SAIC, Inc.
Form 424B4
October 13, 2006
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-128021

PROSPECTUS

75,000,000 Shares

COMMON STOCK

SAIC, Inc. is offering 75,000,000 shares of its common stock. Although our principal operating subsidiary has previously sponsored a limited market in its common stock, no public market currently exists for our common stock. The initial public offering price is $15.00 per share. A special dividend estimated to be $2.45 billion in the aggregate was declared prior to this offering by our principal operating subsidiary and, following completion of this offering, will be paid to its stockholders of record, including our directors and officers. We will not pay this special dividend on shares sold in this offering. After the payment of this special dividend and the completion of this offering, and after deducting estimated underwriting discounts and commissions and offering expenses, our consolidated cash reserves will be reduced by a net amount of approximately $1.4 billion, or $1.2 billion if the underwriters exercise their over-allotment option in full.

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

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

PRICE $15.00 A SHARE

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to SAIC***
Per Share	*$15.00*	*$.5625*	*$14.4375*
Total	*$1,125,000,000*	*$42,187,500*	*$1,082,812,500*

We have granted the underwriters the right to purchase up to an additional 11,250,000 shares of common stock to cover over-allotments.

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

The underwriters expect to deliver the shares to purchasers on October 17, 2006.

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

CITIGROUP *WACHOVIA SECURITIES*

BANC OF AMERICA SECURITIES LLC *COWEN AND COMPANY*
JEFFERIES QUARTERDECK *STIFEL NICOLAUS*

WILLIAM BLAIR & COMPANY *KEYBANC CAPITAL MARKETS*
MELLON FINANCIAL MARKETS, LLC *STEPHENS INC.*

October 12, 2006

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PROSPECTUS SUMMARY

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

In this prospectus, we use the terms SAIC, we, us and our to refer to Science Applications International Corporation or SAIC, Inc. when the distinction between the two companies is not important. When the distinction is important to the discussion, we use the term Old SAIC to refer to Science Applications International Corporation and New SAIC to refer to SAIC, Inc. Unless otherwise noted, references to years are to fiscal years ended January 31, not calendar years. For example, we refer to the fiscal year ended January 31, 2006 as fiscal 2006. We are currently in fiscal 2007. References to government fiscal years are to fiscal years ended September 30.

SAIC, INC.

Overview

We are a leading provider of scientific, engineering, systems integration and technical services and solutions to all branches of the U.S. military, agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, as well as to customers in 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. The increase in demand for our services and solutions has been driven by priorities including the ongoing global war on terror and the transformation of the U.S. military.

From fiscal 2002 to fiscal 2006, our consolidated revenues increased at a compound annual growth rate of 15.5% to a company record of $7.8 billion, inclusive of acquisitions and exclusive of Telcordia Technologies, Inc., our commercial telecommunications subsidiary, which we divested in March 2005. Through the first half of fiscal 2007, our consolidated revenues increased by 6% over the same period in the prior year. As of July 31, 2006, we had a portfolio of approximately 9,000 active contracts. Our total consolidated negotiated backlog as of July 31, 2006 was approximately $16.0 billion, which included funded backlog of approximately $4.0 billion, compared to approximately $15.1 billion and $3.9 billion, respectively, as of January 31, 2006. In May 2006, 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 89% of our total consolidated revenues in fiscal 2006. According to Congressional Budget Office estimates, U.S. Government total discretionary outlays in government fiscal 2006 will be approximately $1,035 billion, and we estimate that more than $200 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 over the next several years as a result of homeland security and intelligence needs arising from the global war on terror, the ongoing transformation of the U.S. military and the increased reliance on outsourcing by the U.S. Government.

Competitive Strengths

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

- Skilled Personnel and Experienced Management;
- Employee Ownership and Core Values;

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

Growth Strategy

We are focused on continuing to grow our business as a leading scientific, engineering, systems integration and technical services and solutions company. In our Government segment, we seek to become the leading provider of systems engineering, systems integration and technical services and solutions by focusing on the U.S. Government s increased emphasis on defense transformation, intelligence and homeland defense. In addition, we plan to continue to pursue strategic acquisitions in areas such as these, where we anticipate higher 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 and solutions 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 challenging environments and produce actionable intelligence.

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

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

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

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

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.

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On September 27, 2006, the stockholders of Old SAIC adopted and approved a merger agreement providing for the merger of Old SAIC with New SAIC s wholly-owned subsidiary, SAIC Merger Sub, Inc. The purpose of the merger is to effect a capital restructuring, which is a necessary step in order to complete this offering. We refer to this merger in this prospectus as the reorganization merger. After the reorganization merger, Old SAIC will be a wholly-owned subsidiary of New SAIC and Old SAIC stockholders will become New SAIC stockholders. We expect to complete the reorganization merger before the completion of this offering, and the completion of the reorganization merger is a condition to the completion of this offering. After the reorganization merger and upon the completion of this offering, our current stockholders will hold approximately 81% of our total outstanding capital stock and 98% of our total voting power. Unless we indicate otherwise, the information in this prospectus assumes that we complete the reorganization merger.

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

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THE OFFERING

Common stock offered by us	75,000,000 shares	
Stock to be outstanding immediately after completion of this offering:		
Common stock		75,000,000 shares
Class A preferred stock, divided into four series:		
Series A-1 preferred stock	65,214,563 shares	
Series A-2 preferred stock	65,214,563 shares	
Series A-3 preferred stock	97,821,845 shares	
Series A-4 preferred stock	97,821,845 shares	
Total class A preferred stock		326,072,816 shares
Total capital stock		401,072,816 shares
Voting rights:		
Common stock	One vote per share	
Class A preferred stock	10 votes per share	
NYSE symbol	SAI	

Net proceeds from this offering will be approximately $1.1 billion, or $1.2 billion if the underwriters exercise their over-allotment option in full, based on the initial public offering price of $15 per share, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. A special dividend was declared prior to this offering by our principal operating subsidiary, Old SAIC, and, following completion of this offering, will be paid from cash held by the subsidiary to its former stockholders of record as of October 12, 2006. The aggregate amount of the special dividend is estimated to be $2.45 billion, based on the total shares of Old SAIC common stock outstanding as of September 30, 2006. We will not pay this special dividend on shares sold in this offering. The special dividend will exceed the net proceeds from this offering by approximately $1.4 billion. See Use of Proceeds and The Merger and the Special Dividend.

The principal purpose of this offering is to better enable us to use our cash and cash flows generated from operations to fund internal growth and growth through acquisitions as well as provide us with publicly traded stock that can be used for future acquisitions. Creating a public market for our common stock will ultimately eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market or in other transactions.

The payment of the special dividend is conditioned upon the completion of this offering. We do not expect to pay any other dividends on our capital stock in the foreseeable future and 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 available cash, estimated cash needs, earnings, financial condition, operating results, capital requirements, applicable contractual restrictions and other factors our board of directors deems relevant. See Use of Proceeds, Dividend Policy and The Merger and the Special Dividend.

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

The number of shares of class A preferred stock that will be outstanding immediately after the completion of this offering is based on 159,002,268 shares of Old SAIC class A common stock and 201,707 shares of Old SAIC class B common stock outstanding as of July 31, 2006 (which will convert into shares of New SAIC class A preferred stock pursuant to the reorganization merger described below), and excludes the following:

- 55,191,326 shares of New SAIC class A preferred stock issuable upon exercise of options to purchase 27,595,663 shares of Old SAIC class A common stock, which will be assumed by New SAIC in the reorganization merger, with a weighted-average exercise price of $18.10 per share (such number of shares and price being adjusted for the reorganization merger, but not for the anticipated increase in the number of shares and decrease in weighted-average exercise price resulting from payment of the special dividend); and
- 84,000,000 shares of New SAIC stock (which can be issued as class A preferred stock or common stock) initially reserved for future grants under our 2006 Equity Incentive Plan and 2006 Employee Stock Purchase Plan.

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

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

Old SAIC financial statements have not been adjusted to give effect to the reorganization merger.

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

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SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the summary consolidated financial data presented below in conjunction with Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements, unaudited condensed consolidated financial statements and the related notes included elsewhere in this prospectus. The summary consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2006, 2005 and 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus.

The summary consolidated financial data presented below under Consolidated Statement of Income Data for the six months ended July 31, 2006 and 2005 and Consolidated Balance Sheet Data as of July 31, 2006 have been derived from our unaudited condensed consolidated financial statements that are included elsewhere in this prospectus and have been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

The special dividend of $15 per share of Old SAIC class A common stock and $300 per share of Old SAIC class B common stock is equivalent to a dividend of $7.50 per share of New SAIC class A preferred stock. The pro forma earnings per share and pro forma equivalent share data reflect the dilutive effect of the completion of the reorganization merger for the periods presented. The pro forma as adjusted earnings per share and the pro forma as adjusted equivalent share data reflect the dilutive effect of the special dividend that exceeds earnings for the year ended January 31, 2006 and the completion of the reorganization merger. For purposes of computing pro forma earnings per share, New SAIC class A preferred stock has been treated as if it is common stock since the holders of New SAIC class A preferred stock will have the same rights and privileges, except for voting rights, as holders of New SAIC common stock. The pro forma consolidated balance sheet data reflect the balance sheet data as of July 31, 2006, after giving effect to Old SAIC s special dividend and the completion of this offering. The pro forma as adjusted consolidated balance sheet data reflect the balance sheet data as of July 31, 2006, after giving effect to the special dividend, the completion of the reorganization merger and the completion of the sale of common stock by us in this offering at the initial public offering price of $15 per share ($14.40 per share after deducting estimated underwriting discounts and commissions and offering expenses). Pro forma and pro forma as adjusted cash and cash equivalents and total assets do not reflect the payment of a special dividend estimated to be $2.45 billion in the aggregate, which amount has been reflected as a dividend payable for purposes of this presentation.

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	Year Ended January 31			Six Months Ended July 31	
	2006	2005	2004	2006	2005
	(in millions, except per share data)				
Consolidated Statement of Income Data:					
Revenues	$ 7,792	$ 7,187	$ 5,833	$ 4,013	$ 3,798
Cost of revenues	6,801	6,283	5,053	3,452	3,303
Selling, general and administrative expenses	494	418	378	261	239
Goodwill impairment			7		
Gain on sale of business units, net		(2)			
Operating income	497	488	395	300	256
Net (loss) gain on marketable securities and other investments, including impairment losses	(15)	(16)	5		(5)
Interest income	97	45	49	63	43
Interest expense	(89)	(88)	(80)	(46)	(44)
Other income (expense), net	7	(12)	5	3	2
Minority interest in income of consolidated subsidiaries	(13)	(14)	(10)	(7)	(6)
Income from continuing operations before income taxes	484	403	364	313	246
Provision for income taxes	139	131	140	116	106
Income from continuing operations	345	272	224	197	140
Income from discontinued operations, net of tax	582	137	127	12	542
Net income	$ 927	$ 409	$ 351	$ 209	$ 682
Earnings per share:					
Basic:					
Income from continuing operations	$ 1.98	$ 1.49	$ 1.22	$ 1.18	$ .79
Income from discontinued operations	3.35	.74	.68	.07	3.06
	$ 5.33	$ 2.23	$ 1.90	$ 1.25	$ 3.85
Diluted:					
Income from continuing operations	$ 1.92	$ 1.45	$ 1.19	$ 1.15	$ .77
Income from discontinued operations	3.23	.73	.67	.07	2.98
	$ 5.15	$ 2.18	$ 1.86	$ 1.22	$ 3.75
Common equivalent shares:					
Basic	174	183	185	167	177
Diluted	180	188	189	172	182
Pro forma earnings per share:					
Basic: (1)					
Income from continuing operations	$ .99	$ .75	$ .61	$ .59	$ .40
Income from discontinued operations	1.67	.37	.34	.04	1.53
	$ 2.66	$ 1.12	$ .95	$ .63	$ 1.93
Diluted: (1)(2)					
Income from continuing operations	$ .96	$ .73	$ .59	$ .57	$ .39
Income from discontinued operations	1.62	.36	.34	.04	1.49

	$ 2.58	$ 1.09	$ .93	$ .61	$ 1.88
Pro forma equivalent shares:					
Basic: (1)	348	365	370	334	354
Diluted: (1)(2)	359	375	377	345	363
Pro forma as adjusted earnings per share:					
Basic: (3)(4)					
Income from continuing operations	$ .76			$ .45	
Income from discontinued operations	1.29			.03	
	$ 2.05			$ .48	
Diluted: (3)(4)					
Income from continuing operations	$ .74			$ .44	
Income from discontinued operations	1.25			.02	
	$ 1.99			$ .46	
Pro forma as adjusted equivalent shares:					
Basic (3)(4)	453			439	
Diluted (3)(4)	465			450	

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	As of July 31, 2006		
	Actual	Pro Forma	Pro Forma as Adjusted
		(in millions)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 2,372	$ 2,372	$ 3,455
Working capital	2,667	221	1,301
Total assets	5,339	5,339	6,419
Long-term debt, net of current portion	1,192	1,192	1,192
Stockholders equity	2,587	141	1,221

	Year Ended January 31			Six Months Ended July 31	
	2006	2005	2004	2006	2005
			(dollars in millions)		
Other Data:					
EBITDA (5)	$ 1,421	$ 687	$ 622	$ 329	$ 1,148
Adjusted EBITDA (6)	563	519	438	330	284
Number of contracts generating more than $10 million in annual revenues (7)	106	91	66	N/A	N/A

	As of January 31			As of July 31
	2006	2005	2004	2006
		(dollars in millions)		
Total consolidated negotiated backlog (8)	$ 15,062	$ 13,416	$ 10,901	$ 16,000
Total consolidated funded backlog (8)	3,888	3,646	3,355	3,998
Total number of employees (9)	43,600	42,400	39,300	43,100

(1) Pro forma earnings per share and pro forma equivalent shares reflect the conversion of each outstanding share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock and each outstanding share of Old SAIC class B common stock into 40 shares of New SAIC class A preferred stock and has been shown for all periods presented as a recapitalization of Old SAIC with New SAIC.

(2) Pro forma diluted earnings per share and pro forma diluted equivalent shares include the effect of converting dilutive securities on the same basis as the Old SAIC class A common stock. The pro forma dilutive equivalent shares are comprised of stock options and other stock awards granted under stock-based compensation plans that were outstanding during the periods noted. These securities have been converted to New SAIC class A preferred stock for the pro forma earnings per share calculation.

(3) Pro forma as adjusted earnings per share and pro forma as adjusted equivalent shares reflect the completion of the reorganization merger and the effect of the payment of the special dividend that exceeds earnings for the period presented and that Old SAIC intends to pay to its stockholders following completion of this offering. See Use of Proceeds, Capitalization and The Merger and the Special Dividend.

(4) Pro forma as adjusted earnings per share and pro forma as adjusted equivalent shares for both basic and diluted computations assume the sale of 105 million shares of our common stock and net proceeds of $14.40 per share. Such shares represent the assumed number of shares of our common stock necessary to be sold in this offering to replace the capital in excess of earnings for the year ended January 31, 2006 being withdrawn for the special dividend to be paid by

Old SAIC. Pro forma as adjusted earnings per share and pro forma as adjusted equivalent shares for both basic and diluted computations also reflect the conversion of each outstanding share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock and each outstanding share of Old SAIC class B common stock into 40 shares of New SAIC class A preferred stock.

(5) 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

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(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	
	2006	2005	2004	2006	2005
			(in millions)		
Net income	$ 927	$ 409	$ 351	$ 209	$ 682
Interest income	(97)	(45)	(49)	(63)	(43)
Interest expense	89	88	80	46	44
Provision for income taxes	432	149	159	103	434
Depreciation and amortization	70	86	81	34	31
EBITDA	$ 1,421	$ 687	$ 622	$ 329	$ 1,148

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

The following is a reconciliation of Adjusted EBITDA to EBITDA.

	Year Ended January 31			Six Months Ended July 31	
	2006	2005	2004	2006	2005
			(in millions)		
EBITDA	$ 1,421	$ 687	$ 622	$ 329	$ 1,148
Income from discontinued operations, net of tax	(582)	(137)	(127)	(12)	(542)
Depreciation and amortization of discontinued operations		(30)	(44)		
Provision for income taxes of discontinued operations	(293)	(18)	(19)	13	(328)
Gain on sale of business units and subsidiary common stock		(2)			
Goodwill impairment			7		
Net loss (gain) on marketable securities and other investments, including impairment losses	15	16	(5)		5
Investment activities by venture capital subsidiary	2	3	4		1
Adjusted EBITDA	$ 563	$ 519	$ 438	$ 330	$ 284

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

(8) 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 revenues 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 Key Financial Metrics Sources of Revenues Backlog and Business Contracts Backlog.

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

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RISK FACTORS

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

Risks Relating to Our Business

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

We are heavily dependent upon the U.S. Government as our primary customer and we believe that the success and development of our business will continue to depend on our successful participation in U.S. Government contract programs. We generated 89%, 86% and 85% of our total consolidated revenues from the U.S. Government (including all branches of the U.S. military) in fiscal 2006, 2005 and 2004, respectively. Revenues from the U.S. Army represented 16%, 13% and 13% of our total consolidated revenues in fiscal 2006, 2005 and 2004, respectively. Revenues from the U.S. Navy represented 14%, 13% and 12% of our total consolidated revenues in fiscal 2006, 2005 and 2004, respectively. Revenues from the U.S. Air Force represented 10%, 11% and 11% of our total consolidated revenues in fiscal 2006, 2005 and 2004, respectively.

For the foreseeable future, we expect to continue to derive a substantial portion of our revenues from work performed under U.S. Government contracts. Our reputation and relationship with the U.S. Government, and in particular with the agencies of the Department of Defense (DoD) and the U.S. intelligence community, is a key factor in maintaining and growing revenues under contracts with the U.S. Government. Negative press reports regarding poor contract performance, employee misconduct, information security breaches or other aspects of our business could harm our reputation, particularly with these agencies. If our reputation with these agencies is negatively affected, or if we are suspended or debarred from contracting with government agencies for any reason, such actions would decrease the amount of business that the U.S. Government does with us and our future revenues and growth prospects would be adversely affected.

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

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

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

As of July 31, 2006, our total consolidated negotiated backlog was $16.0 billion, which included $4.0 billion in funded backlog (for information regarding our historical backlog levels, see Business Contracts Backlog). 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. Due to the uncertain nature of our contracts with the U.S. Government and the rights of our customers in our Commercial segment to cancel contracts and purchase orders in certain circumstances, we may never realize revenues from some of the engagements that are included in our backlog. Our unfunded backlog, in particular, contains amounts

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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 certain types of contracts that are subject to a competitive bidding process. Due to this competitive pressure, we may be unable to sustain our revenue growth and profitability.

The U.S. Government has increasingly been using contract vehicles, such as indefinite delivery/indefinite quantity (IDIQ), government-wide acquisition contracts (GWACs) and General Services Administration (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. These contracts are typically subject to a competitive bidding process that results 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. The competitive bidding process also presents a number of more general risks, including the risk of unforeseen technological difficulties and cost overruns that may result from our bidding on programs before completion of their design and the risk that we may encounter expense, delay or modifications to previously awarded contracts as a result of our competitors protesting or challenging contracts awarded to us in competitive bidding. Our failure to compete effectively in this procurement environment would adversely affect our revenues and/or profitability.

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 profit margins than our labor-related revenues. Our labor-related revenues increased by 6% from fiscal 2005 to 2006 and by 16% from fiscal 2004 to 2005, while our M&S revenues increased by 13% from fiscal 2005 to 2006 and by 39% from fiscal 2004 to 2005. M&S revenues accounted for 37%, 36% and 32% of our total consolidated revenues for fiscal 2006, 2005 and 2004, respectively, and labor-related revenues accounted for 63%, 64% and 68% of our total consolidated revenues for fiscal 2006, 2005 and 2004, 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.

Revenues under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented 69% of our total consolidated revenues in fiscal 2006. 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 natural disasters, 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 conducted a strategic review of the U.S. defense budget in government fiscal 2005 and 2006, known as the Quadrennial Defense Review (QDR), and the results of this strategic review may result in 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.

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. For example, the delay in the approval of a supplemental spending bill in government fiscal 2006 resulted in procurement delays by the U.S. Government. Similar 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 accurately estimate 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

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 (Greek contract) to provide the security infrastructure that was used to support the 2004 Athens Summer Olympic Games and to serve as the security system for the Greek government s public order departments after the Olympic Games. The Greek government has not made various payments under this contract and has not yet formally accepted the security infrastructure, which contains certain omissions and deviations from the contractual requirements. In 2005, we submitted a proposal for an alternative technical approach for the Command Decision and Support System (subsystems 1-7) and are attempting to address the omissions and deviations identified on the other subsystems. We have been negotiating for many months with the Greek government for a contractual modification to address technical, financial and contractual issues. To date, a mutually satisfactory agreement on the contractual modification has not been reached.

In accordance with the terms of the Greek contract, we are required to provide certain payment performance and offset bonds in favor of the Greek government. These bonding requirements have been met through the issuance of standby letters of credit. Under the terms of these bonding arrangements, the Greek government currently has the right to call some or all of the $245 million of standby letters of credit outstanding. The letters of credit supporting the payment bonds ($159 million) and performance bonds ($33 million) may be called by the Greek government by submitting a written statement to the guaranteeing bank that we have not fulfilled our obligations under the Greek contract. The letters of credit supporting the offset bonds ($53 million) may be called by the Greek government by submitting a written statement to the guaranteeing bank that we have not fulfilled our obligations under a separate offset contract requiring us, among other things, to use Greek subcontractors on the Greek contact. If this occurs, the banks issuing the letters of credit supporting these bonding arrangements will be entitled to immediate payment from us for the amount obtained from the guaranteeing banks by the Greek government, reducing our cash balances. Although we believe that any amounts obtained by the Greek government through the calling of these letters of credit may be retained by the Greek government only as security against any actual damages it proves in arbitration, if the Greek government does call these letters of credit, we can make no assurances as to whether we will be successful in arbitration or able to recover amounts owed from the Greek government.

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 on us of the resolution of these issues. On April 21, 2006, we instituted arbitration proceedings before the International Chamber of Commerce to pursue our rights and remedies related to this contract. We are seeking total damages in excess of $76 million, with the precise amount to be proven in arbitration. The Greek government filed its response to our arbitration complaint on July 29, 2006 generally denying our claims. Although the Greek government reserved its right to assert a claim in the arbitration proceedings in the future, its response did not include a counterclaim. Under the terms of the contract, disputes are subject to ultimate resolution by binding arbitration before a panel of three Greek arbitrators in Greece. Due to the complex nature of the legal and factual issues involved and the uncertainty of litigation in general, the outcome of the arbitration is uncertain. There is no assurance that we will prevail in the arbitration.

While we are still pursuing the execution of an acceptable contract modification with the Greek government, based upon our inability to obtain such modification for more than two years, we believe it is most likely that the resolution of the issues surrounding the Greek contract will be determined in arbitration under the proceedings described above or through a negotiated settlement with the Greek government. Due to the complex nature of the issues surrounding the Greek contract, resolution is uncertain and will depend upon future negotiations with the Greek government or the outcome of the arbitration proceedings. Successful imposition of damages or claims by the Greek government or subcontractors against us, the calling of our bonds, additional contract costs required to fulfill our obligations, or additional revenue reductions arising from the negotiation of the Greek contract modification could have a material adverse affect on our consolidated financial position, results of operations and cash flows.

We have received $147 million of payments from the Greek government under the contract and recognized as revenues only $120 million of the total system price of $199 million. As of July 31, 2006, we have recorded $123 million of losses on this contract and unfavorable resolution of this matter could further adversely affect our profitability and cash balances. In the event we do not prevail in the arbitration or are unable to resolve the various disputes under the Greek contract, we could incur additional losses. If the Greek government asserts claims against us in the arbitration and it is determined that we have breached the Greek contract and, as a result, owe the Greek government damages, such damages could include, but are not limited to, (1) re-procurement costs, (2) repayment of amounts paid of $147 million under the Greek contact, (3) penalties for delayed delivery in an amount up to $15 million, and (4) forfeiture of good performance bonds in the amount of $33 million. See Management s Discussion and Analysis of Financial Condition and Results of Operations Commitments and Contingencies Firm Fixed-Price Contract with the Greek Government, Business Legal Proceedings and Note 10 of the notes to condensed consolidated financial statements for the six months ended July 31, 2006.

We use estimates in recognizing revenue, and changes in our estimates could adversely affect our future financial results.

Revenues from our contracts are primarily recognized using the percentage-of-completion method 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 estimates of total costs at completion. Estimating costs at completion on our long-term contracts, particularly due to the technical nature of the services being performed, is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimate is recognized as events become known. Should updated 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 requires further adjustments in our consolidated financial statements, as was the case with the Greek contract. Due to the size of many of our contracts, changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect future financial results.

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

Our 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 and this may affect our growth in the current fiscal year and in future years. 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.

Additionally, in the past, we have promoted our employee ownership culture as a competitive advantage in recruiting and retaining employees. Although we intend to retain the essential elements of an employee ownership culture, if our employees or recruits perceive that becoming a publicly traded company will negatively impact our employee ownership culture, our ability to recruit and retain employees may be adversely impacted.

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

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senior management team and its ability to generate new business. Our inability to retain appropriately qualified and experienced senior executives could cause us to lose customer relationships or new business opportunities.

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

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

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

Because we are a U.S. Government contractor, misconduct, fraud or other improper activities by our employees or our failure to comply with laws or regulations could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with U.S. Government procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in U.S. Government contracts, regulations on lobbying or similar activities, 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 Regulation and 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

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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 if allegations of impropriety were made against us, which would impair our ability to win awards of contracts in the future or receive renewals of existing contracts. We are from time to time subject to investigations by the DoD and other agencies. Although we have never had any material penalties or administrative sanctions imposed upon us, such penalties and sanctions are not uncommon in the industry. If we incur a material penalty or administrative sanction or otherwise suffer harm to our reputation, our profitability, cash position and future prospects 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, pricing practices 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 has resulted in material adjustments and all of our indirect contract costs have been agreed upon through fiscal 2004 and are not subject to further adjustment. We have recorded contract revenues in fiscal 2006, 2005 and 2004 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, time and resources, or to effectively manage and control 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 the estimated costs on which the prices are negotiated. 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, as well as assumptions regarding technical issues. In each case, our failure to accurately estimate costs or the resources and technology needed to perform our contracts or to effectively manage and control our costs during the performance of our work could result, and in some instances, including the Greek contract, 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 contractual disputes or other 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.

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 and we may be unable to recover investments made in any such acquisitions
- 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 effectively influence the operations of our joint ventures, which 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 fail 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.

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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. We will be making significant changes to our internal financial systems through fiscal 2009, which could also subject us to systems failures. 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 future results could be adversely affected.

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 future results could be adversely affected.

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

We face risks associated with our international business.

Approximately 3% of our total consolidated revenues in each of fiscal 2006, 2005 and 2004 was generated by SAIC entities outside of the United States. Additionally, our domestic entities periodically enter into contracts with foreign customers. These international business operations are subject to a variety of the risks associated with conducting business internationally, including:

- changes in or interpretations of foreign laws, regulations or policies that may adversely affect the performance of our services, sale of our products or repatriation of our profits to the United States

- the imposition of tariffs

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- 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 laws, business practices and customs are unfamiliar or 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 and arbitration proceedings
- compliance with a variety of U.S. laws, including the Foreign Corrupt Practices Act
- compliance 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
- compliance 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. Failure to comply with U.S. Government laws and regulations applicable to international business like the Foreign Corrupt Practices Act or U.S. export control regulations could have an adverse impact on our business with the U.S. Government. Additionally, these risks relating to international operations may expose us to potentially significant contract losses. For example, we have incurred significant losses under our Greek contract, and a portion of these losses may be attributable to difficulties associated with conducting business internationally.

We face aggressive competition that can impact our ability to obtain contracts and therefore affect our future revenues and growth prospects.

Our business is highly competitive in both the Government and Commercial segments. 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.

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, 2006, we had approximately $1.2 billion in notes payable and long-term debt. The terms of our credit facility place certain limitations on our ability to undertake extraordinary corporate transactions, such as a sale of significant assets. As a result, it may be more difficult for us to take these actions and the interests of our creditors in such transactions may be different from the interests of our stockholders. Additionally, the existence of this debt may make it more difficult for us to borrow additional amounts at favorable rates. For additional information regarding our existing indebtedness, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Outstanding Indebtedness.

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Risks Relating to Our Stock

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

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

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

Although Old SAIC has sponsored a limited market in its common stock, there has been no public market for our common stock prior to this offering. The initial public offering price of our common stock has been negotiated with the lead underwriters and the market price at which our common stock will trade following this offering will be determined by market forces. The underwriters and public investors who trade in our common stock may give different weight to factors or valuation methodologies or consider new factors or valuation methodologies other than those relied upon in determining the historical price of Old SAIC common stock. Therefore, the price negotiated with the lead underwriters and the market price at which our common stock will trade following this offering may be lower than the historical prices of Old SAIC common stock. In addition, we cannot predict the extent to which a trading market will develop for our common stock or how liquid that market might become.

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

- actual or anticipated variations in quarterly operating results
- changes in financial estimates by us, by investors or by any financial analysts who might cover our stock
- our ability to meet the performance expectations of financial analysts or investors
- negative publicity regarding us, including relating to poor performance on a particular contract, employee misconduct or information security breaches

- disclosure of non-compliance with government laws and regulations relating to the protection of classified information, the procurement of government contracts and the conduct of lobbying and other activities

- changes in market valuations of other companies in our industry

- the expiration of the applicable restriction periods to which the class A preferred stock is subject or the conversion of certain shares of class A preferred stock held in our retirement plans prior to the expiration of the applicable restrictions, which could result in additional shares of our common stock being sold in the market

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- 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 this offering

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

Old SAIC declared a special dividend payable to its stockholders of record. The net proceeds from this offering will be less than the amount of this dividend and we will have less cash available after this offering and the payment of the special dividend.

Old SAIC declared a special dividend to holders of record of Old SAIC class A and class B common stock as of October 12, 2006. The dividend is estimated to be $2.45 billion in the aggregate, payable following completion of the offering. The special dividend will exceed the net proceeds from this offering by approximately $1.4 billion. 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 and may need to borrow funds for operating capital. Additionally, this reduction in our cash balances may result in a downgrade in our credit rating, which may increase our borrowing costs.

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

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

The Sarbanes-Oxley Act of 2002 requires us to document and test our internal controls over financial reporting as of fiscal 2008 and requires our independent registered public accounting firm to report on our assessment as to the effectiveness of these controls. Any delays or difficulty in satisfying these requirements could cause some investors to lose confidence in, or otherwise be unable to rely on, the accuracy of our reported financial information, which could adversely affect the trading price of our common stock.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal controls over financial reporting in accordance with an established internal control framework and to report on our conclusion as to the effectiveness of our internal controls. It also requires our independent registered public accounting firm to test our internal controls over financial reporting and report on the effectiveness of such controls as of January 31, 2008. Our independent registered public accounting firm is also required to test, evaluate and report on management s assessment of internal control.

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 (which was corrected in an amendment to our Annual Report on Form 10-K for fiscal 2004). Although we believe we have remediated this weakness, similar or other weaknesses may be identified. If we conclude that our controls are not effective or if our independent registered public accounting firm concludes that either our controls are not effective or that we did not appropriately document and test our controls, investors could lose confidence in, or otherwise be unable to rely on, our reported financial information, which could adversely affect the trading price of our common stock.

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

We cannot predict the effect, if any, that market sales of our common stock or the availability of shares for sale will have on the market price prevailing from time to time. These sales may also make it more difficult for us to raise capital through the issuance of equity securities at a time and at a price we deem appropriate.

Upon the completion of this offering, there will be 401,072,816 shares of our common and class A preferred stock outstanding. Of these shares, 75,000,000 shares of common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act of 1933 (Securities Act). The remaining 326,072,816 shares are shares of class A preferred stock. Most of these shares are subject to restrictions on transfer and conversion into common stock that lapse over a 360-day period following the commencement of trading of our common stock on the NYSE. However, as a result of the recent enactment of the Pension Protection Act of 2006, up to an estimated 100 million shares of the class A preferred stock held in our retirement plans may be converted into common stock and sold at the direction of plan participants effective January 1, 2007 as described in Shares Eligible for Future Sale. These shares would represent approximately 30% of the class A preferred stock to be outstanding immediately following completion of this offering.

The holders of class A preferred stock have owned shares of our stock for many years and have not had access to a public market in which to sell their shares. After the restriction periods described in Shares Eligible for Future Sale expire or the diversification rights of the Pension Protection Act otherwise become applicable to shares held in our retirement plans, shares of class A preferred stock will be convertible on a one-for-one basis into shares of common stock. A significant number of holders of our class A preferred stock may convert their shares to take advantage of the public market in common stock. Subject to certain limitations, those shares of common stock will be freely tradable without restriction following their conversion as described in Description of Capital Stock and Shares Eligible for Future Sale. In addition to outstanding shares eligible for sale, additional shares of our class A preferred stock will be issuable upon completion of this offering under currently outstanding stock options. Substantial sales of these shares could adversely affect the market price of the 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 certificate of incorporation and bylaws may have the effect of delaying, discouraging or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These restrictions, which may also make it more difficult for our stockholders to elect directors not endorsed by our current directors and management, include the following:

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements that are based on our management s belief and assumptions about the future in light of information currently available to our management. These statements relate 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, including our ability to resolve issues related to the Greek contract;
- 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 in which we operate; and

- our ability to execute our business plan effectively and to overcome these and other known and unknown risks that we face.

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

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USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of our shares of common stock in this offering of approximately $1.1 billion, or $1.2 billion if the underwriters exercise their over-allotment option in full, based on the initial public offering price of $15 per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Old SAIC declared a special dividend to holders of record of Old SAIC class A and class B common stock as of October 12, 2006. The dividend is estimated to be $2.45 billion in the aggregate, payable following completion of the offering. The special dividend will exceed the net proceeds from this offering by approximately $1.4 billion. Following the completion of this offering, we will have, on a consolidated basis, cash of approximately $3.5 billion to pay the special dividend. Cash remaining after the special dividend payment and borrowing capacity under our credit facility will be used for general corporate purposes, including working capital, capital spending, internal growth initiatives and possible investments in, or acquisitions of, complementary businesses, services or technologies. The payment of the special dividend is conditioned upon the completion of this offering. See The Merger and the Special Dividend.

The principal purpose of this offering is to better enable us to use our cash and cash flows generated from operations to fund internal growth and growth through acquisitions, as well as to provide us with publicly traded stock that can be used for future acquisitions. Creating a public market for our common stock will ultimately eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market or in other transactions.

DIVIDEND POLICY

Old SAIC has never declared or paid any cash dividends on its capital stock other than the special dividend. The special dividend of $15 per share of Old SAIC class A common stock and $300 per share of Old SAIC class B common stock payable to holders of record as of October 12, 2006 is equivalent to a dividend of $7.50 per share of New SAIC class A preferred stock. The aggregate amount of the special dividend is estimated to be $2.45 billion, based on the total shares of Old SAIC common stock outstanding as of September 30, 2006. 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 available cash, estimated cash needs, earnings, financial condition, operating results, capital requirements, applicable contractual restrictions and other factors our board of directors deems relevant.

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CAPITALIZATION

The following table sets forth our liquid assets and capitalization as of July 31, 2006:

- on an actual basis;
- on a pro forma basis to reflect the completion of the reorganization merger and the special dividend of $7.50 per equivalent share of New SAIC class A preferred stock; and
- on a pro forma as adjusted basis to reflect the completion of the reorganization merger, the completion of this offering at the initial public offering price of $15 per share (and after deducting estimated underwriting discounts and commissions and offering expenses) and the special dividend of $7.50 per equivalent share of New SAIC class A preferred stock.

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

	As of July 31, 2006		
	Actual	Pro Forma	Pro Forma as Adjusted
	(in millions, except share data)		
Cash and cash equivalents (1)	$ 2,372	$ 2,372	$ 3,455
Debt:			
Notes payable and current portion of long-term debt	23	23	23
Long-term debt, net of current portion	1,192	1,192	1,192
Total debt	1,215	1,215	1,215
Stockholders equity:			
Preferred stock of Old SAIC: $.05 par value; 3,000,000 shares authorized; 0, 0 and 0 shares issued			
Class A common stock of Old SAIC: $.01 par value; 1,000,000,000 shares authorized; 159,002,268, 0 and 0 shares issued	2		
Class B common stock of Old SAIC: $.05 par value; 5,000,000 shares authorized; 201,707, 0 and 0 shares issued			
Series A-1 preferred stock of New SAIC: $.0001 par value; 100,000,000 shares authorized; 0, 65,214,563 and 65,214,563 shares issued			
Series A-2 preferred stock of New SAIC: $.0001 par value; 100,000,000 shares authorized; 0, 65,214,563 and 65,214,563 shares issued			
Series A-3 preferred stock of New SAIC: $.0001 par value; 150,000,000 shares authorized; 0, 97,821,845 and 97,821,845 shares issued			

Series A-4 preferred stock of New SAIC: $.0001 par value; 1,150,000,000 shares authorized; 0, 97,821,845 and 97,821,845 shares issued			
Common stock of New SAIC: $.0001 par value; 2,000,000,000 shares authorized; 0, 0 and 75,000,000 shares issued			
Additional paid-in capital	2,524	236	1,316
Retained earnings	156		
Other stockholders equity	(63)	(63)	(63)
Accumulated other comprehensive loss	(32)	(32)	(32)
Total stockholders equity	2,587	141	1,221
Total capitalization	$ 3,802	$ 1,356	$ 2,436

(1) Pro forma and pro forma as adjusted cash and cash equivalents does not reflect the payment of special dividend estimated to be $2.45 billion in the aggregate, which amount has been reflected as a dividend payable for purposes of this presentation.

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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 audited consolidated financial statements, unaudited condensed consolidated financial statements and the related notes included elsewhere in this prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2006, 2005 and 2004 and the selected consolidated financial data presented below under Consolidated Balance Sheet Data as of January 31, 2006 and 2005 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2003 and 2002 and under Consolidated Balance Sheet Data as of January 31, 2004, 2003 and 2002 have been derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the six months ended July 31, 2006 and 2005 and Consolidated Balance Sheet Data as of July 31, 2006 have been derived from our unaudited condensed consolidated financial statements that are included elsewhere in this prospectus and have been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

The special dividend of $15 per share of Old SAIC class A common stock and $300 per share of Old SAIC class B common stock is equivalent to a dividend of $7.50 per share of New SAIC class A preferred stock. The pro forma earnings per share and pro forma equivalent share data contained in the selected consolidated financial data presented below reflect the dilutive effect of the completion of the reorganization merger for the periods presented. The pro forma as adjusted earnings per share and pro forma as adjusted equivalent share data reflect the dilutive effect of the special dividend that exceeds earnings for the year ended January 31, 2006 and the completion of the reorganization merger. For purposes of computing pro forma earnings per share, New SAIC class A preferred stock has been treated as if it is common stock since the holders of New SAIC class A preferred stock will have the same rights and privileges, except for voting rights, as holders of New SAIC common stock. See Use of Proceeds, Capitalization and The Merger and the Special Dividend.

	Year Ended January 31					Six Months Ended July 31	
	2006	**2005**	**2004**	**2003**	**2002**	**2006**	**2005**
	(in millions, except per share data)						
Consolidated Statement of Income Data:							
Revenues	$ 7,792	$ 7,187	$ 5,833	$ 4,835	$ 4,374	$ 4,013	$ 3,798
Cost of revenues	6,801	6,283	5,053	4,169	3,786	3,452	3,303
Selling, general and administrative expenses	494	418	378	347	352	261	239
Goodwill impairment			7	13			
Gain on sale of business units, net		(2)		(5)	(10)		
Operating income	497	488	395	311	246	300	256
Net (loss) gain on marketable securities and other investments, including impairment losses (1)	(15)	(16)	5	(134)	(456)		(5)
Interest income	97	45	49	37	50	63	43
Interest expense	(89)	(88)	(80)	(45)	(14)	(46)	(44)
Other income (expense), net	7	(12)	5	6	10	3	2
Minority interest in income of consolidated subsidiaries	(13)	(14)	(10)	(7)	(5)	(7)	(6)
Income (loss) from continuing operations before income taxes	484	403	364	168	(169)	313	246
Provision (benefit) for income taxes	139	131	140	61	(80)	116	106

Income (loss) from continuing operations	345	272	224	107	(89)	197	140
Income from discontinued operations, net of tax	582	137	127	152	107	12	542
Cumulative effect of accounting charge, net of tax					1		
Net income	$ 927	$ 409	$ 351	$ 259	$ 19	$ 209	$ 682

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	Year Ended January 31					Six Months Ended July 31	
	2006	2005	2004	2003	2002	2006	2005
	(in millions, except per share data)						
Earnings per share: (2)							
Basic:							
Income (loss) from continuing operations	$ 1.98	$ 1.49	$ 1.22	$ .55	$ (.41)	$ 1.18	$ .79
Income from discontinued operations	3.35	.74	.68	.77	.50	.07	3.06
	$ 5.33	$ 2.23	$ 1.90	$ 1.32	$ .09	$ 1.25	$ 3.85
Diluted:							
Income (loss) from continuing operations	$ 1.92	$ 1.45	$ 1.19	$ .53	$ (.41)	$ 1.15	$ .77
Income from discontinued operations	3.23	.73	.67	.75	.50	.07	2.98
	$ 5.15	$ 2.18	$ 1.86	$ 1.28	$ .09	$ 1.22	$ 3.75
Common equivalent shares:							
Basic	174	183	185	196	215	167	177
Diluted	180	188	189	203	215	172	182
Pro forma earnings per share:							
Basic: (3)							
Income from continuing operations	$ .99	$ .75	$ .61	$ .27	$ (.21)	$ .59	$ .40
Income from discontinued operations	1.67	.37	.34	.39	.25	.04	1.53
	$ 2.66	$ 1.12	$ .95	$ .66	$ .04	$ .63	$ 1.93
Diluted: (3)(4)							
Income from continuing operations	$ .96	$ .73	$ .59	$ .26	$ (.21)	$ .57	$ .39
Income from discontinued operations	1.62	.36	.34	.38	.25	.04	1.49
	$ 2.58	$ 1.09	$ .93	$ .64	$ .04	$ .61	$ 1.88
Pro forma equivalent shares:							
Basic: (3)	348	365	370	392	430	334	354
Diluted: (3)(4)	359	375	377	406	430	345	363
Pro forma as adjusted earnings per share:							
Basic: (5)(6)							
Income from continuing operations	$ .76					$ .45	
Income from discontinued operations	1.29					.03	
	$ 2.05					$ .48	
Diluted: (5)(6)							
Income from continuing operations	$ .74					$ .44	
Income from discontinued operations	1.25					.02	

	$ 1.99	$ .46
Pro forma as adjusted equivalent shares:		
Basic (5)(6)	453	439
Diluted (5)(6)	465	450

	As of January 31					As of July 31
	2006	2005	2004	2003	2002	2006
	(in millions)					
Consolidated Balance Sheet Data:						
Total assets	$ 5,655	$ 6,010	$ 5,540	$ 4,876	$ 4,678	$ 5,339
Working capital (7)	2,912	2,687	2,230	1,967	875	2,667
Long-term debt	1,192	1,215	1,232	897	100	1,192
Other long-term liabilities	111	99	86	75	48	109
Stockholders equity	2,807	2,351	2,203	2,020	2,524	2,587

(1) Includes impairment losses of $108 million and $467 million on marketable equity securities and other private investments in 2003 and 2002, respectively.

(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.

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(3) Pro forma earnings per share and pro forma equivalent shares reflect the conversion of each outstanding share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock and each outstanding share of Old SAIC class B common stock into 40 shares of New SAIC class A preferred stock and has been shown for all periods presented as a recapitalization of Old SAIC with New SAIC.

(4) Pro forma diluted earnings per share and pro forma diluted equivalent shares include the effect of converting dilutive securities on the same basis as the Old SAIC class A common stock. The pro forma dilutive equivalent shares are comprised of stock options and other stock awards granted under stock-based compensation plans that were outstanding during the periods noted. These securities have been converted to New SAIC class A preferred stock for the pro forma earnings per share calculation.

(5) Pro forma as adjusted earnings per share and pro forma as adjusted equivalent shares reflect the completion of the reorganization merger and the effect of the special dividend that exceeds earnings for the period presented and that Old SAIC intends to pay to its stockholders following completion of this offering. See Use of Proceeds, Capitalization and The Merger and the Special Dividend.

(6) Pro forma as adjusted earnings per share and pro forma as adjusted equivalent shares for both basic and diluted computations assume the sale of 105 million shares of our common stock and net proceeds of $14.40 per share. Such shares represent the assumed number of shares of our common stock necessary to be sold in this offering to replace the capital in excess of earnings for the year ended January 31, 2006 being withdrawn for the special dividend to be paid by Old SAIC. Pro forma as adjusted earnings per share and pro forma as adjusted equivalent shares for both basic and diluted computations also reflect the conversion of each outstanding share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock and each outstanding share of Old SAIC class B common stock into 40 shares of New SAIC class A preferred stock.

(7) Working capital for fiscal 2004 and 2002 excludes the effect of reclassifications for discontinued operations that were made in fiscal 2005 and 2003 in order to conform the fiscal 2004 and 2002 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 our unaudited condensed consolidated financial statements and related notes that appear elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. See Forward-Looking Statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors.

Unless otherwise noted, references to years are for fiscal years ended January 31, not calendar years. For example, we refer to the fiscal year ended January 31, 2006 as fiscal 2006. We are currently in fiscal 2007.

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 customers in selected commercial markets. Demand for our services has been driven by priorities such as 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 in this Management s Discussion and Analysis of Financial Condition and Results of Operations are presented for our continuing operations only.

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 92% and 93% of our total consolidated revenues for the six months ended July 31, 2006 and 2005, respectively, and 94% of our total consolidated revenues in fiscal 2006 and 2005 and 93% of our total consolidated revenues in fiscal 2004. Within the Government segment, substantially all of our revenues are derived from contracts with the U.S. Government. Revenues from contracts with the U.S. Government accounted for 89%, 86% and 85% of our total consolidated revenues in fiscal 2006, 2005 and 2004, respectively. 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.

Following 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 through fiscal 2005. Our results have also been favorably impacted by increased outsourcing of information technology (IT) and other technical services by the U.S. Government. However, these favorable trends have slowed in fiscal 2006 and 2007 as a result of the diversion of funding toward the ongoing military deployment in Iraq and Afghanistan. Future levels of spending and authorizations may decrease, remain constant or shift to areas where we do not currently provide services. Additionally, changes in spending authorizations and budgetary priorities could occur due to the significant relief and recovery costs associated with natural disasters, the rapid growth of the federal budget deficit, increasing political pressure to reduce overall levels of government spending or other factors.

Competition for contracts with the U.S. Government is intense. In addition, in recent years, the U.S. Government has increasingly used contracting processes that give it the ability to select multiple winners or pre-qualify certain contractors to provide various products or services at established general terms and conditions. Such processes include purchasing services and solutions using indefinite delivery / indefinite quantity (IDIQ), government-wide acquisition contract (GWAC), and U.S. General Services Administration (GSA) Schedule 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 Relating to Our Business and Business Contracts.

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Commercial Segment. Through our Commercial segment, we primarily target commercial customers worldwide in selected commercial markets, which currently include 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% of our total consolidated revenues for the six months ended July 31, 2006 and 2005 and in each of fiscal 2006, 2005 and 2004. Revenues from our Commercial segment are primarily driven by our customers desire to reduce their costs related to IT management and other complex technical functions by outsourcing to third-party contractors.

Corporate and Other Segment. Our Corporate and Other segment includes the operations of our broker-dealer subsidiary, Bull, Inc., our internal real estate management subsidiary, Campus Point Realty Corporation, and various corporate activities, including elimination of intersegment revenues. We expect that the operations of Bull, Inc. will cease following the completion of this offering. Our Corporate and Other segment does not contract with third parties for the purpose of generating revenues. However, for internal management reporting purposes, we record certain revenue and expense items incurred by the Government and Commercial segments in the Corporate and Other segment in certain circumstances as determined by our chief operating decision-maker (currently 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, which include allocable indirect costs and fees for labor hours plus reimbursement of our other direct 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 payments to us of a fixed price for specified products, systems and/or services. If actual costs vary from the FFP target costs, we can generate more or less than the targeted amount of profit or even incur a loss. Target cost and fee with risk sharing contracts provide for reimbursement of costs, plus a specified or target fee or profit, if our actual costs equal a negotiated target cost. Under these contracts, if our actual costs are less than the target costs, we receive a portion of the cost underrun as an additional fee or profit. If our actual costs exceed the target costs, our target fee and cost reimbursement are reduced by a portion of the cost overrun. We do not use target cost and fee with risk sharing contracts in our Government segment.

The following table summarizes revenues by contract type as a percentage of total contract revenues for the periods noted:

	Year Ended January 31			Six Months Ended July 31	
	2006	2005	2004	2006	2005
Cost-reimbursement	46%	44%	45%	47%	46%
T&M and fixed price level-of-effort	35	38	38	35	37
FFP and target cost and fee with risk sharing	19	18	17	18	17

Total	100%	100%	100%	100%	100%

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

The following table summarizes labor-related revenues and M&S revenues as a percentage of total consolidated revenues for the periods noted:

	Year Ended January 31			Six Months Ended July 31	
	2006	**2005**	**2004**	**2006**	**2005**
Labor-related	63%	64%	68%	66%	64%
M&S	37	36	32	34	36
Total	100%	100%	100%	100%	100%

The growth of our business is directly related to the receipt of contract awards, the ability to hire personnel to perform on service contracts and contract performance. In fiscal 2006, we derived more than $10 million in annual revenues from each of 106 contracts, compared to 91 and 66 contracts in fiscal 2005 and 2004, respectively. These larger contracts represented 38%, 35% and 31% of our total consolidated revenues in fiscal 2006, 2005 and 2004, respectively. We recognized more than $50 million in annual revenues from ten contracts in fiscal 2006, compared to nine and eight contracts in fiscal 2005 and 2004, 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 contract vehicles, does not determine revenue recognition. See Critical Accounting Policies.

Backlog. Total consolidated negotiated backlog consists of funded backlog and negotiated unfunded backlog. Government segment funded backlog primarily represents the portion of backlog for which funding is appropriated and is payable to us upon completion of a specified portion of work, less revenues previously recognized on these contracts. Commercial segment funded backlog represents the full value on firm contracts, which may cover multiple future years, under which we are obligated to perform less revenues previously recognized on these contracts. Our funded backlog in the Government segment 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. 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 revenues recognized to date. Negotiated unfunded backlog represents (1) firm orders for which funding has not been appropriated or otherwise authorized and (2) unexercised priced contract options. 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.

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The approximate value of our total consolidated negotiated backlog as of January 31, 2006, 2005 and 2004 and July 31, 2006 was as follows:

	As of January 31			As of July 31
	2006	2005	2004	2006
	(in millions)			
Government Segment:				
Funded backlog	$ 3,398	$ 3,333	$ 3,127	$ 3,332
Negotiated unfunded backlog	11,169	9,656	7,359	11,921
Total negotiated backlog	$ 14,567	$ 12,989	$ 10,486	$ 15,253
Commercial Segment:				
Funded backlog	$ 490	$ 313	$ 228	$ 666
Negotiated unfunded backlog	5	114	187	81
Total negotiated backlog	$ 495	$ 427	$ 415	$ 747
Total Consolidated:				
Funded backlog	$ 3,888	$ 3,646	$ 3,355	$ 3,998
Negotiated unfunded backlog	11,174	9,770	7,546	12,002
Total consolidated negotiated backlog	$ 15,062	$ 13,416	$ 10,901	$ 16,000

We expect to recognize a substantial portion of our funded backlog as revenues within the next 12 months. However, the U.S. Government may cancel any contract or purchase order at any time. In addition, certain contracts and purchase orders in the Commercial segment may include provisions that allow the customer to cancel 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 and overhead. Overhead consists of indirect costs relating to operations, rent/facilities, administration, certain depreciation, management information systems, 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 certain management information systems expenses. SG&A also includes bid-and-proposal and independent research and development expenses.

Factors Affecting Our Results of Operations

Greek Contract. Our contract with the Hellenic Republic of Greece, or the Greek government (the Customer) as described in Commitments and Contingencies has adversely impacted and may continue to adversely impact our results of operations. We have recorded $123 million in contract losses since the inception of this contract including $2 million relating to foreign currency translation during the six months ended July 31, 2006 and $16 million in contract losses for the six months ended July 31, 2005. In fiscal 2006, based on the results of activities conducted to review the omissions and deviations identified by the Customer and additional communication with the Customer, we recorded total contract losses of $83 million. This compares to contract losses of $34 million for fiscal 2005. This contract may continue to have an adverse impact on our results of operations.

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Acquisitions. We acquire businesses in our key markets when opportunities arise. We completed three acquisitions during the six months ended July 31, 2006 for a total purchase price of $37 million. During the six months ended July 31, 2005, we completed one acquisition for a total purchase price of $34 million. We completed four acquisitions in fiscal 2006 for a total purchase price of $234 million. In fiscal 2005, we acquired four businesses for an aggregate purchase price of $236 million and in fiscal 2004, we acquired 10 businesses for an aggregate purchase price of $289 million. We expect the use of cash to acquire businesses will increase in the future. In addition, after completion of this offering, we may also increase our use of capital stock as consideration for acquisitions since our shares will be publicly traded.

Dispositions. As part of our ongoing strategic planning, we have exited, and may in the future exit, certain businesses from time to time. During the six months ended July 31, 2006, we sold our 50% interest in our DS&S joint venture for $9 million. We have deferred recognition of any gain on sale of DS&S pending resolution of certain matters as described in Commitments and Contingencies DS&S Joint Venture. In March 2005, we sold Telcordia Technologies, Inc. (Telcordia) and recognized a gain before income taxes of $866 million during the six months ended July 31, 2005 and $871 million in fiscal 2006. This transaction is reflected as discontinued operations for all periods presented. Prior to the sale, Telcordia s revenues were 1%, 11% and 13% of our total consolidated revenues in fiscal 2006, 2005 and 2004, respectively.

Stock-Based Compensation. We adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, on February 1, 2006. This Statement requires that we recognize as compensation expense the fair value of all stock-based awards, including stock options, granted to employees and others in exchange for services over the requisite service period, which is typically the vesting period. SFAS No. 123(R) requires that we recognize as compensation expense the 15% discount on employee stock purchases made under our employee stock purchase plan (ESPP). SFAS No. 123(R) also requires that cash flows resulting from tax benefits realized from stock option exercises or stock vesting events in excess of tax benefits recognized from stock-based compensation expenses be classified as financing cash flows instead of operating cash flows.

We adopted SFAS No. 123(R) using the modified prospective transition method for stock-based awards granted after September 1, 2005, the date New SAIC made its initial filing with the SEC for this offering and the prospective transition method for stock-based awards granted prior to September 1, 2005. Under these transition methods, compensation cost associated with stock options recognized in the six months ended July 31, 2006, includes (1) amortization related to the remaining unvested portion of all stock option awards granted between September 1, 2005 and January 31, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) amortization related to all stock option awards granted subsequent to January 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the modified prospective transition method, results from prior periods have not been restated. Under the prospective transition method, we continue to account for options granted to employees and directors prior to September 1, 2005 under the provisions of Accounting Principles Board Opinion No. 25. Accordingly, no compensation expense will be recognized for options granted prior to September 1, 2005 unless a modification is made to those options. This difference in accounting treatment is due to the fact that we met the definition of a non-public company under SFAS No. 123 and applied the minimum value method (assumed no volatility in our pro forma stock-based employee compensation expense disclosures) under SFAS No. 123 prior to September 1, 2005. The cumulative effect of adopting SFAS No. 123(R) using the modified prospective transition method was de minimus.

Except for use of the minimum value method, which assumed no stock volatility in our fair value calculations prior to September 1, 2005, there are no significant differences in the methodologies or assumptions used in estimating the fair value of our options under SFAS No. 123(R) from those used prior to adoption of the standard.

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We recognized total stock-based compensation expense as follows:

	Six Months Ended July 31	
	2006	2005
	(in millions)	
Stock-based compensation expense:		
Stock options	$ 11	$
Vesting stock awards	18	15
Vested stock awards	1	
15% ESPP discount	6	
Total consolidated stock-based compensation expense	$ 36	$ 15

These amounts do not include amounts accrued under the Bonus Compensation Plan during the six months ended July 31, 2006 and 2005, as the amounts to be settled through issuance of vested stock are not known until the bonus is awarded in a subsequent period. We issued $43 million and $49 million in vested stock during the six months ended July 31, 2006 and 2005, respectively, as settlement of certain bonus and retirement plan amounts.

Reclassifications. During the six months ended July 31, 2006, certain work previously performed by our Government segment was reassigned to our Commercial segment. Amounts in this Management s Discussion and Analysis of Financial Condition and Results of Operations for the six months ended July 31, 2005 have been restated for consistency with the current year s presentation.

Changes When We are a Public Company

Prior to this offering, there has been no public trading market for our common stock. However, Old SAIC has maintained a limited secondary market for its common stock, which we call the limited market, through its broker-dealer subsidiary, Bull, Inc. The limited market has enabled Old SAIC stockholders to submit offers to buy and sell Old SAIC common stock on predetermined trade dates. In addition, we have provided retirement plan participants with the opportunity to sell our stock held in our retirement plans. These retirement plans trades have generally occurred on a quarterly basis in conjunction with limited market trades.

Although we were not contractually required to do so, on all trade dates for the periods presented, we repurchased the excess of the number of shares offered for sale over the number of shares sought to be purchased, thereby creating an opportunity for liquidity for the shares held by Old SAIC stockholders. In the six months ended July 31, 2006 and 2005, we repurchased $584 million and $378 million of Old SAIC common stock, respectively, and in fiscal 2006, 2005 and 2004, we repurchased $818 million, $607 million and $451 million of Old SAIC common stock, respectively. See Liquidity and Capital Resources Historical Trends Cash Used in Financing Activities of Continuing Operations.

Because shares of New SAIC common stock will be publicly traded following the completion of this offering and New SAIC class A preferred stock will be convertible into New SAIC common stock as the applicable restriction periods lapse, we will cease repurchases of our stock from our stockholders through the limited market and wind up the operations of Bull, Inc. We completed our last limited market trade on June 30, 2006.

Following completion of this offering, the shares of New SAIC class A preferred stock held by our stockholders, including our retirement plans, will be subject to certain restrictions on transfer and conversion that will lapse in four periodic increments, called restriction periods, over a 360-day period following this offering, as described in Description of Capital Stock. However, the Pension Protection Act of 2006, which was signed into law on August 17, 2006, mandates that companies provide diversification rights to certain retirement plan participants. As a result, the Pension Protection Act effectively overrides the restriction periods and provides certain participants in the SAIC Retirement Plan and the AMSEC Employees 401(k) Profit Sharing Plan with rights to diversify their investments in company stock into other investment alternatives within those retirement plans. To date, however, no regulations or interpretive guidance have been issued under the Pension Protection Act and any such regulations or guidance, when issued, could modify the impact of the Pension Protection Act on us.

As a result of the Pension Protection Act and the manner in which we intend to comply with its requirements, certain shares of class A preferred stock that will be held in our retirement plans after the reorganization merger may be converted into common stock at the direction of plan participants beginning on January 1, 2007. See Shares Eligible for Future Sale.

Following completion of this offering, we will no longer repurchase stock through limited market trades. A retirement plans trade has been scheduled for October 27, 2006. We currently do not intend to conduct additional retirement plans trades after the October 27, 2006 trade.

Results of Operations

Comparison of the Six Months Ended July 31, 2006 and 2005

The following table summarizes our consolidated results of operations for the periods noted:

	Six Months Ended July 31		
	2006	Percent Change	2005
	(dollars in millions)		
Revenues	$ 4,013	6%	$ 3,798
Cost of revenues	3,452	5	3,303
Selling, general and administrative expenses	261	9	239
Operating income	300	17	256
As a percentage of revenues	7.5%		6.7%
Non-operating income (expense), net	13		(10)
Provision for income taxes	116	9	106
Income from continuing operations	197	41	140
Income from discontinued operations, net of tax	12	(98)	542
Net income	209	(69)	682

Revenues. Our consolidated revenues increased 6% during the six months ended July 31, 2006 compared to the same period of the prior year due to growth in revenues from both our Government and Commercial segments. Approximately two percentage points of the consolidated growth for the six months ended July 31, 2006 was internal, or non-acquisition, related growth. The acquisition of new businesses accounted for the remaining four percentage points of the consolidated revenue growth for the six months ended July 31, 2006. We calculate internal growth by comparing our current period reported revenue to prior period revenue adjusted to include the revenue of acquired companies for the comparable prior period. Internal revenue growth in our business is directly related to the receipt of contract awards across a balance of our business areas and the ability to hire personnel to perform on service contracts.

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The following table summarizes changes in segment revenues on an absolute basis and as a percentage of consolidated revenues for the periods noted:

	Six Months Ended July 31			Segment Revenues as a Percentage of Total Consolidated Revenues	
	2006	Percent Change	2005	2006	2005
	(dollars in millions)				
Government segment revenues	$ 3,696	4%	$ 3,543	92%	93%
Commercial segment revenues	298	9	273	7	7
Corporate and Other segment revenues	19		(18)		
	$ 4,013	6%	$ 3,798		

The acquisition of new businesses accounted for the majority of our Government segment growth for the six months ended July 31, 2006. Internal growth within the Government segment was relatively flat during the six months ended July 31, 2006. This slower internal growth is primarily attributable to the wind down of certain large programs initiated in fiscal years 2004 and 2005 combined with fewer large replacement programs starting up, a decision by management to exit certain non-core business areas and the diversion of Federal funding toward the war efforts in Iraq and Afghanistan.

The growth in our Commercial segment revenues for the six months ended July 31, 2006 was driven by internal growth principally attributable to higher revenues from our systems integration and domestic outsourcing business areas.

The Corporate and Other segment revenues include the elimination of intersegment revenues of $3 million for the six months ended July 31, 2005. There were no intersegment revenues for the six months ended July 31, 2006. The remaining balance for each of the periods 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.

The following table presents our consolidated revenues on the basis of how such revenues were earned for the periods noted:

	Six Months Ended July 31		
	2006	Percent Change	2005
	(dollars in millions)		
Labor-related	$ 2,640	9%	$ 2,422
M&S	1,373		1,376

	$ 4,013	$ 3,798

The increase in labor-related revenues during the six months ended July 31, 2006 was attributable to acquisitions, greater direct labor utilization and overall increases in technical staff. At July 31, 2006, we had 43,100 full-time and part-time employees compared to 43,000 at July 31, 2005. We averaged 43,300 full-time and part-time employees during the six months ended July 31, 2006 compared to 42,700 for the six months ended July 31, 2005. The decrease in M&S revenues during the six months ended July 31, 2006 was primarily due to certain systems engineering and integration contracts in the Government segment that had significant quantities of materials that were delivered and integrated in the same period of the prior year.

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Cost of Revenues. The following table summarizes cost of revenues as a percentage of revenues for the periods noted:

	Six Months Ended July 31	
	2006	2005
Consolidated cost of revenues as a percentage of consolidated revenues	86.0%	87.0%
Segment cost of revenues as a percentage of segment revenues:		
Government segment	87.3	88.0
Commercial segment	72.6	76.8

Total consolidated cost of revenues increased $149 million, or 5%, on an absolute basis but declined as a percentage of total consolidated revenues for the six months ended July 31, 2006 as compared to the six months ended July 31, 2005. This improvement as a percentage of revenues was primarily due to greater direct labor utilization and decreased losses on our Greek contract partially offset by increased stock-based compensation expense during the six months ended July 31, 2006. We recorded $2 million in contract losses related to foreign currency translation on the Greek contract during the six months ended July 31, 2006 compared to contract losses of $16 million for the same period of the prior year. Total consolidated cost of revenues as a percentage of total consolidated revenues includes a portion of the Corporate and Other segment operating loss as described in Segment Operating Income.

Government segment cost of revenues increased by $108 million, or 3%, on an absolute basis but decreased as a percentage of segment revenues for the six months ended July 31, 2006 as compared to the six months ended July 31, 2005. This improvement as a percentage of revenue was primarily due to greater direct labor utilization and decreased losses on our Greek contract partially offset by increased stock-based compensation expense. All losses on the Greek contract are recorded in the Government segment and the decrease in Greek contract losses for the six months ended July 31, 2006 account for approximately 0.4 percentage points of the improvement in cost of revenues as a percentage of revenues in the Government segment.

Commercial segment cost of revenues increased by $7 million, or 3%, on an absolute basis but decreased as a percentage of segment revenues for the six months ended July 31, 2006 primarily reflecting improved contract margins and greater direct labor utilization.

Selling, General and Administrative Expenses. The following table summarizes SG&A as a percentage of revenues for the periods noted:

	Six Months Ended July 31	
	2006	2005
Total consolidated SG&A as a percentage of total consolidated revenues	6.5%	6.3%
Segment SG&A as a percentage of segment revenues:		
Government segment	4.9	4.9
Commercial segment	16.0	18.0

Total consolidated SG&A increased $22 million, or 9%, on an absolute basis for the six months ended July 31, 2006 compared to the same period of the prior year primarily due to increased stock-based compensation, business development, professional services and legal expenses. Stock-based compensation expense reflected within selling, general and administrative expenses increased approximately $6 million during the six months ended July 31, 2006 due to the adoption of SFAS No. 123(R). Professional service expense increases are largely attributable to our fiscal 2007 Sarbanes-Oxley Section 404 compliance efforts.

Government segment SG&A increased $10 million, or 6%, on an absolute basis for the six months ended July 31, 2006 compared to the same period of the prior year. This includes increases in bid-and-proposal costs of

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$3 million in the six months ended July 31, 2006. The level of bid-and-proposal activities fluctuates depending on the timing of bidding opportunities. Government segment independent research and development costs remained relatively consistent with prior year levels.

Commercial segment SG&A expenses during the six months ended July 31, 2006 remained relatively consistent on an absolute basis with the same period of the prior year.

Corporate and Other segment SG&A expenses increased $14 million, or 81%, during the six months ended July 31, 2006 compared to the same period of the prior year. This increase was primarily due to increased stock-based compensation expense, as well as increased professional services and legal expenses not allocated to the Government and Commercial segments. In addition, Corporate and Other segment SG&A expenses during the six months ended July 31, 2005 benefited from the reversal of an accrued expense of $10 million related to a class action lawsuit that was dismissed by plaintiffs without prejudice in fiscal 2006. This reversal had the effect of reducing Corporate and Other segment operating losses in 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 gains or losses on sales of business units, subsidiary stock and similar items, plus equity in the income or loss of unconsolidated affiliates, and 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, Disclosures about Segments of an Enterprise and Related Information, the reconciliation of total reportable SOI to consolidated operating income for the six months ended July 31, 2006 and 2005, is shown in Note 2 of the notes to condensed consolidated financial statements for the six months ended July 31, 2006.

The following table summarizes changes in SOI on an absolute basis and as a percentage of related revenues:

	Six Months Ended July 31				
				SOI as a percentage of related revenues	
	2006	Percent Change	2005	2006	2005
	(dollars in millions)				
Government SOI	$ 283	14%	$ 249	7.7%	7.0%
Commercial SOI	33	154	13	11.1	4.8
Corporate and Other SOI	(20)		(10)		

Total reportable SOI	$ 296	17%	$ 252	7.4%	6.6%

The increase in total reportable SOI for the six months ended July 31, 2006 primarily reflects greater Government and Commercial segment profitability partially offset by increases in Corporate and Other segment operating losses for the period. If this offering is completed, we will recognize compensation expense for the special dividend declared on outstanding vesting stock awards estimated to be forfeited prior to vesting. The amount of compensation expense will be adjusted periodically based on actual forfeitures of these awards. In addition, we currently anticipate incurring increased expense associated with bid-and-proposal and independent research and development activities over the remainder of fiscal 2007.

The increase in Government and Commercial segment SOI for the six months ended July 31, 2006 primarily reflects growth in segment revenues and improvements in cost of revenues as a percentage of revenues partially

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offset by increased SG&A expenses. Increases in segment SG&A expenses are primarily related to increased bid-and-proposal efforts and stock-based compensation expense.

The increase in Corporate and Other segment operating loss during the six months ended July 31, 2006 is primarily due to increased stock-based compensation, labor, and legal expenses not allocated to the Government and Commercial segments and the reversal of an accrued expense of $10 million related to a class action lawsuit that was dismissed by plaintiffs without prejudice in fiscal 2006. This reversal had the effect of reducing Corporate and Other segment operating losses in the prior year.

Other Income Statement Items

Interest Income and Interest Expense. Interest income increased by $20 million, or 47%, for the six months ended July 31, 2006 compared to the same period of the prior year. This increase was primarily due to higher interest rates partially offset by slightly lower average cash and investment balances in the six months ended July 31, 2006 as compared to the same period of the prior year.

Interest expense reflects interest on (1) our outstanding debt securities, (2) a building mortgage, (3) deferred compensation arrangements and (4) notes payable. Interest expense remained constant for the six months ended July 31, 2006 compared to the same period of the prior year, as most of our debt instruments have fixed interest rates and there were no significant changes in the underlying debt balances.

Other Income (Expense), Net. Other income (expense), net increased $6 million during the six months ended July 31, 2006. During the six months ended July 31, 2005, we recognized realized net losses on marketable securities of $2 million and other-than-temporary impairment losses on certain private equity securities of $3 million.

Provision for Income Taxes. The provision for income taxes as a percentage of income from continuing operations before income taxes was 37% for the six months ended July 31, 2006. This compares with 43% for the six months ended July 31, 2005. The lower effective tax rate for the six months ended July 31, 2006 was partially due to the reversal of $7 million in tax expense accruals for tax contingencies as a result of settlements of federal and state audits and audit issues for amounts different than the recorded accruals for tax contingencies and the state tax refund of $4 million. The higher tax rate for the six months ended July 31, 2005 was due to an increase in tax expense of $9 million related to a change in state tax law during the six months ended July 31, 2005.

We are subject to routine compliance reviews by the Internal Revenue Service (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 to be paid. As of July 31, 2006, our income taxes payable balance included $50 million of tax expense accruals that have been recorded for tax contingencies. The Company s accruals for tax contingencies have decreased from $113 million at January 31, 2006 as a result of the resolution of certain tax contingencies with the taxing authorities for fiscal years 2002, 2003 and 2004, including $7 million of which was recognized as an income tax benefit during the six months ended July 31, 2006. 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 our accruals will not be in excess of the final amounts agreed to by tax authorities.

Following completion of this offering, Old SAIC will pay the special dividend to stockholders of Old SAIC common stock, including the SAIC Retirement Plan. We believe the dividend payable on Old SAIC common stock held by the SAIC Retirement Plan may be deductible for tax purposes in the year of payment and have requested rulings from the IRS to confirm deductibility. Accordingly, if favorable rulings are received, we expect a significant reduction in our tax liability.

Income from Continuing Operations. Income from continuing operations increased $57 million, or 41%, for the six months ended July 31, 2006 compared to the same period of the prior year. This increase was primarily due to increased segment operating income, increased interest income and lower effective tax rates during the six months ended July 31, 2006 compared to the same period of the prior year.

Discontinued Operations. We sold one of our subsidiaries, Telcordia, for $1.35 billion and recorded a gain of $866 million during the six months ended July 31, 2005. An income tax benefit of $13 million was recorded during the six months ended July 31, 2006 to reflect the resolution of certain tax contingencies related to Telcordia operations prior to the sale.

The operating results of Telcordia, which have been classified as discontinued operations for all periods presented, were as follows:

	Six Months Ended July 31	
	2006	2005
	(in millions)	
Revenues	$	$ 89
Costs and expenses		
Cost of revenues		57
Selling, general and administrative expenses		28
Income before income taxes	$	$ 4

We have indemnified 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 for any loss Telcordia may incur as a result of an adverse judgment in the Telkom South Africa litigation. We are also entitled to receive additional amounts as contingent sale price, including all of the net proceeds from any judgment or settlement of the litigation Telcordia initiated against Telkom South Africa and 50% of the net proceeds received in connection with the prosecution of certain patent rights of Telcordia as discussed in Commitments and Contingencies. All these 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.

Net Income. Net income decreased $473 million during the six months ended July 31, 2006 compared to the same period of the prior year primarily due to the after-tax gain of $542 million on the sale of Telcordia during the six months ended July 31, 2005.

Comparison of Years Ended January 31, 2006, 2005 and 2004

The following table summarizes our consolidated results of operations for the periods noted:

	Year Ended January 31				
	2006	Percent Change	2005	Percent Change	2004
	(dollars in millions)				
Revenues	$ 7,792	8%	$ 7,187	23%	$ 5,833
Cost of revenues	6,801	8	6,283	24	5,053
Selling, general and administrative expenses	494	18	418	11	378
Operating income	497	2	488	24	395
As a percentage of revenues	6.4%		6.8%		6.8%
Non-operating expense, net	(13)	(85)	(85)	174	(31)
Provision for income taxes, continuing operations	139	6	131	(6)	140
Income from continuing operations	345	27	272		