticipate any changes to these relationships.

Q11. Will our executive officers or the members of our board of directors change as a result of these transactions?

A. No. We do not anticipate any changes to our executive officers or board of directors in connection with these transactions.

Q12. Does management still think employee ownership is important?

A. Yes. We believe that stock ownership and our employee ownership culture motivate our employees to strive for our continued success and provide a mechanism for sharing the potential rewards. Following the IPO, we intend to continue providing opportunities to our employees to own our shares through bonuses in stock, stock options, stock contributions to our employee benefit plans and participation in employee stock plans. We also expect to continue our internal stock ownership guidelines.

The Merger

Q13. What does the merger entail and why are we merging with one of our subsidiaries?

A. In the merger, a wholly-owned subsidiary of New SAIC will merge with and into Old SAIC, and Old SAIC will become a wholly-owned subsidiary of New SAIC. The diagram on pages 16-17 illustrates the merger. New SAIC s restated certificate of incorporation will provide us with the capital structure we need to proceed with an IPO. Our board of directors concluded that the merger is the preferred method of achieving this structure.

Q14. What will I be entitled to receive in the merger?

A. In the merger, each share of outstanding class A common stock will be converted into the right to receive two shares of new class A preferred stock and each share of outstanding class B common stock will be converted into the right to receive 40 shares of new class A preferred stock. Of the shares of new class A preferred stock you receive in the merger:

10 percent will be designated series A-1 preferred stock

30 percent will be designated series A-2 preferred stock

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30 percent will be designated series A-3 preferred stock

30 percent will be designated series A-4 preferred stock

Any fractional share interests will be aggregated and allocated to a series of class A preferred stock.

For example, a stockholder holding 1,000 shares of class A common stock will be entitled to receive the following shares of new class A preferred stock in the merger:

200 shares of series A-1 preferred stock

600 shares of series A-2 preferred stock

600 shares of series A-3 preferred stock

600 shares of series A-4 preferred stock

A stockholder holding 1,000 shares of class B common stock will be entitled to receive the following shares of new class A preferred stock in the merger:

4,000 shares of series A-1 preferred stock

12,000 shares of series A-2 preferred stock

12,000 shares of series A-3 preferred stock

12,000 shares of series A-4 preferred stock

While the conversion will be on a per share basis, the allocation of the new class A preferred stock among the four series will be completed on an account-by-account basis. For example, if shares of Old SAIC common stock are held both individually and in a revocable trust, the new class A preferred stock will be allocated among the four series separately for each account. Moreover, all shares of new class A preferred stock that are issued to a single account will be aggregated and allocated among the four series, even if the shares of Old SAIC common stock that were held in that account were acquired at different times or in a different manner (e.g. an option exercise).

Except for the transfer restrictions that we describe below, each share of new class A preferred stock will be identical.

Q15. Why will I be entitled to receive two shares of new class A preferred stock (rather than just one share) for every one share of class A common stock that I own? Why will I be entitled to receive 40 shares of new class A preferred stock (rather than just 20 shares) for every one share of class B common stock that I own?

A. We established a two-for-one exchange ratio in the merger, which has the effect of implementing a two-for-one stock split. The purpose is to increase the number of shares of our capital stock outstanding prior to the IPO, which will decrease the per share value of our capital stock. The aggregate value of your shares will not be affected by the merger, although the value will fluctuate after the IPO. We believe that offering more shares of new common stock at a lower per share price will allow for an initial offering price of the new common stock within a range that is customary in today s IPO marketplace and therefore will enhance the underwriters ability to market the shares to retail investors.

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Q16. Why do the holders of class B common stock receive more shares than the holders of class A common stock?

A. The holders of class B common stock are entitled to receive 20 times the number of shares to be received by the holders of class A common stock because, while the class A common stock was split 5 for 1 in 1987 and split again 4 for 1 in 1999, resulting in an overall 20 for 1 split, the class B common stock has not been split since it was initially issued. If the class B common stock had been split in 1987 and 1999 along with the class A common stock, there would be no difference in the number of shares which the holders of each of these classes would receive. Furthermore, Old SAIC s certificate of incorporation provides that each share of class B common stock is convertible at any time into 20 shares of class A common stock.

Q17. What are the tax consequences of the merger?

A. The exchange of your class A and class B common stock for new class A preferred stock pursuant to the merger is not expected to be a taxable transaction for you for federal income tax purposes. It is conceivable that the Internal Revenue Service would seek to have the special dividend and the merger treated as part of a single integrated transaction for federal income tax purposes in which you are exchanging your Old SAIC shares for a combination of cash and the new class A preferred stock rather than giving the dividend independent significance. If the Internal Revenue Service asserts this position and if this position is ultimately sustained, any gain you realize on the exchange would be taxable to the extent of the amount of the cash received as a special dividend. For this purpose, the gain you realize would be equal to the value of the Old SAIC stock at the time of the merger over your tax basis in that stock. The taxable gain recognized would be long-term capital gain, if you held the Old SAIC stock for more than one year at the time of the merger, and short-term capital gain, if your holding period was one year or less. To the extent the cash received is in excess of the gain you realize in the transaction, the remaining cash would be treated as a non-taxable return of your investment in the Old SAIC stock (to the extent thereof) and would reduce your basis in the new class A preferred stock received in the merger. If the special dividend is treated as additional amount paid for your shares in the merger, it would not be treated as a dividend for federal income tax purposes. See Proposal I The Merger Material Federal Income Tax Consequences to Stockholders The Merger for a more detailed description of the tax consequences of the merger.

Q18. Do I have appraisal rights?

A. Appraisal rights entitle, under certain circumstances, stockholders of Delaware corporations to receive a cash payment equal to the fair value of their shares as determined by the Delaware Court of Chancery. Record holders of Old SAIC class A common stock do not have appraisal rights in connection with the merger. Record holders of class B common stock who do not vote in favor of the merger proposal but otherwise do comply with the requirements and procedures of Section 262 of the General Corporation Law of the State of Delaware, or DGCL, have appraisal rights. A detailed description of the appraisal rights and procedures available to record holders of Old SAIC class B common stock is included in Proposal I The Merger Appraisal Rights beginning on page 54. The full text of Section 262 of the DGCL is included as Annex E to this proxy statement/prospectus.

Q19. What happens if the stockholders do not adopt the merger agreement?

A. If stockholder approval for the merger is not obtained, the merger and the IPO will not occur, and the special dividend will not be paid. If we are unable to complete the IPO, we will need to reassess how to

satisfy the needs of our stock system and yet achieve our long-term strategic objectives. We may not be able to balance the stock system indefinitely.

Q20. Can our board of directors abandon the merger and other transactions even if stockholder approval is obtained?

A. Yes. If prior to completion of the merger our board of directors decides that it is not in the best interests of the stockholders to proceed, the board can terminate the merger agreement and not proceed with the IPO and special dividend.

The Initial Public Offering

Q21. What is an IPO?

A. An IPO, or initial public offering, is the first sale of stock by a company to the public in a transaction registered with the SEC.

Q22. How and when will we complete our IPO?

A. As soon as our board of directors deems advisable after the merger agreement is approved and adopted by our stockholders and our registration statement is declared effective by the SEC, we will complete the merger and then sell shares of New SAIC common stock to the public in an IPO. If the merger agreement is not approved and adopted, the IPO will not occur and we will not pay the special dividend, which will be specifically conditioned upon completion of the IPO.

Q23. How will the IPO price be determined?

A. The price of the new common stock in the IPO will be negotiated with the representatives of the underwriters, Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. Among the factors considered in determining the IPO 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. Thereafter, the new common stock will trade at prices that depend on a number of factors, including those described in Risk Factors beginning on page 29. Our stock price may fluctuate based on these and other factors. The price of the new common stock in the IPO will be negotiated with the underwriters and the market price at which our new common stock will trade following the IPO will be determined by market forces. The underwriters and public investors who trade in the new common stock may give different weight to factors or valuation methodologies or consider new factors or valuation methodologies than those relied upon in determining the historical price of Old SAIC common stock. Therefore, the price negotiated with the representatives of the underwriters and the market price at which our new common stock will trade following the IPO may be higher or lower than the historical prices of Old SAIC common stock.

Q24. Where will the new common stock be traded?

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

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Q25. How much stock are we selling to the public?

A. In the IPO, we expect to sell a number of shares that will be sufficient to create a public trading market in our new common stock with satisfactory liquidity. After the IPO:

- new class A preferred stock will constitute from 80% to 90% of our total outstanding capital stock and substantially all of our voting power

- new common stock will constitute from 10% to 20% of our total outstanding capital stock

As a result, voting control of New SAIC will remain in the hands of current stockholders after we complete the merger and the IPO.

Q26. How was the size of the IPO determined?

A. The size of the IPO, which was established by our board of directors and senior management in close coordination with our financial advisors, was determined based on the number of shares needed to create a public trading market in our stock with satisfactory liquidity.

Q27. What are the risks to my investment associated with the IPO?

A. The price of our new common stock will be subject to the fluctuations in the stock market. Initially, there also will be restrictions on your ability to sell or transfer your new class A preferred stock that you are entitled to receive in the merger. In addition, your investment will continue to be subject to many of the same risks to which it is currently subject. Some of the risk factors that we currently face, including those associated with an IPO, are described in Risk Factors beginning on page 29.

Q28. Who do we expect will buy shares in the IPO?

A. We expect that retail and institutional investors, such as insurance companies, mutual funds and other financial institutions, who believe in our strategy, management and industry prospects will buy shares of our new common stock in the IPO.

Q29. Will there be a friends and family program under which I can buy shares in the IPO?

A. No. It is not logistically practicable to offer a friends and family directed share program to all of our employees. We also believe that it would not be fair to offer such a program only to a select group of employees or executives. As a result, we will not be offering a friends and family program.

Q30. What will we do with the proceeds from the IPO?

A. The proceeds of the IPO will be held by New SAIC and will be included in our consolidated cash balances, which are used for general corporate purposes, including working capital, capital spending and possible investments and acquisitions. However, the board of directors of Old SAIC intends to declare a special dividend that will be paid to the holders of Old SAIC common stock as of the record date set by the board of directors. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not

exercise their over-allotment option, by up to approximately $250 million.

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The Special Dividend

Q31. What is a dividend?

A. Typically, a dividend is the distribution of cash, stock or other assets to a company s stockholders.

Q32. Why do we plan to pay a special dividend?

A. Given our current strong cash position, we believe the special dividend is an efficient and fair way to return to our stockholders excess cash that no longer will be needed to repurchase stock in the limited market or to otherwise provide liquidity to our stockholders after the IPO.

Q33. What is the amount of the special dividend?

A. The dividend is expected to range from approximately $8 to $10 per share of Old SAIC class A common stock and from approximately $160 to $200 per share of Old SAIC class B common stock.

Q34. How will the amount of the dividend be determined?

A. The amount of the special dividend will be determined by the board of directors, in consultation with our advisors, in order to distribute a significant amount of cash to our current stockholders and yet retain sufficient capital to meet our future strategic needs.

Q35. When will the special dividend be paid?

A. The board of directors of Old SAIC intends to declare a special dividend that will be paid to the holders of Old SAIC common stock as of the record date set by the board of directors. Payment will be conditioned upon completion of the IPO, and it is anticipated that the dividend will be paid within 25 days after the IPO.

Q36. What are the tax consequences of the special dividend?

A. The special dividend should constitute a taxable dividend for federal income tax purposes to the extent it is paid from current or accumulated earnings and profits, as determined under federal income principles. Any dividends in excess of earnings and profits may be treated as a nontaxable return of capital or as a gain realized on the sale or disposition of your Old SAIC common stock. However, if the special dividend is treated as additional amount paid for your shares in the merger, it would not be treated as a dividend for federal income tax purposes. For further information about the tax consequences of the special dividend and the tax rates that may be applicable to you, see Proposal I The Merger Material Federal Income Tax Consequences to Stockholders The Special Dividend.

Q37. What will our dividend policy be after the IPO?

A. Old SAIC has never declared or paid dividends on its 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 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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The New Class A Preferred Stock

Q38. What are the differences between the new class A preferred stock and the new common stock?

A. The terms of the new class A preferred stock and the new common stock will be the same, except that holders of the new class A preferred stock will be subject to certain transfer restrictions set forth below, will be entitled to convert their shares into new common stock after the expiration of the restriction periods and will be entitled to 10 votes per share, while the holders of the new common stock will have freely tradable stock and be entitled to one vote per share. The new class A preferred stock has no other preferences.

Q39. Why do the public investors receive a different class of stock than our existing stockholders?

A. As part of an IPO, it is typical for employee-owned companies to establish two classes of voting stock, which enables the employee owners to maintain voting control of the company. The new common stock issued to the public will have one vote per share and the new class A preferred stock issued to Old SAIC stockholders will have 10 votes per share.

Q40. What must I do to get my new class A preferred stock?

A. Your shares of Old SAIC common stock will be converted into the right to receive new class A preferred stock pursuant to the merger.

If you or a trust for your benefit hold your shares directly in a book-entry account, they will be converted automatically and you will receive a statement for the shares of new class A preferred stock you own following the merger. You can confirm that your account is in book-entry form from the first page of your Stock Summary Statement (mailed to you quarterly) or from your online stock summary report (available to employees via our intranet website, ISSAIC).

If you or a trust for your benefit hold your shares directly and they are represented by certificates, we will send you a letter shortly after the merger explaining how you can surrender your certificates and receive your new class A preferred stock. You should not send us your certificates at this time.

If you hold shares in one of our employee benefit plans, the plan will handle conversion of the shares without any action by you.

We expect that the shares of new class A preferred stock issued pursuant to the merger will be uncertificated shares.

Q41. What will happen to our right of first refusal and right to repurchase your stock?

A. When we are a publicly traded company, you will not be required to offer your shares to us before you can sell them to third parties. Since September 1, 2005, we have suspended repurchasing shares upon termination of affiliation pending completion of the merger, except for repurchasing shares of Old SAIC common stock transferred to a charity prior to October 25, 2005.

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Q42. What will happen to the new class A preferred stock that I will own if my affiliation terminates or I retire?

A. Nothing. Currently, your shares are subject to our right of first refusal and right to repurchase if your affiliation as an employee, director or consultant is terminated. Following the merger, we will no longer have these rights. You may continue to hold your shares indefinitely, regardless of your employment status or affiliation with us.

Q43. What if I am no longer affiliated with SAIC and hold shares subject to a special arrangement (e.g., the alumni program, former employee program or other agreement extending Old SAIC s right of repurchase)?

A. Currently, your shares are subject to our right of first refusal and right to repurchase. After the merger, your shares will no longer be subject to these rights. You will be able to continue to hold new class A preferred stock indefinitely.

Transfer Restrictions

Q44. Will I be able to sell or transfer my new class A preferred stock immediately?

A. To facilitate our IPO, New SAIC s restated certificate of incorporation will restrict you from selling or transferring new class A preferred stock to anyone other than permitted transferees for certain periods of time. These restrictions will expire:

- on April 1, 2006 for series A-1 preferred stock
- 180 days after our IPO for series A-2 preferred stock
- 270 days after our IPO for series A-3 preferred stock
- 360 days after our IPO for series A-4 preferred stock

If, during the restriction period, you transfer your new class A preferred stock to a permitted transferee, the transferee will receive the new class A preferred stock subject to the same restrictions. After the expiration of these restriction periods, you also will be able to sell your shares in the public market. If, after the expiration of the applicable restriction period, you transfer your new class A preferred stock to anyone other than a permitted transferee, your shares will convert automatically into new common stock, so that the transferees or buyers will acquire only new common stock.

Q45. Who is a permitted transferee ?

A. Permitted transferees generally include:

- members of your immediate family

- trusts for the sole benefit of you or members of your immediate family
- your estate
- a financial institution to which you pledge your shares as collateral
- New SAIC or any of its subsidiaries

You should read Proposal I The Merger Transfer Restrictions on Shares of New Class A Preferred Stock on page 51 for important details and conditions of transfers to permitted transferees.

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Q46. Why will the sale of my stock be restricted?

A. It is common practice to impose transfer restrictions on existing shares in connection with an IPO. The transfer restrictions will permit some period of trading of the new common stock to take place in the market without the potential introduction of a significant number of additional shares, which could negatively affect the price. These restrictions are intended to promote an orderly trading market for our new common stock for a period following the commencement of trading. We have staggered the expiration of the transfer restrictions so that all existing shares do not become freely tradable at the same time. The first restriction period will end on April 1, 2006 to provide stockholders with some liquidity to pay taxes.

Q47. What additional transfer restrictions apply to our directors and executive officers?

A. In addition to the general transfer restrictions, shares of new class A preferred stock received in connection with the merger by our directors and executive officers, and shares of new common stock received by them on conversion of the new class A preferred stock, may not be sold, transferred or otherwise disposed of unless:

made in conformity with the requirements of Rule 145(d) under the Securities Act of 1933, as amended, or the Securities Act

made pursuant to an effective registration statement under the Securities Act

otherwise exempt from registration under the Securities Act

In addition, in connection with the IPO, our directors and executive officers will enter into lock-up agreements with the underwriters of the IPO. Under these agreements, these directors and executive officers may not, during the period ending 180 days after the IPO, directly or indirectly sell or dispose of their capital stock without the prior written consent of Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc.

The registration statement of which this proxy statement/prospectus is a part does not cover the resale of shares of New SAIC stock to be received by our directors and executive officers pursuant to the merger.

Q48. Will I be permitted to enter into a hedging transaction to avoid the risk of my new class A preferred stock?

A. No. You will be prohibited from buying a put option, selling a call option, selling short or entering into any other hedging or insurance transaction relating to your new class A preferred stock during the applicable restriction periods.

Stock Transactions

Q49. Can I buy or sell shares in the limited market before the completion of the IPO?

A. The last limited market trade prior to the proposed IPO occurred in October 2005. If you have unexpected qualifying financial needs, you may be eligible to sell your directly held shares to us pursuant to our Financial Hardship Policy as described on ISSAIC or available through our General Counsel s office. For our 401(k) plan and certain other retirement plans, there will be a December trade

before the IPO that participants in those plans may offer to buy or sell shares in accordance with the terms of those plans. Old SAIC has the right, but not the obligation, to buy or sell the net balance of shares offered by participants in the retirement plans in this December trade.

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Q50. Will Bull, Inc. continue to maintain a limited market after the IPO?

A. No. Bull, Inc. was established specifically to administer our limited market trades. As such, we anticipate Bull Inc. will cease to operate after October. After the IPO, subject to the restriction periods set forth above, you will be able to sell shares in the public market.

Q51. After the IPO, how can I sell my shares of new class A preferred stock? What will be the price?

A. If you wish to sell your shares of new class A preferred stock after the restriction periods expire, they will be converted into new common stock when you sell them in the public market. You will not have to do anything more to effect the conversion. When you sell, you will receive the prevailing market price for your shares.

Q52. Will I be able to buy more shares in the public market?

A. Yes. You will be able to buy shares of our new common stock in the public market at prevailing prices after the IPO. Because you will buy additional shares only in the public market, you will no longer be required to obtain other approval for stock purchases.

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SUMMARY

This summary highlights information contained elsewhere in this proxy statement/prospectus and may not include all of the information that is important to you. To better understand the transactions, we urge you to read the entire proxy statement/prospectus carefully, including Risk Factors and the other documents that we refer you to.

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 ended September 30.

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 the aggregate representing 86% of our total consolidated revenues in fiscal 2005. According to the Congressional Budget Office, U.S. Government total discretionary outlays in government fiscal 2005 were 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

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.

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.

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New SAIC

We formed 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, and the preparation of the merger agreement, this proxy statement/prospectus, and the registration statement on Form S-1 with respect to the IPO. Upon completion of the merger, Old SAIC will be a wholly-owned subsidiary of New SAIC. At the time of the merger, the then-current directors and executive officers of Old SAIC will become the directors and executive officers of New SAIC.

PROPOSAL I THE MERGER

The first proposal is to approve and adopt an Agreement and Plan of Merger, dated as of November 7, 2005, among Old SAIC, New SAIC and SAIC Merger Sub, Inc., pursuant to which Old SAIC will become a wholly-owned subsidiary of New SAIC, and the Old SAIC common stock will be converted into the right to receive new class A preferred stock. **Our board of directors unanimously determined that the merger agreement and the merger are advisable and in the best interests of SAIC and its stockholders, and recommends that the stockholders vote FOR the approval and adoption of the merger agreement.**

Purposes of the Merger (see page 47)

We are pursuing these transactions because, after a review of our options, we have determined that an IPO will best address our long-term objectives. The merger is a necessary step for us to take in order to effect our IPO. The IPO will provide us with greater financial flexibility to grow our business. We also believe that these transactions enable us to implement our vision and long-term strategy while preserving our core values, and focus on providing an environment where our employees entrepreneurial spirit can flourish.

Our board of directors has carefully studied this question and unanimously believes that creating a publicly traded stock is in the best interests of SAIC and our stockholders and employees.

How the Merger is Structured (see page 48)

The merger has been structured so that Old SAIC will become a wholly-owned subsidiary of New SAIC, and the stockholders of Old SAIC will have the right to receive shares of new class A preferred stock in exchange for their Old SAIC common stock. In order to achieve this result:

Old SAIC has formed a wholly-owned subsidiary (New SAIC) and, strictly for the purpose of facilitating the merger, New SAIC has formed a wholly-owned subsidiary (Merger Sub)

Merger Sub will merge into Old SAIC, at which time the outstanding shares of class A common stock and class B common stock will be converted into the right to receive shares of new class A preferred stock, and Merger Sub will cease to exist

New SAIC will have a new restated certificate of incorporation and restated bylaws.

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The following diagram illustrates the merger process from a stockholder s perspective:

What You Will Be Entitled to Receive Pursuant to the Merger (see page 48)

When the merger occurs:

Each share of outstanding class A common stock and each share of outstanding class B common stock, subject to the exercise of appraisal rights, will be converted into the right to receive shares of new class A preferred stock on the basis set forth below.

The new class A preferred stock you receive will be allocated among four series as illustrated below, with transferability and convertibility of each series being subject to a separate restriction period that expires at the times indicated:

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The Public Offering (see page 49)

Soon after the merger is approved, subject to market conditions, we plan to make a public offering of new common stock.

After the IPO:

- new class A preferred stock will constitute from 80% to 90% of our total outstanding capital stock and substantially all of our voting power

- new common stock will constitute from 10% to 20% of our total outstanding capital stock

The Special Dividend (see page 50)

The board of directors of Old SAIC intends to declare a special dividend that will be paid to the holders of Old SAIC common stock as of the record date set by the board of directors. Payment will be conditioned upon completion of the IPO and it is anticipated that the dividend will be paid within 25 days after the IPO. The special dividend is expected to range from approximately $8 to $10 per share of Old SAIC class A common stock and from approximately $160 to $200 per share of Old SAIC class B common stock, which is the equivalent of a range from approximately $4 to $5 per share of new class A preferred stock. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not exercise their over-allotment option, by up to approximately $250 million.

How We Will Effect the Merger and the Special Dividend (see page 50)

The IPO is conditioned on completion of the merger. If approved, we will effect the merger shortly before the closing of the IPO. In the merger, your shares of class A common stock and class B common stock (excluding shares for which appraisal rights have been exercised) will be converted into the right to receive new class A preferred stock. Prior to the merger, the board of directors of Old SAIC intends to declare a special dividend on Old SAIC common stock. Payment will be conditioned upon completion of the IPO and it is anticipated that the dividend will be paid within 25 days after the IPO.

New SAIC s Restated Certificate of Incorporation (see page 51)

New SAIC s restated certificate of incorporation will be different from our current certificate of incorporation in that it will:

replace the current class A and class B common stock with a single new class A preferred stock that will be entitled to 10 votes per share and is comprised of four series to implement the transfer restrictions

authorize a class of common stock that will have the same economic rights as the new class A preferred stock, but will be entitled to one vote per share

eliminate the requirement that you must offer your shares to us for purchase before you can sell them to third parties

eliminate our right to repurchase your shares on termination of affiliation

add provisions that restrict the transferability of the new class A preferred stock for a period of time

Voting Rights (see page 51)

Holders of new class A preferred stock will be entitled to 10 votes per share on all matters voted upon by our stockholders. Holders of new common stock will have the same economic rights as holders of new class A preferred stock, but will be entitled to one vote per share on all matters voted upon by our stockholders.

Listing (see page 56)

The new class A preferred stock will not be listed on a national securities exchange or traded in the organized over-the-counter market. We have applied for listing of the new common stock on the New York Stock Exchange under the symbol SAI. Listing is subject to fulfilling all applicable listing requirements.

Conditions to the Merger (see page 56)

We will cause the merger to become effective only if certain conditions specified in the merger agreement are satisfied or waived.

Material Federal Income Tax Consequences to Stockholders The Merger (see page 58)

The merger, the conversion of your class A and class B common stock into new class A preferred stock, and the public offering will not be taxable transactions for you for federal income tax purposes.

Material Federal Income Tax Consequences to Stockholders The Special Dividend (see page 59)

The special dividend should constitute a taxable dividend for federal income tax purposes to the extent it is paid from current or accumulated earnings and profits, as determined under federal income principles. Any dividends in excess of earnings and profits may be treated as a nontaxable return of capital or as a gain realized on the sale or disposition of your Old SAIC common stock. However, if the special dividend is treated as additional amount paid for your shares in the merger, it would not be treated as a dividend for federal income tax purposes.

Accounting Treatment (see page 60)

For accounting purposes, the merger will be treated as a recapitalization of Old SAIC with New SAIC as the acquirer (a reverse merger). The accounting basis used to initially record the assets and liabilities in New SAIC will be the carryover basis of Old SAIC.

PROPOSAL II 2006 EQUITY INCENTIVE PLAN

The second proposal is to approve and adopt the 2006 Equity Incentive Plan. The 2006 Equity Incentive Plan provides for the grant of stock options (including incentive stock options, as defined in section 422 of the Internal Revenue Code, and nonstatutory 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. **Our board of directors unanimously determined that the 2006 Equity Incentive Plan is in the best interests of SAIC and its stockholders, and recommends that the stockholders vote FOR the approval and adoption of the 2006 Equity Incentive Plan.**

General (see page 62)

The 2006 Equity Incentive Plan will become effective on the effective date of the merger, subject to stockholder approval. If the 2006 Equity Incentive Plan is not approved by our stockholders or the merger is not consummated, the 1999 Stock Incentive Plan will continue in operation pursuant to its terms.

Old SAIC seeks stockholder approval in order to qualify the 2006 Equity Incentive Plan and certain awards made pursuant to it under the incentive stock option provisions of the Internal Revenue Code and to increase the potential that New SAIC may fully deduct for federal income tax purposes certain compensation that may be paid under the 2006 Equity Incentive Plan in accordance with Section 162(m) of the Internal Revenue Code.

New SAIC stock subject to the 2006 Equity Incentive Plan will either be our new class A preferred stock or new common stock as determined by the committee of our board of directors administering the 2006 Equity Incentive Plan.

The 2006 Equity Incentive Plan provides that an aggregate of up to 75,000,000 shares will be available to be issued pursuant to awards granted under the 2006 Equity Incentive Plan, plus additional shares that may be added to the 2006 Equity Incentive Plan as described below.

The 2006 Equity Incentive Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance under the 2006 Equity Incentive Plan without further stockholder approval 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 5% of New SAIC s outstanding common stock as of the preceding January 31 (measured on an as-converted basis with respect to the outstanding shares of new class A preferred stock), 30,000,000 shares or a number of shares determined by our board of directors or the committee of our board of directors administering the 2006 Equity Incentive Plan.

Administration (see page 62)

The 2006 Equity Incentive Plan will be administered by our board of directors, a committee of our board of directors or a delegated officer in certain circumstances.

Eligibility (see page 63)

Nonstatutory stock options, stock awards and cash awards may be granted to employees, directors (including non-employee directors) and consultants of New SAIC, Old SAIC or other affiliates of New SAIC. Incentive stock options may be granted only to employees of New SAIC or its affiliates.

Federal Income Tax Consequences of Awards (see page 66)

See Proposal II 2006 Equity Incentive Plan Federal Income Tax Consequences of Awards for a description of the tax consequences of awards granted under the 2006 Equity Incentive Plan.

Accounting Treatment (see page 68)

Based on guidance currently available from the Financial Accounting Standards Board, it is anticipated that upon the adoption of Statement of Financial Accounting Standards No. 123(R) on February 1, 2006, New SAIC will be required to recognize compensation expense in an amount equal to the fair value on the date of grant of all stock options granted under the 2006 Equity Incentive Plan. In addition, New SAIC will be required to recognize compensation expense for other awards granted under the 2006 Equity Incentive Plan. In general, the expense associated with each award will be recognized over the requisite employee service period, generally the vesting period.

PROPOSAL III 2006 EMPLOYEE STOCK PURCHASE PLAN

The third proposal is to approve and adopt the 2006 Employee Stock Purchase Plan. The 2006 Employee Stock Purchase Plan provides employees of New SAIC (and Old SAIC and any of our other majority-owned subsidiaries designated by our board of directors) with an opportunity to purchase our new class A preferred stock or new common stock as determined by the compensation committee of our board of directors through accumulated payroll deductions at a discounted purchase price. **Our board of directors unanimously determined that the 2006 Employee Stock Purchase Plan is in the best interests of SAIC and its stockholders, and recommends that the stockholders vote FOR the approval and adoption of the 2006 Employee Stock Purchase Plan.**

General (see page 69)

The 2006 Employee Stock Purchase Plan will become effective on March 1, 2006, subject to stockholder approval and the consummation of the merger. Old SAIC seeks stockholder approval of the 2006 Employee Stock Purchase Plan to qualify the 2006 Employee Stock Purchase Plan and the right of participants to purchase shares under Section 423 of the Internal Revenue Code. In addition, the 2006 Employee Stock Purchase Plan authorizes the purchase of shares under a non-Section 423 qualified component of the plan by employees of international subsidiaries in situations where a qualified plan creates adverse tax consequences in a particular jurisdiction. If the 2006 Employee Stock Purchase Plan is not approved by our stockholders or the merger is not consummated, the 2004 Employee Stock Purchase Plan will continue in operation pursuant to its terms.

The 2006 Employee Stock Purchase Plan provides that an aggregate of up to 9,000,000 shares will be available for issuance, plus additional shares that may be added as described below.

The 2006 Employee Stock Purchase Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance without further stockholder approval 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 9,000,000 shares, 2% of outstanding new common stock on the last day of the immediately preceding fiscal year (measured on an as-converted basis with respect to the outstanding shares of new class A preferred stock) or a number of shares established by the compensation committee of our board of directors.

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Administration (see page 69)

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

Eligibility (see page 69)

Generally, any person who is employed by New SAIC, Old SAIC or any of New SAIC s majority-owned subsidiaries designated by our board of directors is eligible to participate, 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 Internal Revenue Code.

Participation (see page 70)

Eligible employees may participate by completing a subscription agreement in the form provided by New SAIC and filing it with New SAIC prior to the first business day of the applicable offering period or such other date as specified by the compensation committee.

Offering Periods (see page 70)

Unless and until the compensation committee determines to implement longer periods and 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 and will have only one purchase period which will run simultaneously with the offering period. The first offering period will commence on March 1, 2006 and will end on June 30, 2006.

Purchase Price (see page 70)

The purchase price per share at which shares are purchased under the 2006 Employee Stock Purchase Plan is 85% of the fair market value of the stock on the applicable purchase date. The compensation committee has the authority to change the purchase price within a range of 85% to 100% of the fair market value of the stock on the offering date or the purchase date. If our new common stock is listed on a stock exchange, the fair market value of the stock subject to the 2006 Employee Stock Purchase Plan will be the closing sales price of our new common stock.

Payment of Purchase Price; Payroll Deductions (see page 70)

The purchase price of the shares is paid with payroll deductions accumulated during the applicable offering period. The deductions are made as a percentage of the participant s compensation in 1% increments, not less than 1% nor greater than 10%. If payroll deductions are not permitted in a jurisdiction, participants in that jurisdiction may contribute via check or pursuant to another method approved by the compensation committee of our board of directors. A participant may discontinue his or her participation in the 2006 Employee Stock Purchase Plan at any time during an offering period prior to a purchase date and may increase or decrease the rate of the participant s payroll deductions once during an ongoing offering period by completing and filing a new subscription agreement. No interest accrues on the payroll deductions of a participant.

Holding Period (see page 71)

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

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Withdrawal (see page 72)

A participant may withdraw from an offering period by signing and delivering to New SAIC a notice of withdrawal from the 2006 Employee Stock Purchase Plan at any time prior to the end of the offering period.

Any withdrawal by the participant of accumulated payroll deductions for a given offering period automatically terminates the participant s interest in that offering period. All of the participant s contributions credited to the participant s account will be paid to the participant without interest. A participant s withdrawal from an offering period does not have an effect upon the participant s eligibility to participate in subsequent offering periods. However, a participant may not re-enroll in the same offering period after withdrawal.

Federal Income Tax Consequences (see page 73)

See Proposal III 2006 Employee Stock Purchase Plan Federal Income Tax Consequences for a description of the tax consequences of options granted under the 2006 Employee Stock Purchase Plan.

Accounting Treatment (see page 74)

We expect that upon the adoption of Statement of Financial Accounting Standards No. 123(R) on February 1, 2006, we will be required to record compensation expense for financial statement purposes in connection with the rights to purchase our stock granted to employees under the 2006 Employee Stock Purchase Plan. However, in certain cases where the purchase price is greater than 95% of the fair market value of the stock subject to the 2006 Employee Stock Purchase Plan, there would be no compensation expense under Statement of Financial Accounting Standards No. 123(R).

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THE SPECIAL MEETING

Date and Time	December , 2005, at 10:00 a.m.
Location	SAIC Conference Center, 1710 SAIC Drive, McLean, Virginia.
Meeting Videocast	For the convenience of our stockholders, the meeting will be videocast to Conference Room 2040 in Building D of our offices at 10260 Campus Point Drive, San Diego, California and at other locations, and will be webcast on our website (www.saic.com) and on ISSAIC.
Record Date	November 4, 2005.
Shares Entitled to Vote	Only stockholders of record as of the close of business on the record date will be entitled to vote at the special meeting.
Quorum	The presence at the meeting, either in person or by proxy, of the holders of a majority of the total voting power of the shares of Old SAIC common stock outstanding on the record date is necessary to constitute a quorum and to conduct business at the special meeting.
Votes Required	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, and a majority in voting power of the issued and outstanding shares of Old SAIC common stock present in person or by proxy at the special meeting and entitled to vote thereon is required for approval of each of Proposal II and Proposal III.
Revocability of Proxies and Voting in Person	Record holders may revoke or change their proxy at any time until 11:59 P.M. Eastern Time on December , 2005 by: submitting another proxy with a later date, or by sending a written notice of revocation to our Secretary at our principal executive offices. If a record holder attends the special meeting and votes by ballot, any proxy that such record holder submitted previously to vote the same shares will be revoked automatically and only the vote at the special meeting will be counted. You must attend the special meeting at the SAIC Conference Center in McLean, Virginia in order to be entitled to vote in person.
Confidentiality of Voting	The manner in which record holders vote their shares will be maintained in confidence, and we will not have access to individual voting directions of plan participants.
Recommendation of the Board of Directors	The board of directors of Old SAIC unanimously recommends that stockholders vote **FOR** approval and adoption of the merger agreement, **FOR** approval and adoption of the 2006 Equity Incentive Plan and **FOR** approval and adoption of the 2006 Employee Stock Purchase Plan.

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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 proxy statement/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 proxy statement/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 proxy statement/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 proxy statement/prospectus. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

The pro forma earnings per share and the pro forma preferred equivalent shares reflect the change in our capital structure of converting each share of class A common stock into two shares of new class A preferred stock and each share of class B common stock into 40 shares of new class A preferred stock. The payment of the special dividend will have a dilutive effect on basic and diluted earnings per share and the preferred equivalent shares used in this calculation. This dilutive effect of the payment of the special dividend has not been reflected in the pro forma earnings per share calculation as the final dividend has not been declared and the offering price of the new common stock has not been determined. If the IPO is completed, we will utilize a two-class method for computing earnings per share for the new common stock and the new class A preferred stock.

	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

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	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
	(in millions, except per share data)				
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

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
Pro forma earnings per share:					
Basic: (2)					
Income from continuing operations	$ .75	$ .61	$ .27	$ .40	$ .32
Discontinued operations, net of tax	$ .37	$ .34	$ .39	$ 1.53	$ .14
	$ 1.12	$ .95	$ .66	$ 1.93	$ .46
Diluted: (2)(3)					
Income from continuing operations	$ .73	$ .59	$ .26	$ .36	$ .31
Discontinued operations, net of tax	$ .36	$ .34	$ .38	$ 1.49	$ .14
	$ 1.09	$ .93	$ .64	$ 1.88	$ .45
Pro forma preferred equivalent shares:					
Basic (2)	365	370	392	354	368
Diluted (2)(3)	375	377	406	363	379

	As of July 31, 2005
	(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

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	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) For the periods noted, the pro forma basic and diluted earnings per share and pro forma basic and diluted preferred equivalent shares reflect the conversion of each share of class A common stock outstanding into two shares of new class A preferred stock and each share of class B common stock outstanding into 40 shares of new class A preferred stock. The pro forma basic and diluted earnings per share and pro forma preferred equivalent shares do not reflect the dilutive effect of the payment of the special dividend as the final dividend has not been declared and the offering price of the new common stock has not been determined.

(3) The pro forma diluted earnings per share and pro forma diluted preferred equivalent shares include the effect of converting the dilutive securities on the same basis as the class A common stock. The pro forma dilutive preferred stock equivalents are comprised of preferred stock options and other preferred stock awards granted to employees under stock-based compensation plans that were outstanding during the periods noted.

(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.

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

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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.

RISK FACTORS

Risks Relating to the Transactions and Our Stock

The new class A preferred stock that you receive initially will be illiquid.

The new class A preferred stock that you receive as a result of the merger will not be listed on a national securities exchange or traded in an organized over-the-counter market. In addition, the terms and conditions of New SAIC s restated certificate of incorporation will further restrict the transferability of your new class A preferred stock, which will be allocated among the four series. Under these provisions:

- series A-1 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until April 1, 2006
- series A-2 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until 180 days after our IPO
- series A-3 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until 270 days after our IPO
- series A-4 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until 360 days after our IPO

You also will be prohibited from buying a put option, selling a call option, short selling or entering into any other hedging or insurance transaction relating to your new class A preferred stock during these restriction periods.

Because shares of new common stock will be publicly traded following completion of the IPO and new class A preferred stock will be convertible into new common stock as the applicable restriction periods lapse, we will discontinue the limited market, wind up the operations of Bull, Inc. and terminate the share repurchase program.

Our new common stock has not been publicly traded, and the price of our new 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 common stock prior to the IPO. Because the IPO price for new common stock will be determined by negotiations between the underwriters and us, there will not necessarily be any correlation between the historical prices for Old SAIC common stock and the IPO price for new common stock. We cannot predict the extent to which a trading market will develop for new common stock or how liquid that market might become.

Broad market and industry factors may adversely affect the market price of our new 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

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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

the relatively small percentage of our stock that will be held by non-employees following the IPO

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

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

Before the merger, the board of directors of Old SAIC intends to declare a special dividend that will be paid to the holders of Old SAIC common stock as of the record date set by the board of directors. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not exercise their over-allotment option, by up to approximately $250 million. As a result of the payment of the special 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 Old SAIC common stock, we do not intend to pay dividends on our capital stock.

Old SAIC has never declared or paid any cash dividend on its 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 intends to retain any future earnings to finance our operations and growth.

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 new 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

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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 new common stock.

Future sales of substantial amounts of our new 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 new common stock or the availability of shares for sale will have on the market price prevailing from time to time. Although the shares of new 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 new 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.

The number of shares of new common stock to be sold in the IPO has not been determined, but it is expected to range from 10% to 20% of the total outstanding capital stock of New SAIC after the IPO. These shares will be freely transferable without restriction or further registration under the Securities Act. In addition, based on the number of shares of class A and class B common stock of Old SAIC outstanding at July 31, 2005, approximately 355,000,000 shares of new class A preferred stock are expected to be outstanding as a result of the merger. The holders of our new class A preferred stock 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 expire, shares of new class A preferred stock will be convertible on a one-for-one basis into shares of new common stock. A significant number of holders of our new class A preferred stock may convert their shares to take advantage of the public market in new common stock. Subject to certain limitations, those shares of new common stock will be freely tradable without restriction following the expiration of the transfer restriction periods. In addition to outstanding shares eligible for sale, additional shares of our new class A preferred stock will be issuable upon completion of the IPO under currently outstanding stock options. Substantial sales of these shares could adversely affect the market value of the new common stock.

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

Some provisions of our restated certificate of incorporation and restated 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 restated certificate of incorporation provides for new 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 restated certificate of incorporation provides that our restated bylaws and certain provisions of our restated 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 restated certificate of incorporation and restated bylaws, which could delay, discourage or prevent a merger, acquisition or business combination that our stockholders may consider favorable.

Our restated 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.

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 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.

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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 historical 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 revenue 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

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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. 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. Such changes in spending authorizations and budgetary priorities could occur due to the significant relief and recovery costs associated with Hurricanes Katrina, Rita and Wilma, the rapid growth of the federal budget deficit, increasing political pressure to reduce overall levels of government spending, or other factors. The U.S. Government is also conducting a strategic review of the U.S. defense budget in the 2006 government fiscal year, known as the Quadrennial Defense Review (QDR), and this strategic review may result in significant shifts in DoD budgetary priorities or reductions in overall U.S. Government spending for defense-related programs, including with respect to programs from which we expect to derive a significant portion of our revenues. 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, or the substantial reduction or elimination of particular defense-related programs, would adversely affect our future revenues and limit our growth prospects.

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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
- 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 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.

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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:

- 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
- 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 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.

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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 proxy statement/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.

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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 contamination. Although we have not incurred any material costs related to environmental matters 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
- 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 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

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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 generated by SAIC entities outside of the United States. 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
- 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
- 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.

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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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FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus, including the sections entitled Questions and Answers, Summary, Risk Factors, Forward-Looking Statements, Proposal I The Merger, 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. These statements relate to the proposed merger, initial public offering and special dividend, as well as to future events or our future financial performance, and involve 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:

- 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

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 proxy statement/prospectus, including under the heading Risk Factors. We do not intend to update any of the forward-looking statements after the date of this proxy statement/prospectus or to conform these statements to actual results.

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THE SPECIAL MEETING, VOTING AND PROXIES

Date, Time and Place

The special meeting will be held at the SAIC Conference Center, 1710 SAIC Drive, McLean, Virginia, on December , 2005, at 10:00 a.m. For the convenience of our stockholders, the meeting will be videocast to Conference Room 2040 in Building D of our offices at 10260 Campus Point Drive, San Diego, California and at other locations, and will be webcast on our website (www.saic.com) and on ISSAIC.

Purpose of the Special Meeting

At the special meeting, the stockholders of Old SAIC are being asked to consider and vote upon: (1) an Agreement and Plan of Merger, dated as of November 7, 2005, among Old SAIC, New SAIC and SAIC Merger Sub, Inc., pursuant to which Old SAIC will become a wholly owned subsidiary of New SAIC, and each outstanding share of class A common stock will be converted into the right to receive two shares of new class A preferred stock and each outstanding share of class B common stock will be, subject to the exercise of appraisal rights, converted into the right to receive 40 shares of new class A preferred stock; (2) the 2006 Equity Incentive Plan; and (3) the 2006 Employee Stock Purchase Plan.

Our board of directors has unanimously determined that the merger agreement and the approval and adoption of the 2006 Equity Incentive Plan and the 2006 Employee Stock Purchase Plan are advisable and in the best interests of our stockholders and, unanimously recommends that you vote **FOR** each of these proposals.

Votes Required to Approve the Proposals

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, and a majority in voting power of the issued and outstanding shares of Old SAIC common stock present in person or by proxy at the special meeting and entitled to vote thereon is required for approval of each of Proposal II and Proposal III.

Record Date and Shares Outstanding

Stockholders of record of class A common stock and class B common stock as of the close of business on November 4, 2005, the record date, are entitled to notice of, and to vote at, the special meeting.

As of the record date, Old SAIC had 171,488,844 shares of class A common stock and 209,787 shares of class B common stock outstanding. Old SAIC has no other class of capital stock outstanding. The Old SAIC class A common stock and the class B common stock vote together as a single class on all proposals.

Quorum and Abstentions

The presence at the meeting, either in person or by proxy, of the holders of a majority of the total voting power of the shares of Old SAIC common stock outstanding on the record date is necessary to constitute a quorum and to conduct business at the special meeting. Abstentions will be counted for the purpose of determining whether a quorum is present for the transaction of business, but will not be counted for approval of a proposal. As a result, abstentions will have the effect of a vote against a proposal. All votes will be tabulated by the inspector of election appointed for the special meeting, who will separately tabulate affirmative and negative votes and abstentions.

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Votes Per Share

Each holder of class A common stock will be entitled to one vote per share and each holder of class B common stock will be entitled to 20 votes per share, in person or by proxy, for each share of Old SAIC common stock held in such stockholder s name as of the record date on any matter submitted to a vote of stockholders at the special meeting.

Methods for Voting Proxies

To ensure that your vote is recorded promptly, please submit your proxy as soon as possible and no later than 11:59 P.M. Eastern Time on December , 2005, even if you plan to attend the special meeting in person. Most stockholders have three options for submitting their proxy: (1) by the Internet by following the instructions at www.proxyvote.com, (2) by telephone by calling 1-800-690-6903 and following the instructions or (3) by mail by signing and returning the paper proxy and voting instruction card in the enclosed postage-paid envelope. If you have Internet access, we encourage you to record your proxy vote on the Internet. It is convenient, and it saves us significant postage and processing costs.

Regardless of the method used to submit your proxy, your shares will be voted at the special meeting as you direct. If you sign and return your proxy card (or submit a proxy via the Internet or by telephone) without providing voting directions, your shares will be voted in favor of each of the proposals. The persons appointed as proxies to vote at the special meeting may vote or act in accordance with their judgment on any other matters properly presented for action at the special meeting and at any adjournments, postponements or continuations of the meeting.

Revocation of Proxies and Voting in Person

You may revoke or change your proxy at any time until 11:59 P.M. Eastern Time on December , 2005 by submitting another proxy with a later date, or by sending a written notice of revocation to our Secretary at our principal executive offices. If you attend the special meeting and vote by ballot, any proxy that you submitted previously to vote the same shares will be revoked automatically and only your vote at the special meeting will be counted. You must attend the special meeting at the SAIC Conference Center in McLean, Virginia in order to be entitled to vote in person.

Voting of Shares Held by the SAIC Retirement Plans

Each participant in the Employee Stock Retirement Plan and the 401(k) Profit Sharing Plan of SAIC, the Telcordia Technologies 401(k) Savings Plan of Telcordia Technologies, Inc., a wholly-owned subsidiary of SAIC until its sale on March 15, 2005, and the AMSEC Employees 401(k) Profit Sharing Plan of AMSEC LLC, a joint venture in which SAIC owns 55%, has the right to instruct Vanguard Fiduciary Trust Company, as trustee, on a confidential basis how to vote his or her proportionate interests in all allocated shares of common stock held in the plans. The trustee will vote all allocated shares held in the plans as to which no voting instructions are received, together with all unallocated shares held in the plans, in the same proportion, on a plan-by-plan basis, as the allocated shares for which voting instructions have been received. The trustee s duties with respect to voting the common stock in the plans are governed by the fiduciary provisions of the Employee Retirement Income Security Act of 1974, as amended.

Voting of Shares Held by the SAIC Stock Plans

Under the terms of SAIC s Stock Compensation Plan, Management Stock Compensation Plan and Key Executive Stock Deferral Plan, Wachovia Bank, N.A., as trustee, has the power to vote the shares of class A common stock held on behalf of participants of the plans. Wachovia will vote all such shares of class A common stock in the same proportion that the other stockholders of SAIC vote their shares of common stock.

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Confidentiality of Voting

The manner in which record holders vote their shares will be maintained in confidence, and we will not have access to individual voting directions of plan participants.

Solicitation

We will bear the entire cost of this solicitation of proxies, including the preparation, assembly, printing, and mailing of this proxy statement/prospectus, the proxy, and any additional solicitation materials furnished to stockholders by us. Certain of our directors, officers and other employees, without commission or other remuneration, may also solicit proxies personally or in writing, by telephone, e-mail or otherwise.

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PROPOSAL I THE MERGER

Purposes of the Merger

Our stockholders and employees were informed in June 2005 that our board of directors was conducting a review of strategic alternatives that included selling stock to the public in an IPO, seeking private equity capital, issuing additional long-term debt and exploring various means of increasing employee purchases of our common stock. After completing this review, the board determined that an IPO would best address our long-term objectives. The other alternatives were rejected for a variety of reasons, including that they did not solve the imbalance in the stock system, involved higher financing costs or represented only a temporary solution to our capital structure issues.

Our board of directors unanimously believes that creating a publicly traded stock is in the best interests of SAIC and our stockholders and employees. An IPO will provide us with greater financial flexibility to grow our business. We also believe that the IPO and new capital structure created by the merger will enable us to implement our vision and long-term strategy while preserving our core values, and focus on providing an environment where our employees entrepreneurial spirit can flourish. Specifically, we believe the IPO is the preferred alternative because it will:

- Enable us to use our cash and cash flows generated from operations to fund organic growth and growth through acquisitions. Although we had no legal obligation to do so over the past five years, we have used more than $2.5 billion of cash to provide liquidity to our stockholders by purchasing shares in our limited secondary market and in other transactions. We have maintained excess cash to address this ongoing imbalance in our stock system caused by an excess of shares sold by selling stockholders as compared to the number of shares purchased by buyers other than us. We expect that this significant stock system imbalance, and the related need to maintain excess cash, would have continued for the foreseeable future without the IPO. Creating a public market for our common stock will eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market or in other transactions.

- Provide us with the ability to use our publicly-traded common stock to pursue stock-based acquisitions that otherwise might not be available to us. We intend to continue our disciplined approach to internal investments and acquisitions that support our strategic growth plans.

Our company was founded on the belief that those who contribute to our success should own the company and benefit from that success. The transfer restrictions on the Old SAIC common stock have ensured that we remained owned and controlled by our current and former employees and their families. We have been able to provide limited liquidity by offering to purchase shares on a quarterly basis at prices set by our board of directors. This dedication to employee ownership has served us well over the years.

Our customers require us to make significant financial investments in our business. Our cash position is strong, but our stock system has consumed substantial amounts of our cash because of a significant imbalance between the number of shares sold and purchased by buyers other than the company. If we do nothing, this imbalance is expected to continue and consume a substantial portion of the cash generated by our business. If this happens, we will not be able to make the investments in our business we believe are necessary to be successful. Our board of directors and management believe that using our cash to grow the business and take advantage of business opportunities as they are presented is preferable.

Our board of directors and management firmly believe that maintaining employee ownership and control over our business is an important part of our culture and should not be sacrificed. We also believe that we and

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many of our stockholders would benefit from the greater liquidity provided by a publicly traded equity security. Therefore, the merger and new capital structure have been designed to maintain our culture of employee ownership and control, while simultaneously gaining access to the public equity market.

We hope to accomplish these goals by concentrating our equity ownership and voting power in our new class A preferred stock, and offering to the public our new common stock, which has the same economic rights but has less voting power and represents less of our total equity than the new class A preferred stock. Our new class A preferred stock will only be issued to our current stockholders in the merger and, after the merger, our new class A preferred stock or new common stock will be issued to our employees through our retirement and equity plans. At the same time, our new common stock will be publicly traded, providing us with a market pricing mechanism for our stock and an equity security that we can use when appropriate for strategic alliances and acquisitions in the future.

How the Merger is Structured

The merger is structured so as to provide greater flexibility in dealing with our diverse operations, and to authorize two classes of stock, one of which will be held by our existing stockholders and the other of which will be offered to the public in connection with the IPO. The stockholders of Old SAIC will have the right to receive shares of new class A preferred stock in exchange for their Old SAIC common stock. To achieve this structure:

- Old SAIC has formed a wholly-owned subsidiary (New SAIC) and, strictly for the purpose of facilitating the merger, New SAIC has formed a wholly-owned subsidiary (Merger Sub).

- Merger Sub will merge into Old SAIC, at which time the outstanding shares of class A common stock and class B common stock will be converted into the right to receive shares of new class A preferred stock, and Merger Sub will cease to exist.

The result will be that our current company, Old SAIC, will become a subsidiary of New SAIC, and you will own new class A preferred stock instead of Old SAIC common stock.

A copy of the merger agreement is included as Annex A to this proxy statement/prospectus.

What You Will Be Entitled to Receive Pursuant to the Merger

When the merger occurs:

- Each share of our outstanding class A common stock will be converted into the right to receive two shares of new class A preferred stock, and each share of our outstanding class B common stock, subject to the exercise of appraisal rights, will be converted into the right to receive 40 shares of new class A preferred stock.

All of the class A and class B common stock you currently own will be converted into and allocated among four series of new 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
- 30 percent will be designated series A-4 preferred stock

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Any fractional share interests resulting from the initial allocation (e.g., 10% shares of series A-1, 30% shares of series A-2, 30% shares of series A-3 and 30% shares of series A-4 preferred stock) will be aggregated and allocated to a series of class A preferred stock on the following basis. If the total number of fractional shares aggregated is one, you will receive one share of series A-1 preferred stock. If the total number of fractional shares aggregated is two, you will receive one share of series A-1 preferred stock and one share of series A-2 preferred stock. If the total number of fractional shares aggregated is three, you will receive one share of series A-1 preferred stock, one share of series A-2 preferred stock and one share of series A-3 preferred stock.

For example, a stockholder holding 1,000 shares of class A common stock will be entitled to receive the following shares of new class A preferred stock in the merger:

200 shares of series A-1 preferred stock

600 shares of series A-2 preferred stock

600 shares of series A-3 preferred stock

600 shares of series A-4 preferred stock

A stockholder holding 1,000 shares of class B common stock will be entitled to receive the following shares of new class A preferred stock in the merger:

4,000 shares of series A-1 preferred stock

12,000 shares of series A-2 preferred stock

12,000 shares of series A-3 preferred stock

12,000 shares of series A-4 preferred stock

While the conversion will be on a per share basis, the allocation of the new class A preferred stock among the four series will be completed on an account-by-account basis. For example, if shares of Old SAIC common stock are held both individually and in a revocable trust, the new class A preferred stock will be separately allocated among the four series separately for each account. Moreover, all shares of new class A preferred stock that are issued to a single account will be aggregated and allocated among the four series, even if the shares of Old SAIC common stock that were held in that account were acquired at different times or in a different manner (e.g. an option exercise).

Except for the transfer restrictions that we describe below, each share of new class A preferred stock will be identical.

The Public Offering

After the merger is approved, subject to market conditions, we plan to conduct a public offering of new common stock. The board will proceed with the IPO at a time when it believes that the offering is likely to be well received in the marketplace.

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In the IPO, we expect to sell a number of shares that will be sufficient to create a satisfactory trading market in our new common stock. After the IPO:

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

We do not expect to determine the IPO price for the new common stock until early calendar 2006. The IPO price of these shares will be determined in our negotiations with the representatives of the underwriters, Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. In determining the IPO price, we and the underwriters expect to consider a number of factors in addition to prevailing market conditions, including:

- the history of and prospects for our industry and for professional and technical services companies generally
- an assessment of our management
- our current operations
- our historical results of operations
- the trend of our revenues and earnings
- our earnings prospects

The Special Dividend

The board of directors of Old SAIC intends to declare a special dividend that will be paid to the holders of Old SAIC common stock as of the record date set by the board of directors. Payment will be conditioned upon completion of the IPO and it is anticipated that the dividend will be paid within 25 days after the IPO. The special dividend is expected to range from approximately $8 to $10 per share of Old SAIC class A common stock and from approximately $160 to $200 per share of Old SAIC class B common stock, which is the equivalent of a range from approximately $4 to $5 per share of new class A preferred stock. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not exercise their over-allotment option, by up to approximately $250 million.

How We Will Effect the Merger and the Special Dividend

The IPO is conditioned on completion of the merger. If approved, we will effect the merger shortly before the closing of the IPO. At that time, we will file a certificate of merger with the Secretary of State of the State of Delaware. We currently expect that this will occur in early calendar 2006.

The board of directors of Old SAIC intends to declare a special dividend that will be paid to the holders of Old SAIC common stock and payment of the special dividend will be contingent upon, and will be made within 25 days after, the IPO.

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New SAIC s Restated Certificate of Incorporation

New SAIC s restated certificate of incorporation will:

- replace the current class A and class B common stock with a single new class A preferred stock that will be entitled to 10 votes per share and is comprised of four series to implement the transfer restrictions described below
- authorize a new common stock that will have the same economic rights as the new class A preferred stock, but will be entitled to one vote per share
- eliminate the requirement that you must offer your shares to us for purchase before you can sell them to third parties
- eliminate our right to repurchase your shares on termination of affiliation
- add provisions that restrict the transferability of the new class A preferred stock for a period of time

There are additional changes in New SAIC s restated certificate of incorporation. You should read Description of Capital Stock, Certificate of Incorporation and Bylaws and New SAIC s form of restated certificate of incorporation, which is included as Annex B to this proxy statement/prospectus.

Voting Rights

Holders of new class A preferred stock will be entitled to 10 votes per share on all matters voted upon by our stockholders. Holders of new common stock will have the same economic rights as holders of new class A preferred stock, but will be entitled to one vote per share on all matters voted upon by our stockholders.

Transfer Restrictions on Shares of New Class A Preferred Stock

You will not be able to sell or transfer shares of new class A preferred stock to anyone other than a permitted transferee, or convert shares of new class A preferred stock into new common stock, until the relevant restriction period expires. This restriction period will expire:

- on April 1, 2006 for shares of series A-1 preferred stock
- 180 days after our IPO for shares of series A-2 preferred stock

270 days after our IPO for shares of series A-3 preferred stock

360 days after our IPO for shares of series A-4 preferred stock

You also will be prohibited from buying a put option, selling a call option or entering into any other hedging or insurance transaction relating to your new class A preferred stock during these restriction periods.

Subject to restrictions on persons deemed to be our affiliates, you will be able to transfer shares of new class A preferred stock freely after the applicable restriction period expires. Management thinks that it is important for our employees to have a significant investment in our stock in order to be truly motivated to strive for our continued success and expects employees will maintain investments in the company until retirement.

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During the restriction periods for any shares of new class A preferred stock, transfers will only be allowed to someone who is a permitted transferee. If, during the restriction period, you transfer any shares of new class A preferred stock to a permitted transferee, the transferee will receive the new class A preferred subject to the same restrictions. If you transfer any shares of new class A preferred stock to someone who is not a permitted transferee after the applicable restriction period expires, those shares automatically will convert into shares of new common stock.

A permitted transferee includes:

- an immediate family member of the transferor
- a trust for the sole benefit of the transferor or an immediate family member of the transferor, and the transferor if the transferor receives shares of new class A preferred stock back from any such trust
- an individual retirement account that receives shares of new class A preferred stock, provided that (1) the transferor is an employee benefit plan sponsored by New SAIC or any of its subsidiaries, (2) the transferor is a distributee of an employee benefit plan sponsored by New SAIC or any of its subsidiaries, or (3) the transferor is an individual retirement account for the benefit of a distributee of an employee benefit plan sponsored by New SAIC or any of its subsidiaries
- the beneficial owner of an individual retirement account, provided that the transferor is such individual retirement account
- the estate of a deceased holder of shares, provided that such transfer was pursuant to the deceased holder s will or the laws of distribution
- the beneficiary of an estate of a deceased holder of shares, provided that the transferor is such estate and such beneficiary is the immediate family member of the deceased or a trust for the sole benefit of such immediate family member
- an employee benefit plan sponsored by New SAIC or any of its subsidiaries
- a lending institution in connection with a pledge of shares and such shares are pledged as bona fide collateral for a loan to the transferor
- New SAIC or any of its subsidiaries
- any distributee of an employee benefit plan sponsored by New SAIC or any of its subsidiaries pursuant to the terms of such plan, provided that the transferor is such employee benefit plan
- an employee of New SAIC or any of its subsidiaries, provided that the transferor is New SAIC or any of its subsidiaries

Interests of Our Directors and Executive Officers in the Merger

In considering our board of directors recommendation that you vote for the adoption and approval of the merger agreement, you should be aware that our directors and executive officers may have interests in the merger that are different from, or in addition to, the interests of the other stockholders of Old SAIC. Our board of directors was aware of these interests and considered them, among other things, in making its recommendation.

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Directors and Executive Officers of New SAIC

As a condition to the closing of the merger, the directors and executive officers of Old SAIC immediately before the merger will become the directors and executive officers of New SAIC. New SAIC has not paid its directors or executive officers for their service since its formation, and has not entered into any employment, severance or other agreements with its executive officers. We anticipate, however, that New SAIC s compensation policies will be substantially similar to Old SAIC s compensation policies. See Management Director Compensation for information related to the compensation of the directors and Executive Compensation for information related to the compensation of, and agreements with, the executive officers of Old SAIC.

Stock, Options and Employee Benefits

Our directors and executive officers will be entitled to receive shares of new class A preferred stock as a result of the merger and participate in the special dividend based on their respective Old SAIC common stock and option holdings on the same terms and conditions as the other stock and option holders of Old SAIC.

Assuming that the IPO is completed, we estimate that the following amounts will be paid to the directors and named executive officers of Old SAIC as part of the special dividend:

Name	Estimated Range of Dividend(1)(2)
D.P. Andrews	$3,253,024 - $4,066,280
K.C. Dahlberg	$1,059,600 - $1,324,500
T.E. Darcy	$1,361,280 - $1,701,600
W.H. Demisch	$1,060,072 - $1,325,090
J.A. Drummond	$30,880 - $38,600
D.H. Foley	$1,295,304 - $1,619,130
J.J. Hamre	$8,000 - $10,000
A.K. Jones	$469,792 - $587,240
H.M.J. Kraemer, Jr.	$572,488 - $715,610
C.B. Malone	$884,944 - $1,106,180
W.A. Roper, Jr.	$2,117,600 - $2,647,000
E.J. Sanderson, Jr.	$74,376 - $92,970
J.P. Walkush	$2,159,640 - $2,699,550
J.H. Warner, Jr.	$2,796,904 - $3,496,130
A.T. Young	$415,368 - $519,210

(1) The estimated range of dividend assumes that the board of directors of Old SAIC declares a special cash dividend payable to holders of record of Old SAIC common stock prior to the merger, and that the special dividend ranges from approximately $8 to $10 per share of Old SAIC class A common stock and approximately $160 to $200 per share of Old SAIC class B common stock.

(2) The estimated dividend is based on beneficial ownership of Old SAIC common stock as of October 26, 2005, and assumes that shares subject to options exercisable within 60 days following October 26, 2005 will be exercised on or before the record date for the special dividend.

For more information, see Principal Stockholders concerning the beneficial ownership of shares of class A common stock as of October 26, 2005 by each of our directors and named executive officers, and Executive Compensation concerning to the compensation of, and arrangements

with, our named executive officers.

The merger will not impact any unvested equity awards held by members of our board of directors and executive officers. In addition to their current stock and option holdings under the compensation plans of Old

SAIC, our directors and executive officers will be entitled to participate in the 2006 Equity Incentive Plan and the 2006 Employee Stock Purchase Plan, if they are approved by our stockholders, and any other benefit and compensation plans of New SAIC.

Indemnification and Insurance

Old SAIC has entered into, and New SAIC intends to assume, indemnification agreements with each of its directors, executive officers and board appointed officers. See Management Indemnification of Directors and Officers. In addition, New SAIC intends to maintain directors and officers liability insurance for its directors and executive officers similar to that of Old SAIC.

Appraisal Rights

Stockholders who hold class A common stock do not have appraisal rights in connection with the merger. Under Section 262 of the DGCL, record holders of shares of class B common stock who do not vote in favor of the adoption of the merger agreement but who properly demand appraisal of their shares will be entitled to appraisal rights as a result of the merger.

The following summary of the provisions of Section 262 of the DGCL is not a complete statement of the provisions of that section and is qualified in its entirety by reference to the full text of Section 262 of the DGCL, a copy of which is attached to this proxy statement/prospectus as Annex E and is incorporated into this summary by reference.

Under Section 262, Old SAIC is required to notify each Old SAIC stockholder entitled to appraisal rights that appraisal rights are available at least 20 days before the meeting of stockholders. **This proxy statement/prospectus constitutes notice to holders of class B common stock of their right to exercise appraisal rights.**

Failure to comply with the procedures set forth in Section 262 of the DGCL, in a timely and proper manner, will result in the loss of appraisal rights.

A vote against the adoption of the merger agreement or an abstention will not constitute a demand for appraisal. Holders of class B common stock wishing to exercise the right to seek an appraisal of their shares must hold of record the shares on the date the written demand for appraisal is made and must continue to hold the shares of record through the effective time of the merger, and must take the following actions:

- not vote in favor of adoption of the merger agreement, or vote against the adoption of the merger agreement or abstain if voting by proxy

- deliver a written demand for appraisal to Old SAIC before the taking of the vote on the merger agreement at the special meeting; the demand must reasonably inform us of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder s shares

follow the procedures set forth in Section 262

A stockholder who elects to exercise appraisal rights under Section 262 should mail or deliver a written demand for appraisal to: Corporate Secretary, Science Applications International Corporation, 10260 Campus Point Drive, San Diego, California 92121.

A demand for appraisal in respect of shares of class B common stock issued and outstanding immediately prior to the effective time of the merger must be executed by or on behalf of the holder of record, fully and correctly, as his, her or its name appears on his, her or its stock certificates or in our stock records, and must state

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that such person intends thereby to demand appraisal of his, her or its shares of class B common stock issued and outstanding immediately prior to the effective time of the merger in connection with the merger. If the shares of class B common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the shares of class B common stock are owned of record by more than one person, as in a joint tenancy and tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including two or more joint owners, may execute a demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is agent for such owner or owners. A record holder who holds shares of class B common stock as nominee for several beneficial owners, may exercise appraisal rights with respect to the shares of class B common stock issued and outstanding immediately prior to the effective time of the merger held for one or more beneficial owners while not exercising such rights with respect to the shares of class B common stock held for other beneficial owners; in such case, however, the written demand should set forth the number of shares of class B common stock issued and outstanding immediately prior to the effective time of the merger as to which appraisal is sought and where no number of shares of class B common stock is expressly mentioned the demand will be presumed to cover all shares of class B common stock that are held in the name of the record owner.

The fair value of class B common stock will be determined by the Delaware Court of Chancery. The appraised value of the shares will not include any value arising from the accomplishment or expectation of the merger. The Court will also determine the amount of interest, if any, to be paid upon the amounts to be received by persons whose shares of class B common stock have been appraised. Holders of class B common stock considering seeking appraisal should be aware that the fair value of their shares of class B common stock as determined under Section 262 could be more or less than or the same as the consideration they would receive pursuant to the merger if they did not seek appraisal of their shares of class B common stock. The shares of class B common stock with respect to which holders have perfected their appraisal rights in accordance with Section 262 and have not effectively withdrawn or lost their appraisal rights are referred to in this proxy statement/prospectus as the dissenting shares.

The costs of the appraisal proceeding may be determined by the Court of Chancery and taxed upon the parties as the Court deems equitable. The Court may also order that all or a portion of the expenses incurred by any stockholder in connection with an appraisal, including, without limitation, reasonable attorneys fees and the fees and expenses of experts utilized in the appraisal proceeding, be charged pro rata against the value of all the shares entitled to be appraised.

Within ten days after the effective date of the merger, Old SAIC must mail a notice to all stockholders who filed a written demand for appraisal in compliance with Section 262, and who have not voted in favor of the approval and adoption of the merger agreement, notifying those stockholders of the effective date of the merger. Within 120 days after the effective date of the merger, holders of dissenting shares may file a petition in the Delaware Court of Chancery for the appraisal of their shares, although they may at any time within 60 days after the effective date of the merger, or thereafter with the approval of Old SAIC, withdraw their demand for appraisal. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court. Within 120 days after the effective date of the merger, the holders of dissenting shares may also, upon written request, receive from Old SAIC a statement setting forth the aggregate number of shares not voted in favor of the merger and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such statement must be mailed within 10 days after a written notice therefor has been received by Old SAIC or within 10 days after the expiration of the period for delivery of demands for appraisal, whichever is later. If a petition for an appraisal is timely filed by a holder of shares of class B common stock and a copy thereof is served upon Old SAIC, Old SAIC will then be

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obligated within 20 days to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached. After notice to such stockholders as required by the Court, the Delaware Court of Chancery is empowered to conduct a hearing on such petition to determine those stockholders who have complied with Section 262 and who have become entitled to appraisal rights thereunder. The Delaware Court of Chancery may require the holders of shares of class B common stock who demanded payment for their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceeding; and if any stockholder fails to comply with such direction, the Court of Chancery may dismiss the proceedings as to such stockholder.

Any holder of shares of class B common stock who has duly demanded an appraisal in compliance with Section 262 will not, after the effective time of the merger, be entitled to vote the shares of class B common stock subject to such demand for any purpose or be entitled to the payment of dividends or other distributions on those shares of class B common stock (except dividends or other distributions payable to holders of record of class B common stock of a date prior to the effective time of the merger).

Dissenting shares lose their status as dissenting shares if:

- the merger is abandoned
- the stockholder fails to make a timely written demand for appraisal
- neither Old SAIC nor the stockholder files a petition in the Delaware Court of Chancery demanding a determination of the value of the stock within 120 days after the effective date of merger
- the stockholder delivers to Old SAIC, within 60 days after the effective date of the merger, or thereafter with the approval of Old SAIC, a written withdrawal of the stockholder s demand for appraisal of the dissenting shares, although no appraisal proceeding in the Delaware Court of Chancery may be dismissed as to any stockholder without the approval of the court

Failure to follow the procedures required by Section 262 of the DGCL for perfecting appraisal rights is likely to result in the loss of appraisal rights. If a holder of class B common stock withdraws a demand for appraisal or has the appraisal rights terminated as described above, the holder of class B common stock will only be entitled to receive the merger consideration for those shares pursuant to the terms of the merger agreement (as well as its pro rata share of the special dividend).

Consequently, any stockholder willing to exercise appraisal rights is urged to consult with legal counsel prior to attempting to exercise such rights.

Listing

The new class A preferred stock will not be listed on a national securities exchange or traded in the organized over-the-counter market. We have applied for listing of the new common stock on the New York Stock Exchange under the symbol SAI. Listing is subject to fulfilling all applicable listing requirements.

Conditions to the Merger

We will cause the merger to become effective only if each of the following conditions is satisfied or waived:

adoption of the merger agreement by the requisite vote of stockholders of Old SAIC and by New SAIC, in its capacity as the sole stockholder of SAIC Merger Sub

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the amendment and restatement of the certificate of incorporation and bylaws of New SAIC to the extent set forth in the forms attached to the merger agreement

the directors and executive officers of Old SAIC immediately before the merger are the directors and executive officers of New SAIC after the merger

the effectiveness of New SAIC s registration statement on Form S-4 registering the shares of its new class A preferred stock pursuant to the merger and its new common stock to be issued upon conversion of the new class A preferred stock, of which this proxy statement/prospectus is a part, without the issuance of a stop order or initiation of any proceeding seeking a stop order by the Securities and Exchange Commission

the effectiveness of New SAIC s registration statement on Form S-1 registering the shares of its new common stock for sale to the public, without the issuance of a stop order or initiation of any proceeding seeking a stop order by the Securities and Exchange Commission, and the determination by Old SAIC s board of directors that the sale of such stock will be successfully completed promptly after the completion of the merger

there is no statute, rule, regulation, executive order, decree, injunction or other order that will prohibit the consummation of the merger

the receipt of all governmental and third party consents to the merger, except for consents which, if not obtained, would not reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of SAIC and its subsidiaries taken as a whole

We are not aware of any federal or state regulatory requirements that must be complied with or approvals that must be obtained in connection with the merger, other than pursuant to the applicable requirements of the Securities Act or the Securities Exchange Act of 1934, as amended.

Material Federal Income Tax Consequences to Stockholders

In the opinion of Heller Ehrman LLP, the following discussion constitutes, in all material respects, a fair and accurate summary under current law of the material anticipated U.S. federal income tax consequences of the merger and the special dividend to Old SAIC stockholders who exchange their shares of class A and class B common stock for shares of new class A preferred stock pursuant to the merger and receive the special dividend. This discussion addresses only holders of class A and class B common stock who hold such common stock as a capital asset. It does not address all of the federal income tax consequences that may be relevant to a particular Old SAIC stockholder in light of that stockholder s individual circumstances or to an Old SAIC stockholder who is subject to special rules, including, without limitation:

a financial institution or insurance company

a mutual fund

a tax-exempt organization

a stockholder who is not a U.S. person for federal income tax purposes

a pass-through entity or an investor in such an entity

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- a dealer or broker in securities or foreign currencies
- an Old SAIC stockholder who holds class A and/or class B common stock through individual retirement or other tax-deferred accounts
- a trader in securities who elects to apply a mark-to-market method of accounting
- an Old SAIC stockholder who holds class A and/or class B common stock as part of a hedge, appreciated financial position, straddle, constructive sale or conversion transaction
- an Old SAIC stockholder who acquired class A and/or class B common stock pursuant to the exercise of employee stock options or otherwise as compensation

The following discussion is based on the Internal Revenue Code of 1986, as amended, or Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. It is not binding on the courts or the Internal Revenue Service, or IRS. In addition, this discussion does not address any state, local or foreign tax consequences of the merger or the special dividend. Old SAIC stockholders are strongly urged to consult their tax advisors as to the specific tax consequences to them of the merger and the special dividend in light of their particular circumstances including the applicability and effect of federal, state, local, foreign and other tax laws.

The Merger

The following federal income tax consequences will result from the merger:

- a holder of class A or class B common stock will not recognize gain or loss upon the exchange of such class A or class B common stock solely for new class A preferred stock pursuant to the merger
- the tax basis of a holder of class A or class B common stock in such holder s new class A preferred stock received pursuant to the merger will equal the tax basis of the SAIC shares surrendered in the merger
- the holding period of a holder of class A and class B common stock in the new class A preferred stock received pursuant to the merger will include the holding period for the class A and class B common stock surrendered in the merger

The foregoing conclusions are dependent on the accuracy of certain assumptions, including assumptions regarding the absence of changes in existing facts and law, the accuracy of the statements and facts concerning the merger set forth in the merger agreement and in this proxy statement/prospectus, the completion of the merger in the manner contemplated by the merger agreement and this proxy statement/prospectus, and the accuracy of representations and covenants made by Old SAIC and New SAIC contained in representation letters of officers of Old SAIC and New SAIC. If any of those representations, covenants or assumptions is inaccurate, the foregoing conclusions may not apply and the tax consequences of the merger could differ from those discussed here. In addition, an opinion of counsel represents only counsel s best legal judgment and is not binding on the IRS or any court, nor does it preclude the IRS from adopting a contrary position. No ruling has been or will be sought from the IRS on the federal income tax consequences of the merger.

It is conceivable that the Internal Revenue Service would seek to have the special dividend and the merger treated as part of a single integrated transaction for federal income tax purposes in which you are exchanging

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your Old SAIC shares for a combination of cash and the class A preferred stock rather than giving the dividend independent significance. If the Internal Revenue Service asserts this position and if that position is ultimately sustained, any gain you realize on the exchange would be taxable to the extent of the amount of the cash received as a special dividend. For this purpose, the gain you realize would be equal to the value of the Old SAIC stock at the time of the merger over your tax basis in that stock. The taxable gain recognized would be long-term capital gain, if you held the Old SAIC stock for more than one year at the time of the merger, and short-term capital gain, if your holding period was one year or less. To the extent the cash received is in excess of the gain you realize in the transaction, the remaining cash would be treated as a non-taxable return of your investment in the Old SAIC stock (to the extent thereof) and would reduce your basis in the new class A preferred stock received in the merger. If the special dividend is treated as additional amount paid for your shares in the merger, it would not be treated as a dividend for federal income tax purposes. Old SAIC intends to take the position that the special dividend should not be treated as an amount paid in exchange for the Old SAIC stock in the merger and will report the transactions for federal income tax purposes consistent with the descriptions of the federal income tax consequences of each such transaction as set forth herein and in the next section, respectively.

The Special Dividend

The special dividend should constitute a taxable dividend to you to the extent it is treated as paid from Old SAIC s current or accumulated earnings and profits, as determined under federal income principles. However, if the special dividend is treated as an additional amount paid for your shares in the merger as discussed above, it would not be treated as a dividend for federal income tax purposes. Dividends in excess of our earnings and profits will constitute a return of capital that will first be applied against and reduce your adjusted tax basis in your Old SAIC common stock, but not below zero. Any remaining excess will be treated as gain realized on the sale or other disposition of your Old SAIC common stock and will be long-term capital gain if your holding period for your Old SAIC common stock was more than one year at the time the special dividend is received.

Holders of Old SAIC common stock who are individuals and satisfy a holding period requirement with respect to their Old SAIC common stock will be subject to federal income taxation at a maximum rate of 15% on such portion of the special dividend as constitutes dividend income to them. To satisfy the holding period requirement, you must hold your Old SAIC common stock for a period of at least 61 days of the 121-day period beginning 60 days before the ex-dividend date (which should be the record date of the dividend). Individual Old SAIC stockholders should consult their own tax advisors as to satisfaction of the holding period requirement and other possible limitations on eligibility for such maximum 15% rate under their particular circumstances, in particular if such Old SAIC stockholder is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Individual Old SAIC stockholders will be subject to tax on any long-term capital gain that may be recognized in connection with the special dividend at a maximum federal income tax rate of 15% and will be taxable at ordinary income rates on any short-term capital gain.

The Management Stock Compensation Plan, the Stock Compensation Plan and the Key Executive Stock Deferral Plan hold shares of Old SAIC common stock. The special dividend payable with respect to those shares (whether vested or unvested) will be held in trust and paid in accordance with the terms of each plan. Upon distribution, such portion which is attributable to the special dividend will be taxable at ordinary income tax rates and will not be subject to the maximum tax rate of 15%.

Dividends will be paid on vesting stock held directly by employees and former employees. Dividends payable on vested stock will be taxable at the maximum tax rate of 15%. However, unless the participant has filed an election under Section 83(b) of the Code, dividends payable on unvested stock will be taxable at ordinary income rates and will not be subject to the maximum tax rate of 15%.

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Holders of Old SAIC common stock who are corporations will recognize ordinary dividend income with respect to such portion of the special dividend that constitutes dividend income to them. This dividend income may be eligible for a dividends received deduction. Dividend income and long-term capital gains of corporate taxpayers are not eligible for the special tax rates applicable to individual taxpayers as described above. Holders of Old SAIC common stock who are non-U.S. persons as defined for federal income tax purposes are subject to special tax treatment in respect of dividend income and capital gains and should consult their own tax advisors as to the federal income tax consequences of the special dividend under their particular circumstances.

We will issue information reports to Old SAIC stockholders and the IRS after the end of the year in which the special dividend is paid advising as to how much of the special dividend is paid from Old SAIC s current or accumulated earnings and profits and therefore constitutes dividend income to you.

Backup Withholding

You may be subject to backup withholding with respect to receipt of the special dividend and cash paid in lieu of fractional shares if you are not exempt from backup withholding (by reason of being a corporation, tax-exempt entity or certain other exempt payees) and if you:

- fail to furnish your taxpayer identification number, which, for an individual, is ordinarily his or her social security number
- furnish an incorrect taxpayer identification number
- are notified by the IRS that you have failed to properly report payments of interest or dividends
- fail to certify, under penalties of perjury, that you have furnished a correct taxpayer identification number and that the Internal Revenue Service has not notified you that you are subject to backup withholding

Backup withholding is not an additional tax but a method of tax collection. You generally will be entitled to credit any amounts withheld under the backup withholding rules against your federal income tax liability provided that the required information is furnished to the IRS in a timely manner.

Accounting Treatment

For accounting purposes, the merger will be treated as a recapitalization of Old SAIC with New SAIC as the acquiror (a reverse merger). The accounting basis used to initially record the assets and liabilities in New SAIC will be the carryover basis of Old SAIC.

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PROPOSAL II 2006 EQUITY INCENTIVE PLAN

The 2006 Equity Incentive Plan was adopted by our board of directors on August 23, 2005, subject to stockholder approval. The 2006 Equity Incentive Plan provides for the grant of stock options (including incentive stock options, as defined in section 422 of the Internal Revenue Code, and nonstatutory stock options), restricted stock, restricted stock units, deferred stock, stock appreciation rights, performance shares and other similar types of awards (including other awards under which recipients are not required to pay any purchase or exercise price, such as phantom stock rights), as well as cash awards. New SAIC stock subject to the 2006 Equity Incentive Plan will either be our new class A preferred stock or new common stock as determined by the committee of our board of directors administering the 2006 Equity Incentive Plan.

The purpose of the 2006 Equity Incentive Plan is to enhance the long-term stockholder value of New SAIC by offering incentives to attract, retain and motivate the best available personnel. The 2006 Equity Incentive Plan permits eligible individuals to participate in the growth in value of the equity of New SAIC. Our board of directors believes that equity compensation awards are an important part of New SAIC s overall compensation program and that the awards are important in retaining and motivating existing personnel.

The 2006 Equity Incentive Plan will become effective on the effective date of the merger, subject to stockholder approval. Old SAIC seeks stockholder approval in order to qualify the 2006 Equity Incentive Plan and certain awards made pursuant to it under the incentive stock option provisions of the Internal Revenue Code and to permit New SAIC to increase the potential that it may deduct for federal income tax purposes certain compensation that may be paid under the 2006 Equity Incentive Plan in accordance with Section 162(m) of the Internal Revenue Code.

The 2006 Equity Incentive Plan provides that an aggregate of up to 75,000,000 shares of our stock will be available to be issued pursuant to awards granted under the 2006 Equity Incentive Plan, plus additional shares that may be added to the 2006 Equity Incentive Plan as described below. Shares that (1) are forfeited or repurchased by New SAIC at the original purchase price or less, (2) are restored by our board of directors or its committee pursuant to provisions under the 2006 Equity Incentive Plan that permit options to be settled in shares on a net appreciation basis, (3) are issuable upon exercise of awards that expire or become unexercisable for any reason without having been exercised in full or (4) 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.

In addition, the 2006 Equity Incentive Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance under the 2006 Equity Incentive Plan without further stockholder approval 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 30,000,000 shares, 5% of New SAIC s outstanding common stock as of the preceding January 31 (measured on an as-converted basis with respect to our outstanding shares of new class A preferred stock) or a number of shares established by our board of directors or the committee of our board of directors administering the 2006 Equity Incentive Plan.

If the 2006 Equity Incentive Plan is approved by the stockholders and the merger is consummated, Old SAIC will cease granting awards under the 1999 Stock Incentive Plan. In addition, if the 2006 Equity Incentive Plan becomes effective, the evergreen feature of the 1999 Stock Incentive Plan will terminate. If the 2006 Equity Incentive Plan is not approved by the stockholders or the merger is not consummated, the 1999 Stock Incentive Plan will continue in operation pursuant to its terms.

The material terms of the 2006 Equity Incentive Plan include the following:

the types of awards that may be granted are stock options (including incentive stock options and nonstatutory stock options), restricted stock, restricted stock units, deferred stock, stock appreciation

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rights, performance shares and other similar types of awards (including other awards under which recipients are not required to pay any purchase or exercise price, such as phantom stock rights), as well as cash awards;

the maximum number of shares that will be available for issuance under the 2006 Equity Incentive Plan is 75,000,000 shares plus additional shares added pursuant to the evergreen feature of the plan described above;

the maximum number of shares subject to options or stock appreciation rights that may be granted to any one participant under the 2006 Equity Incentive Plan during any fiscal year of New SAIC is 1,000,000 shares;

the committee administering the plan has the authority to determine the maximum number of shares subject to other stock awards that may be granted to any one participant under the 2006 Equity Incentive Plan during any fiscal year of New SAIC and the maximum value of any cash awards granted to any participant for any fiscal year under the 2006 Equity Incentive Plan;

New SAIC may reprice or otherwise adjust the exercise price of outstanding options or stock appreciation rights granted under the 2006 Equity Incentive Plan without the approval of our stockholders;

the number and type of shares available for issuance under the 2006 Equity Incentive Plan (including the maximum number of shares in the evergreen feature) and subject to outstanding awards; the exercise, purchase or repurchase price per share applicable to outstanding awards; and the maximum number of shares that may be granted to one participant pursuant to stock options or stock appreciation rights in one year will each be proportionately adjusted to reflect the terms of certain corporate transactions including stock splits, stock dividends, extraordinary cash dividends and certain other transactions affecting the capital stock of New SAIC;

shares subject to awards that expire or become unexercisable for any reason without having been exercised in full or without the shares subject thereto having been issued in full will continue to be available for issuance under the 2006 Equity Incentive Plan;

shares that are forfeited or repurchased by New SAIC at the original purchase price or less will become available for reissuance under the 2006 Equity Incentive Plan;

shares which are restored by our board of directors or the committee administering the plan pursuant to provisions under the 2006 Equity Incentive Plan that permit options to be settled in shares on a net appreciation basis will continue to be available for issuance under the 2006 Equity Incentive Plan;

shares that are not delivered to a holder in consideration for payment of applicable tax withholding will continue to be available for issuance under the 2006 Equity Incentive Plan; and

the 2006 Equity Incentive Plan will terminate in 2016 unless it is extended or terminated earlier pursuant to its terms.

General

A copy of the 2006 Equity Incentive Plan is attached to this proxy statement/prospectus as Annex C. The following description of the 2006 Equity Incentive Plan is only a summary and is qualified by reference to the complete text of the 2006 Equity Incentive Plan.

Administration. The 2006 Equity Incentive Plan will be administered by our board of directors, a committee of our board of directors or a delegated officer in certain circumstances.

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Section 162(m) Limitations. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation in excess of $1 million paid to certain executive officers (our chief executive officer and our other four most highly compensated officers). Certain performance-based compensation is specifically exempt from this deduction limit if it otherwise meets the requirements of Section 162(m). Stock options and other equity awards pursuant to which the recipient s compensation is based solely on the appreciation of the value of the underlying shares from the date of grant until the date of the income recognition event may qualify as performance-based compensation if the company satisfies certain requirements in connection with the plan under which the awards are granted. Specifically, the plan must be stockholder-approved and must contain a limit on the number of shares that may be granted to any one individual under the plan during a specified period. Accordingly, the 2006 Equity Incentive Plan provides that no employee may be granted more than 1,000,000 shares subject to stock options and stock appreciation rights in any fiscal year.

Additional requirements apply to certain forms of compensation, such as stock awards and cash awards, in order for them to qualify as performance-based compensation, including a requirement that payment of the value of the awards be contingent upon achievement of performance goals that are established in a manner specified under Section 162(m) of the Internal Revenue Code. The 2006 Equity Incentive Plan permits New SAIC to issue awards incorporating the performance objectives and provides that these performance objectives called objectively determinable performance conditions may be based upon: net revenue dollars, revenue growth, earnings per share, return on assets, return on equity, net order dollars, net profit dollars, net profit growth, other financial objectives, objective customer satisfaction indicators, efficiency measures and individual performance, each with respect to New SAIC and/or an affiliate or individual business unit. Each performance condition will be (1) established either at the time an award is granted or no later than the earlier of 90 days after the beginning of the period of service to which it relates or before the elapse of 25% of the period of service to which it relates, (2) uncertain of achievement at the time it is established and (3) determinable as to achievement by a third party with knowledge of relevant facts. Despite the provisions above, certain awards under the 2006 Equity Incentive Plan, such as time vested restricted stock or restricted stock units, may not qualify for the performance-based exemption from the $1 million deduction limit.

Stockholder approval of the 2006 Equity Incentive Plan pursuant to this proposal will constitute stockholder approval of the share limitations for Section 162(m) purposes, as well as of the objectively determinable performance conditions, set forth above.

Eligibility. Nonstatutory stock options, stock awards and cash awards may be granted under the 2006 Equity Incentive Plan to employees, directors (including non-employee directors) and consultants of New SAIC or its affiliates. Incentive stock options may be granted only to employees of New SAIC or its affiliates. The administrator, in its discretion, selects the employees to whom stock options and other stock awards, as well as cash awards, may be granted, the time or times at which awards are granted and the terms of awards to be granted under the 2006 Equity Incentive Plan.

New Plan Benefits. Because benefits under the 2006 Equity Incentive Plan will depend on the administrator s actions and, with respect to options and other stock awards, the fair market value of our stock at various future dates, it is not possible to determine the benefits that employees, officers, directors and consultants will receive under awards if the 2006 Equity Incentive Plan is approved by the stockholders. No awards have been granted or promised to be granted under the 2006 Equity Incentive Plan.

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

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Termination of Awards. Generally, unless otherwise provided in the award agreement, if an awardee s services to New SAIC as an employee, consultant or director terminate other than for death or disability or for cause, vested awards will remain exercisable for a period of 90 days following the awardee s termination, or if earlier, until the expiration of the term of the award. If an awardee s services to New SAIC as an employee, consultant or director terminate for cause, all of the awardee s awards will immediately terminate as of the date of termination unless otherwise provided for in the award agreement. Unless otherwise provided for in the award agreement, if an awardee becomes disabled or dies while an employee, consultant or director of New SAIC, the vesting of all of the awardee s unvested awards will accelerate, and all of the awardee s awards will be exercisable until the expiration of the term of the award. The administrator has the authority to extend the period of time for which an award is to remain exercisable following an awardee s termination (but not beyond the expiration of the term of the award) and to permit an award to be exercised with respect to unvested shares.

Adjustments on Changes in Capitalization, Change of Control or Dissolution. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination or reclassification, spin-off, extraordinary cash dividend or similar change to the capital structure of New SAIC without receipt of consideration by New SAIC, our board of directors will make appropriate adjustments to (1) the number of shares subject to the 2006 Equity Incentive Plan (including the number of shares subject to the evergreen feature), (2) any limits on the number of shares that may be granted to a participant under the 2006 Equity Incentive Plan and (3) the exercise, purchase or repurchase price and number of shares under each outstanding award. The decision of the board will be final, binding and conclusive.

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 on awards will terminate. 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 of the terminated participant will immediately vest and be exercisable for a period of six months following termination. In the event of a change of control, the vesting of all awards held by non-employee directors of New SAIC will accelerate.

In the event of a proposed dissolution or liquidation of New SAIC, our board may cause awards to fully vest and may cause New SAIC s repurchase rights to lapse upon completion of the dissolution. In the event of a dissolution or liquidation of New SAIC, all outstanding awards will terminate immediately prior to the dissolution.

Amendment and Termination. The board may amend, suspend or terminate the 2006 Equity Incentive Plan. However, New SAIC will obtain stockholder approval for any amendment to the 2006 Equity Incentive Plan to the extent required to comply with applicable laws and New York Stock Exchange listing requirements. Generally, no action by the board or stockholders may alter or impair any outstanding award under the 2006 Equity Incentive Plan without the written consent of the holder. Awards may be granted for a period of ten years from the latest date our stockholders approve the 2006 Equity Incentive Plan, subject to extension or termination earlier pursuant to its terms.

Stock Options

Each option is evidenced by a stock option agreement between New SAIC and the optionee and is subject to the following additional terms and conditions. Options will be exercisable for either our new common stock or

new class A preferred stock as determined by the committee of our board of directors administering the 2006 Equity Incentive Plan. The 2006 Equity Incentive Plan allows the administrator broad discretion to determine the terms of individual options. The committee of our board of directors administering the 2006 Equity Incentive Plan may substitute our new common stock for new class A preferred stock at the time of exercise of an option.

Exercise Price. The administrator determines the exercise price of options at the time the options are granted. The exercise price of incentive stock options granted under the 2006 Equity Incentive Plan may not be less than 100% of the fair market value of the stock subject to the option on the date of grant of the option, provided that the exercise price of an incentive stock option to an employee who is also a greater than 10% stockholder of New SAIC must have an exercise price at least equal to 110% of the fair market value of the stock subject to the option on the date of grant of the option. The exercise price of nonstatutory stock options granted under the 2006 Equity Incentive Plan may not be less than 85% of the fair market value of the stock subject to the option on the date of grant of the option. However, New SAIC may grant options with exercise prices equal to less than the fair market value of the stock subject to the option on the date of grant in connection with an acquisition by New SAIC of another company. If our new common stock is listed on a stock exchange, the fair market value of the stock subject to the 2006 Equity Incentive Plan will be the closing sales price of our new common stock.

Exercise of Option; Form of Consideration. The administrator determines when options vest and become exercisable and in its discretion may accelerate the vesting and/or exercisability of any outstanding option. New SAIC s standard vesting schedule applicable to options granted to employees is 20% of the total number of shares subject to the option become vested and exercisable on each of the first, second and third anniversaries of the date of grant and an additional 40% of the total number of shares subject to the option become vested and exercisable on the fourth anniversary of the date of grant. The means of payment for shares issued upon 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, cancellation of indebtedness, other shares of New SAIC stock (with some restrictions), broker assisted same-day sales, in certain circumstances a delivery of cash or stock for any net appreciation in the shares at the time of exercise over the exercise price or any other means of consideration permitted by applicable law and the administrator.

Term of Option. The term of an option may be no more than ten years from the date of grant; provided that the term of an incentive stock option may not be more than five years from the date of grant for an optionee who is also a greater than 10% stockholder. No option may be exercised after the expiration of its term.

Stock Awards

Stock awards may be restricted stock grants, restricted stock units, deferred stock, stock appreciation rights, performance shares or other similar stock awards (including awards having an exercise or purchase price that is less than the fair market value of our stock as of the date of grant of the award, such as phantom stock rights). Restricted stock grants are awards of a specific number of shares of our stock. Restricted stock units represent a promise to deliver shares of our 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 our stock that is distributed in the future upon vesting. Stock appreciation rights are rights to receive cash and/or shares of our stock based on the amount by which the fair market value of a specific number of shares of our stock on the exercise date exceeds the exercise price established by the administrator. Performance shares are rights to receive amounts, denominated in cash or shares of our stock, based upon New SAIC s or a participant s performance during the period between the date of grant and a pre-established future date.

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Each stock award is evidenced by a stock award agreement between New SAIC and the participant. The 2006 Equity Incentive Plan allows the administrator broad discretion to determine the terms of individual stock awards. Each stock award agreement may contain provisions such as the following: (1) the number and type of shares subject to the stock award, (2) the purchase price of the shares, if any, and the means of payment for the shares, (3) the performance criteria (including the objectively determinable performance conditions), if any, and level of achievement versus the criteria that will determine the number of shares granted, issued, retainable and vested, as applicable, (4) the terms, conditions and restrictions on the grant, issuance, vesting and forfeiture of the shares, as applicable, as may be determined from time to time by the administrator, (5) restrictions on the transferability of the stock award, and (6) further terms and conditions, in each case not inconsistent with the 2006 Equity Incentive Plan, as may be determined from time to time by the administrator. Shares may be granted under the 2006 Equity Incentive Plan as stock awards without requiring the participant to pay New SAIC an amount equal to the fair market value of the stock subject to the award as of the award grant date in order to acquire the award shares.

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 objectively determinable performance conditions. The cash award will be reflected in an agreement that contains provisions such as the following: (1) the target and maximum amount payable to the participant as a cash award, (2) the objectively determinable performance conditions and level of achievement versus the criteria that will determine the amount of the payment, (3) restrictions on the alienation or transfer of the cash award prior to actual payment, (4) forfeiture provisions, and (5) further terms and conditions, in each case not inconsistent with the 2006 Equity Incentive Plan, as may be determined from time to time by the administrator. Nothing in the 2006 Equity Incentive Plan prevents New SAIC from granting cash awards outside of the 2006 Equity Incentive Plan to any individual.

Federal Income Tax Consequences of Awards

THE FOLLOWING IS A GENERAL SUMMARY OF THE TYPICAL FEDERAL INCOME TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR OTHER AWARDS UNDER THE 2006 EQUITY INCENTIVE PLAN. IT DOES NOT DESCRIBE STATE OR OTHER TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR OTHER AWARDS.

Options. An optionee who is granted an incentive stock option does not recognize taxable income at the time the option is granted or upon its exercise although the exercise is an adjustment item for alternative minimum tax purposes and may subject the optionee to the alternative minimum tax. Alternative minimum tax is an alternative method of calculating the income tax that must be paid each year, which includes certain additional items of income and tax preferences and disallows or limits certain deductions otherwise allowable for regular tax purposes. Alternative minimum tax is payable only to the extent that alternative minimum tax income exceeds regular federal income tax for the year (computed without regard to certain credits and special taxes).

Upon a disposition of the shares acquired on exercise of an incentive stock option more than two years after grant of the option and one year after exercise of the option, the optionee will recognize long-term capital gain or loss equal to the difference between the sale price and the exercise price. If a disposition occurs before either of the holding periods are satisfied, referred to as a disqualifying disposition, then (1) if the sale price exceeds the exercise price, the optionee will recognize capital gain equal to the excess, if any, of the sale price over the fair market value of the shares on the date of exercise and will recognize ordinary income equal to the difference, if

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any, between the lesser of the sale price or the fair market value of the shares on the exercise date and the exercise price; or (2) if the sale price is less than the exercise price, the optionee will recognize a capital loss equal to the difference between the exercise price and the sale price. New SAIC is not entitled to a federal income tax deduction in connection with incentive stock options, except to the extent that the optionee has taxable ordinary income on a disqualifying disposition (unless limited by Section 162(m) of the Internal Revenue Code).

An optionee does not recognize any taxable income at the time a nonstatutory stock option is granted. Upon the exercise of a nonstatutory option with respect to vested shares, the optionee has taxable ordinary income (and unless limited by Section 162(m), New SAIC is entitled to a corresponding deduction) equal to the option spread on the date of exercise. Any taxable income recognized in connection with an option exercise by an employee of New SAIC is subject to tax withholding by New SAIC. Upon a disposition of stock acquired upon exercise of a nonstatutory option, the optionee recognizes either long-term or short-term capital gain or loss, depending on how long the stock was held, on any difference between the sale price and the exercise price, to the extent not recognized as taxable income on the date of exercise. New SAIC may allow nonstatutory options to be transferred subject to conditions and restrictions imposed by the administrator; special tax rules may apply on a transfer.

In the case of both incentive stock options and nonstatutory options, special federal income tax rules apply if New SAIC common stock is used to pay all or part of the option exercise price, and different rules than those described above will apply if unvested shares are purchased on exercise of the option.

In September 2005, the Internal Revenue Service issued proposed regulations under new Section 409A of the Internal Revenue Code, which was enacted by Congress in October 2004 and imposes significant new requirements with respect to nonqualified deferred compensation plans and arrangements. The types of compensatory arrangements affected by this new law are broad and include options to purchase preferred stock. While it is unclear whether the final regulations will retain these provisions or will otherwise apply to our new class A preferred stock, to avoid potentially severe adverse tax consequences, the 2006 Equity Incentive Plan permits New SAIC to substitute our new common stock for the new class A preferred stock at the time of exercise of an option to the extent necessary to comply with Section 409A.

Stock Awards. Stock awards will generally be taxed in the same manner as nonstatutory stock options. However, shares issued under a restricted stock award are subject to a substantial risk of forfeiture within the meaning of Section 83 of the Internal Revenue Code to the extent the shares will be forfeited in the event that the participant ceases to provide services to New SAIC and are nontransferable. If a stock award is subject to a substantial risk of forfeiture, the participant will not recognize ordinary income at the time the award shares are issued. Instead, the participant will recognize ordinary income on the dates when the stock is no longer subject to a substantial risk of forfeiture, or when the stock becomes transferable, if earlier. The participant s ordinary income is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the date the stock is no longer subject to forfeiture.

The employee may accelerate his or her recognition of ordinary income, if any, and begin his or her capital gains holding period by timely filing (i.e., within thirty days of the share issuance date) an election pursuant to Section 83(b) of the Internal Revenue Code. In such event, the ordinary income recognized, if any, is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the date of such issuance, and the capital gain holding period commences on the date of issuance. The ordinary income recognized by an employee will be subject to tax withholding by New SAIC. Unless limited by Section 162(m), New SAIC is entitled to a deduction in the same amount as and at the time the employee recognizes ordinary income.

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Cash Awards. Upon receipt of cash, the recipient will have taxable ordinary income, in the year of receipt, equal to the cash received. Any cash received will be subject to tax withholding by New SAIC. Unless limited by Section 162(m) of the Internal Revenue Code, New SAIC will be entitled to a tax deduction in the amount and at the time the recipient recognizes compensation income.

Accounting Treatment

Based on guidance currently available from the Financial Accounting Standards Board, it is anticipated that upon the adoption of Statement of Financial Accounting Standards No. 123(R) on February 1, 2006, New SAIC will be required to recognize compensation expense in an amount equal to the fair value on the date of grant of all stock options under the 2006 Equity Incentive Plan. The fair value of an option will be based on the number of shares subject to the option. New SAIC will use either Black-Scholes or a binomial valuation model to measure fair value of option grants. In addition, New SAIC will be required to recognize compensation expense for other awards under the 2006 Equity Incentive Plan. In general, the expense associated with each award will be recognized over the requisite employee service period, generally the vesting period.

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PROPOSAL III 2006 EMPLOYEE STOCK PURCHASE PLAN

The 2006 Employee Stock Purchase Plan was adopted by our board of directors on August 23, 2005, subject to stockholder approval. The 2006 Employee Stock Purchase Plan provides employees of New SAIC (and Old SAIC and any of our majority-owned subsidiaries designated by our board of directors) with an opportunity to purchase new class A preferred stock (or new common stock as determined by the compensation committee of our board of directors) through accumulated payroll deductions at a discounted purchase price. The 2006 Employee Stock Purchase Plan will become effective on March 1, 2006, subject to stockholder approval and the closing of the merger. Old SAIC seeks stockholder approval of the 2006 Employee Stock Purchase Plan in order to qualify the 2006 Employee Stock Purchase Plan and the right of participants to purchase shares under Section 423 of the Internal Revenue Code. In addition, the 2006 Employee Stock Purchase Plan authorizes the purchase of shares under a non-Section 423 qualified component of the plan by employees of international subsidiaries in situations where a qualified plan creates adverse tax consequences in a particular jurisdiction.

The 2006 Employee Stock Purchase Plan provides that an aggregate of up to 9,000,000 shares of our stock will be 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 has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance under the 2006 Employee Stock Purchase Plan without further stockholder approval 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 9,000,000 shares, 2% of New SAIC s outstanding common stock on the last day of the immediately preceding fiscal year (measured on an as-converted basis with respect to our outstanding shares of new class A preferred stock) or a number of shares established by the compensation committee of our board of directors.

If the 2006 Employee Stock Purchase Plan is approved by the stockholders and the merger is consummated, Old SAIC will cease issuing shares under the 2004 Employee Stock Purchase Plan. If the 2006 Employee Stock Purchase Plan is not approved by the stockholders or the merger is not consummated, the 2004 Employee Stock Purchase Plan will continue in operation pursuant to its terms.

A copy of the 2006 Employee Stock Purchase Plan is attached to this proxy statement/prospectus as Annex D. The following description of the 2006 Employee Stock Purchase Plan is only a summary and so is qualified by reference to the complete text of the 2006 Employee Stock Purchase Plan.

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 New SAIC, Old SAIC 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 Internal Revenue Code.

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Participation

Eligible employees may participate in the 2006 Employee Stock Purchase Plan by completing a subscription agreement in the form provided by New SAIC and filing it with New SAIC prior to the first business day of the applicable offering period or such other date as specified by the compensation committee.

Plan Characterization

The 2006 Employee Stock Purchase Plan is not subject to the provisions of the Employment Retirement Income Security Act of 1974, as amended, and is not qualified under Section 401(a) of the Internal Revenue Code.

Nonassignability of Options

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.

New Plan Benefits

Because benefits under the 2006 Employee Stock Purchase Plan will depend on the fair market value of the new common stock at various future dates, it is not possible to determine the benefits that will be received by employees if the 2006 Employee Stock Purchase Plan is approved by the stockholders.

Offering Periods

Unless and until the compensation committee determines to implement longer periods and 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 and will have only one purchase period which will run simultaneously with the offering period. The first offering period to commence after the date of this proxy statement/prospectus will commence on March 1, 2006 and will end on June 30, 2006. The first business day of each offering period is referred to as the offering date. The last business day of each purchase period is referred to as the purchase date.

Purchase Price

The purchase price per share at which shares are purchased under the 2006 Employee Stock Purchase Plan is 85% of the fair market value of the class of stock subject to the 2006 Employee Stock Purchase Plan on the applicable purchase date. The compensation committee has the authority to change the purchase price within a range of 85% to 100% of the fair market value of the stock on the offering date or the purchase date. If our new common stock is listed on a stock exchange, the fair market value of the stock subject to the 2006 Employee Stock Purchase Plan will be the closing sales price of our new common stock.

Payment of Purchase Price; Payroll Deductions

The purchase price of the shares is paid with payroll deductions accumulated during the applicable offering period. The deductions are made as a percentage of the participant s compensation in 1% increments, not less than 1%, nor greater than 10%, or such lower limit set by the compensation committee. Eligible compensation is defined in the 2006 Employee Stock Purchase Plan to include base salary, wages, bonuses, incentive compensation, commissions, overtime, shift premiums and draws against commissions and to exclude long-term disability or workers compensation payments, car allowances, relocation payments and expense

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reimbursements. If payroll deductions are not permitted in a jurisdiction, participants in that jurisdiction may contribute via check or pursuant to another method approved by the compensation committee. A participant may discontinue his or her participation in the 2006 Employee Stock Purchase Plan at any time during an offering period prior to a purchase date and may increase or decrease the rate of his or her payroll deductions once during an ongoing offering period by completing and filing a new subscription agreement. Payroll deductions will commence on the first payday following the offering date and will end on the last payday on or prior to the last purchase date of the offering period to which the subscription agreement is applicable, unless sooner terminated by the participant. No interest accrues on the payroll deductions of a participant in the 2006 Employee Stock Purchase Plan.

Purchase of Stock; Exercise of Option

By executing a subscription agreement to participate in the 2006 Employee Stock Purchase Plan, the participant accepts the grant of a 2006 Employee Stock Purchase Plan option to purchase shares during an offering period. Within this limit, the number of shares purchased by a participant will be determined by dividing the amount of the participant s total payroll deductions for the offering period accumulated prior to the purchase date by 85% (unless changed by the compensation committee) of the fair market value of the stock on the purchase date for the applicable purchase period. Unless the participant s participation is discontinued, each participant s option for the purchase of shares will be exercised automatically on each purchase date at the applicable price.

No participant will be permitted to subscribe for shares under the 2006 Employee Stock Purchase Plan:

- if immediately after the grant of the option, the participant would own 5% or more of the combined voting power of all classes of stock of New SAIC or of a parent or subsidiary of New SAIC (including stock which may be purchased under the 2006 Employee Stock Purchase Plan or pursuant to any other options);

- if and to the extent the fair market value of the shares (plus the fair market value of all rights to purchase stock under all similar stock plans of New SAIC or of a parent or subsidiary of New SAIC) would exceed $25,000 (determined as of the offering date of the offering period in which the participant is participating) for each calendar year in which an option to purchase stock under the 2006 Employee Stock Purchase Plan is outstanding; or

- if and to the extent immediately after the grant of the option, the participant would have the right to purchase in excess of 2,500 shares during an offering period, which limit is subject to adjustment by the compensation committee if the new limit is announced prior to the scheduled beginning of the first offering period to be affected.

In addition, if the number of shares to be purchased on a purchase date by all participating employees exceeds the number of shares then available under the 2006 Employee Stock Purchase Plan, a pro rata allocation of the available shares will be made in as equitable a manner as is practicable. Any payroll deductions accumulated in a participant s account which are not used to purchase stock due to the limitations described above will be returned to the participant as soon as practicable after the end of the applicable purchase period, without interest.

Holding Period

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

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Withdrawal

A participant may withdraw from an offering period by signing and delivering to New SAIC a notice of withdrawal from the 2006 Employee Stock Purchase Plan. The withdrawal may be elected at any time prior to the end of an offering period or such other time as specified by the compensation committee.

Any withdrawal by the participant of accumulated payroll deductions for a given offering period automatically terminates the participant s interest in that offering period. All of the participant s contributions credited to his or her account will be paid to him or her without interest. A participant s withdrawal from an offering period does not have an effect upon the participant s eligibility to participate in subsequent offering periods under the 2006 Employee Stock Purchase Plan by filing a new authorization for payroll deductions. However, a participant may not re-enroll in the same offering period after withdrawal.

Termination of Employment

Termination of a participant s employment for any reason, including retirement, death or the failure of a participant to remain an eligible employee of New SAIC or of a participating subsidiary, will immediately terminate the participant s participation in the 2006 Employee Stock Purchase Plan. Any payroll deductions credited to the participant s account will be returned to the participant, or, in the case of the participant s death, to the participant s legal representative, without interest.

Amendment and Termination

The 2006 Employee Stock Purchase Plan will terminate ten years from approval by our stockholders, unless it is terminated earlier pursuant to its terms.

Our board may amend, terminate or extend the 2006 Employee Stock Purchase Plan, but New SAIC will obtain stockholder approval for any amendment to the 2006 Employee Stock Purchase Plan to the extent required by applicable laws and New York Stock Exchange listing requirements. Unless approved by the stockholders of New SAIC, our board 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. In addition, no action by the board or the stockholders may impair any outstanding option without the written consent of the participant except as set forth below.

Our board may make amendments to the 2006 Employee Stock Purchase Plan as it determines to be advisable and which do not cause unfavorable accounting treatment, including changes with respect to current offering periods or purchase periods, if the continuation of the 2006 Employee Stock Purchase Plan or any offering period would result in financial accounting treatment for the 2006 Employee Stock Purchase Plan that is different from the financial accounting treatment in effect on the date our board of directors adopted the 2006 Employee Stock Purchase Plan.

Adjustments Upon Changes in Capitalization, Change of Control or Dissolution

Subject to any required action by New SAIC s stockholders, (1) the number and type of shares covered by each outstanding option, (2) the price per share subject to each outstanding option and (3) the number and type of shares which have been authorized for issuance under the 2006 Employee Stock Purchase Plan (including the maximum number in the evergreen feature) will each be proportionately adjusted for any increase or decrease in the number or kind of issued and outstanding shares resulting from a stock split, stock dividend or any other increase or decrease in the number of issued and outstanding shares of the class of New SAIC s stock subject to

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the 2006 Employee Stock Purchase Plan effected without receipt of consideration by New SAIC or other change in the corporate structure or capitalization affecting the class of New SAIC s stock subject to the 2006 Employee Stock Purchase Plan.

In the event of a change in control transaction of New SAIC, 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. In addition, in the event that New SAIC effects a reorganization, recapitalization, rights offering or other increase or reduction of shares of its outstanding stock, or in the event of New SAIC s being consolidated with or merged into any other corporation, the compensation committee may, in its sole discretion, also make provision for adjusting the number and type of shares which have been authorized for issuance under the 2006 Employee Stock Purchase Plan, as well as the price per share of the stock covered by each outstanding option.

In the event of a dissolution or liquidation of New SAIC, each offering period under the 2006 Employee Stock Purchase Plan then in progress will terminate immediately prior to the consummation of the dissolution or liquidation, unless otherwise provided by the compensation committee. In addition, in the event of a dissolution or liquidation, the compensation committee may terminate the 2006 Employee Stock Purchase Plan as of a date fixed by the compensation committee and give each participant the right to purchase shares under the 2006 Employee Stock Purchase Plan prior to the termination.

Federal Income Tax Consequences

THE FOLLOWING IS A GENERAL SUMMARY OF THE TYPICAL FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE OF SHARES UNDER THE 2006 EMPLOYEE STOCK PURCHASE PLAN. IT DOES NOT DESCRIBE STATE OR OTHER TAX CONSEQUENCES OF THE PURCHASE OF SHARES UNDER THE 2006 EMPLOYEE STOCK PURCHASE PLAN.

The 2006 Employee Stock Purchase Plan, and the right of participants to make purchases under the plan, is intended to qualify for the federal income tax treatment provided to employee stock purchase plans and their participants under the provisions of Sections 421 and 423 of the Internal Revenue Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the 2006 Employee Stock Purchase Plan are sold or otherwise disposed of. Upon sale or other disposition of the shares, the participant will generally be subject to tax in a manner that depends upon the holding period of the shares. If the shares are sold or otherwise disposed of (including by gift) more than two years from the first day of the offering period and more than one year from the date the shares are purchased, the participant will recognize ordinary income measured as the lesser of (1) the excess of the fair market value of the shares at the time of the sale or disposition over the purchase price, or (2) an amount equal to 15% of the fair market value of the shares as of the first day of the offering period. Any additional gain or loss will be treated as long-term capital gain or loss. If the shares are sold or otherwise disposed of (including by gift) before the expiration of either of these holding periods, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares are purchased over the purchase price. Any additional gain or loss on the sale or disposition will be long-term or short-term capital gain or loss, depending on whether or not the disposition occurs more than one year after the date the shares are purchased. New SAIC is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by a participant upon a sale or disposition of shares prior to the expiration of the holding periods described above.

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Accounting Treatment

We expect that upon the adoption of Statement of Financial Accounting Standards No. 123(R) on February 1, 2006, we will be required to record compensation expense for financial statement purposes in connection with the rights to purchase our stock granted to employees under the 2006 Employee Stock Purchase Plan. However, in certain cases where the purchase price is greater than 95% of the fair market value of the stock subject to the 2006 Employee Stock Purchase Plan, there would be no compensation expense under Statement of Financial Accounting Standards No. 123(R).

TRANSACTION OF OTHER BUSINESS

The board of directors knows of no other matters that will be presented for consideration at the special meeting. If any other matters properly come before the special meeting, it is the intention of the proxy holders named on the proxy to vote the shares they represent as the board of directors may recommend. Discretionary authority with respect to such other matters is granted by the delivery of a proxy.

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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 proxy statement/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 proxy statement/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 proxy statement/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 proxy statement/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 proxy statement/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.

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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)						
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
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

	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 (3)	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) 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 and related notes that appear elsewhere in this proxy statement/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 proxy statement/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

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(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, 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 the IPO. 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.

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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%

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.

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

	As of January 31			As of July 31	
	2005	2004	2003	2005	2004
			(in millions)		
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.

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 the IPO, we may use our shares of common stock for acquisitions.

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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

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 the IPO 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.

The last limited market trade occurred in October 2005. For our 401(k) plan and certain other retirement plans, there will be a December 2005 trade before the IPO that participants in those plans may offer to buy or sell shares in accordance with the terms of those plans. In addition, we will conduct four scheduled trades for our retirement plans following completion of the IPO at which participants in retirement plans may offer to buy or sell shares in accordance with the terms of those plans. Old SAIC, in the December 2005 trade, and New SAIC, in the four scheduled trades following completion of the IPO, will have the right, but not the obligation, to buy or sell the net balance of shares offered by participants in the retirement plans. In addition, following the IPO, the retirement plans will have the opportunity to convert shares of new class A preferred stock into new common stock and sell those shares into the public market to the extent permissible under the transfer restrictions on the new class A preferred stock. These purchases are intended to provide participants with liquidity to the extent permitted under those 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

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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.

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 portion 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.

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)		

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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.

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 the 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

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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							
						Segment revenues as a percentage of total consolidated revenues		
	2005	Percent change	2004	Percent change	2003	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.

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.

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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.

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

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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 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

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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

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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 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

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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

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 proxy statement/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.

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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 the IPO 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

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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 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 the IPO 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. We expect that, prior to the merger, New SAIC will guarantee any debt outstanding under Old SAIC s two credit facilities and its notes payable and long-term debt described below other than the 3-year note due 2006 ($24 million outstanding as of July 31, 2005) and the other notes payable ($35 million outstanding as of July 31, 2005).

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 proxy statement/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 working capital.

The last limited market trade prior to the proposed IPO occurred in October 2005. For our 401(k) plan and certain other retirement plans, there will be a December 2005 trade before the IPO that participants in those plans may offer to buy or sell shares in accordance with the terms of those plans. In addition, we will conduct four scheduled trades for our retirement plans following completion of the IPO at which participants in retirement plans may offer to buy or sell shares in accordance with the terms of those plans. Old SAIC, in the December 2005 trade, and New SAIC, in the four scheduled trades following completion of the IPO, will have the right, but not the obligation, to buy or sell the net balance of shares offered by participants in the retirement plans. In addition, following the IPO, the retirement plans will have the opportunity to convert shares of new class A preferred stock into new common stock and sell those shares into the public market to the extent permissible under the transfer restrictions on the new class A preferred stock. These purchases are intended to provide participants with liquidity to the extent permitted under those 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.

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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.

(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 proxy statement/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.

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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 customer 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). 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 $23 million immediately upon the execution of the contract modification. To date, the contract modification contemplated by the MOU has not been signed, and the approximately $23 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. One of the principal disputes between the parties relates 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

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(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 reviewing the omissions and deviations related to each subsystem identified by the customer, evaluating the merits of the customer s interpretation of the contractual specifications where conflicting interpretations exist, and assessing the impact on our estimated cost to complete the performance of the contract. If we agree with the customer s interpretation, we intend to either correct the omission or deviation or submit an application for deviation, which will require an appropriate price reduction. Other omissions and deviations claimed by the customer will be addressed through negotiations. 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 totaled $233 million as of July 31, 2005. 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.

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 proxy statement/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

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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 with a letter which stated that: (1) despite the significant deficiencies and deviations the customer identified in the System, the Ministry of Public Order s interest in executing a modification to 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 Ministry of Public Order intends to take actions within its authority to ensure the Greek contract is not invalidated, including proposing legislation if 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 continuing to evaluate 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

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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.

Based on the results of recent activities conducted pursuant to the process described above for reviewing the omissions and deviations identified by the customer, we will incur an additional loss on the contract. We are continuing to evaluate the information necessary to determine this additional loss and currently believe that the additional loss will be approximately $30 million. However, we are finalizing our estimate and will record this additional loss in the quarter ended October 31, 2005. There remain significant unresolved issues with the customer that are likely to impact the ultimate loss to be recognized at contract completion.

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

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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.

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 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 proxy statement/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:

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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 proxy statement/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 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 proxy statement/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.

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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 proxy statement/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 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 proxy statement/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

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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 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.

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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 proxy statement/ 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								