

SCIENCE APPLICATIONS INTERNATIONAL CORP  
Form S-4  
September 19, 2011

As filed with the U.S. Securities and Exchange Commission on September 19, 2011

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form S-4**  
**REGISTRATION STATEMENT**

*UNDER*  
*THE SECURITIES ACT OF 1933*

**SAIC, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>7373</b> (Primary Standard Industrial Classification Code Number) 1710 SAIC Drive McLean, Virginia 22102 (703) 676-4300	<b>20-3562868</b> (I.R.S. Employer Identification No.)
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(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

# Science Applications International Corporation

(Exact Name of Registrant as Specified in Its Charter)

<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>7373</b> (Primary Standard Industrial Classification Code Number) 10260 Campus Point Drive  San Diego, California 92121  (858) 826-6000	<b>95-3630868</b> (I.R.S. Employer Identification No.)
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(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Vincent A. Maffeo, Esq.**  
**Executive Vice President, General Counsel**  
  
1710 SAIC Drive  
  
McLean, Virginia 22102  
  
(703) 676-4300

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

*Copy to:*

**Bruce K. Dallas, Esq.**  
**Davis Polk & Wardwell LLP**  
  
1600 El Camino Real  
  
Menlo Park, California 94025

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(650) 752-2000

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: ..

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

**SAIC, Inc.**

Large accelerated filer  Accelerated filer ..  
 Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company ..  
**Science Applications International Corporation**

Large accelerated filer  Accelerated filer ..  
 Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company ..

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

**CALCULATION OF REGISTRATION FEE**

Title Of Each Class Of Securities To Be Registered	Amount To Be Registered	Proposed		Amount Of Registration Fee
		Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	
4.450% Notes Due 2020	\$450,000,000	100%	\$450,000,000	\$52,245
Guarantee of 4.450% Notes Due 2020	None	None	None	None (2)
5.950% Notes Due 2040	\$300,000,000	100%	\$300,000,000	\$34,830
Guarantee of 5.950% Notes Due 2040	None	None	None	None (2)

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Total	\$750,000,000	100%	\$750,000,000	\$87,075
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- (1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457 under the Securities Act of 1933 (the Securities Act ).
- (2) No separate consideration will be received for the guarantee and no further fee is payable pursuant to Rule 457(n) under the Securities Act.

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

**Explanatory Note**

This Registration Statement on Form S-4 is a combined registration statement being filed by SAIC, Inc. ( SAIC ) and Science Applications International Corporation ( Science Applications ). SAIC is a holding company and Science Applications is a direct, 100%-owned subsidiary of SAIC. This Registration Statement registers an exchange offer of debt securities issued by SAIC and fully and unconditionally guaranteed by Science Applications. Each of SAIC and Science Applications is filing on its own behalf all of the information contained in this Registration Statement on Form S-4 that relates to such company. Where information or an explanation is provided that is substantially the same for each company, such information or explanation has been combined in this Registration Statement. Where information or an explanation is not substantially the same for each company, separate information and explanation has been provided. In addition, separate consolidated financial statements for each company, along with combined notes to the financial statements, are included in this Registration Statement.

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

**SUBJECT TO COMPLETION, DATED SEPTEMBER 19, 2011**

**PROSPECTUS**

**Offer to Exchange up to**  
**\$450,000,000 principal amount of 4.450% Notes Due 2020**  
**\$300,000,000 principal amount of 5.950% Notes Due 2040**  
**to be issued in a transaction registered under the Securities Act**

**for**

**any and all outstanding**

**4.450% Notes Due 2020**

**5.950% Notes Due 2040**

SAIC, Inc. is offering to exchange up to \$450,000,000 of its 4.450% Notes Due 2020 (the **New 2020 Notes** ) for up to \$450,000,000 of its existing 4.450% Notes due 2020 (the **Old 2020 Notes** ) and up to \$300,000,000 of its 5.950% Notes Due 2040 (the **New 2040 Notes** ) for up to \$300,000,000 of its existing 5.950% Notes Due 2040 (the **Old 2040 Notes** ). The **New 2020 Notes** and the **New 2040 Notes** are collectively referred to in this prospectus as the **New Notes**. The **Old 2020 Notes** and the **Old 2040 Notes** are collectively referred to in this prospectus as the **Old Notes**. The **Old Notes** and **New Notes** are referred to in this prospectus as the **Notes**. The terms of the **New Notes** (and related guarantee) are identical in all material respects to the terms of the **Old Notes** (and related guarantee), except that issuance of the **New Notes** (and related guarantee) has been registered under the Securities Act, and the transfer restrictions and registration rights relating to the **Old Notes** do not apply to the **New Notes**. The **New Notes** will be our unsecured and unsubordinated obligations and will rank equally with all of our other existing and future unsecured and unsubordinated indebtedness from time to time outstanding. The **New Notes** will be fully and unconditionally guaranteed (the **guarantee** ) by Science Applications International Corporation (the **subsidiary guarantor** ). The **guarantee** will be the unsecured and unsubordinated obligation of the **subsidiary guarantor**.

To exchange your **Old Notes** (and related **guarantee**) for **New Notes** (and related **guarantee**):

you are required to make the representations described under **The Exchange Offer** **Resale of the New Notes** .

you must complete and send the letter of transmittal that accompanies this prospectus to the exchange agent, The Bank of New York Mellon Trust Company, N.A., by 5:00 p.m., New York time, on \_\_\_\_\_, 2011.

you should read the section called "The Exchange Offer" for further information on how to exchange your Old Notes for New Notes. **See Risk Factors beginning on page 9 for a discussion of risk factors that you should consider prior to tendering your Old Notes in the exchange offer.**

Each broker-dealer that receives New Notes for its own account pursuant to the exchange must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The letter of transmittal relating to the exchange offer states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 90 days after the expiration date (as defined herein), we will make this prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the securities to be issued in the exchange offer or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

, 2011

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**This prospectus is part of a registration statement on Form S-4 filed with the SEC under the Securities Act and does not contain all the information contained in the registration statement. We will provide this information to you at no charge upon written or oral request by contacting our Investor Relations department by calling (800) 676-2283, by writing to Investor Relations, SAIC, 1710 SAIC Drive, McLean, Virginia 22102 or by submitting a request through the Investor Relations section of our website at [www.saic.com](http://www.saic.com). We are not incorporating the contents of our website into this prospectus. In order to ensure timely delivery of the information, any request should be made no later than \_\_\_\_\_, 2011, which is five business days before the expiration date of the exchange offer (unless we extend the exchange offer as described herein).**

We have not authorized any other person to provide you with information other than that contained in this prospectus. We do not take any responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the securities offered by this prospectus, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.



**ABOUT THIS PROSPECTUS**

This prospectus is part of a combined registration statement of SAIC, Inc. and its 100%-owned subsidiary, Science Applications International Corporation. Unless indicated otherwise, references in this prospectus to the company, we, us, and our refer collectively to SAIC, Inc., Science Applications International Corporation and their consolidated subsidiaries. When appropriate, SAIC, Inc. and Science Applications International Corporation are named specifically for their related activities and disclosures. References to SAIC refer to only SAIC, Inc. and not to any of its subsidiaries. References to Science Applications or the subsidiary guarantor refer to Science Applications International Corporation and not any of its subsidiaries.

**NOTE ON FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on our management's belief and assumptions about the future in light of information currently available to our management. In some cases, you can identify forward-looking statements by words such as expects, intends, plans, anticipates, believes, estimates, potential, guidance, and similar words or phrases, or the negatives of these words or phrases. 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 included in this prospectus depending on a variety of factors, including:

changes in the U.S. Government defense budget or budgetary priorities or delays in contract awards or the U.S. budget process;

changes in U.S. Government procurement rules, regulations, and practices;

our compliance with various U.S. Government and other government procurement rules and regulations;

the outcome of government reviews, audits and investigations of our company;

resolution of legal and other disputes with our customers and others or legal compliance issues;

our ability to effectively compete and win contracts with the U.S. Government and other customers;

our ability to attract, train and retain skilled employees, including our management team;

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;

our ability to effectively acquire businesses and make investments;

the failure of our inspection or detection systems to detect threats;

the adequacy of our insurance programs designed to protect us from significant product or other liability claims;

our ability to manage risks associated with our international business; and

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

These are only some of the factors that may affect the forward-looking statements included in this prospectus. Further information concerning risks and uncertainties associated with our business is included elsewhere in this prospectus, including the Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business sections.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks. New information, future events or risks may cause the forward-looking events or statements we discuss in this prospectus to change or not to occur.

## SUMMARY

*This summary highlights the more detailed information included in this prospectus and you should read the entire prospectus carefully.*

## OUR COMPANY

We are a provider of scientific, engineering, systems integration and technical services and solutions in the areas of defense, health, energy, infrastructure, intelligence, surveillance, reconnaissance and cybersecurity to all 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, state and local government agencies, foreign governments and customers in select commercial markets. Our business is focused on solving issues of national and global importance in the areas of national security, energy and the environment, critical infrastructure and health. We combine technology and domain and mission expertise to deliver solutions that solve our customers' most challenging issues. We are focusing our investments in our strategic growth areas including: intelligence, surveillance and reconnaissance; cybersecurity; logistics, readiness and sustainment; energy, environment and infrastructure; and health information technology.

## SAIC

SAIC, Inc. is a holding company. Its principal operating company, Science Applications International Corporation, was formed in 1969. In October 2006, in connection with becoming a publicly-traded company, Science Applications International Corporation completed a merger (reorganization merger) in which it became a 100%-owned subsidiary of SAIC, Inc., after which SAIC, Inc. completed an initial public offering of its common stock.

SAIC, Inc. maintains executive offices at 1710 SAIC Drive, McLean, Virginia 22102. Its telephone number is 703-676-4300. We maintain a website at [www.saic.com](http://www.saic.com). Investors can obtain copies of SAIC's and Science Applications' SEC filings from this site free of charge, as well as from the SEC website at [www.sec.gov](http://www.sec.gov). We are not incorporating the contents of our website into this prospectus.

## Science Applications

SAIC's obligations, including the payment of principal, premium, if any, and interest on the Old Notes are, and on the New Notes will be, fully and unconditionally guaranteed by Science Applications International Corporation, the subsidiary guarantor and 100%-owned subsidiary of SAIC. We have other subsidiaries that will not be guarantors of the New Notes. The guarantee will rank equally with all other general unsecured and unsubordinated obligations of the subsidiary guarantor. The obligations of the subsidiary guarantor under the guarantee will be limited to the maximum amount that, after giving effect to all of its other contingent and fixed liabilities, would cause the obligations of the subsidiary guarantor not to constitute a fraudulent conveyance or fraudulent transfer under any applicable law.

The principal place of business of Science Applications International Corporation is 10260 Campus Point Drive, San Diego, California 92121, and its telephone number is 858-826-6000.

### SUMMARY OF EXCHANGE OFFER

On December 20, 2010, we privately placed \$750,000,000 aggregate principal amount of the Old Notes (and related guarantee) in a transaction exempt from registration under the Securities Act. In connection with the private placement, SAIC and Science Applications, the subsidiary guarantor, entered into a registration rights agreement, dated December 20, 2010, with the initial purchasers of the Old Notes (and related guarantee). In the registration rights agreement, we agreed to offer to exchange Old Notes (and related guarantee) for New Notes (and related guarantee) registered under the Securities Act. We also agreed to deliver this prospectus to holders of the Old Notes. In this prospectus, the Old Notes and the New Notes are referred together as the Notes. You should read the discussion under the heading Description of the New Notes and Related Guarantee for information regarding the Notes.

#### Notes Offered

We are offering up to \$450,000,000 aggregate principal amount of New 2020 Notes (and related guarantee) and \$300,000,000 aggregate principal amount of New 2040 Notes (and related guarantee), whose issuance has been registered under the Securities Act.

#### The Exchange Offer

We are offering to issue the New Notes (and related guarantee) of each series in exchange for a like principal amount of your Old Notes (and related guarantee) of such series; *provided*, that holders may tender some or all of their Old Notes, except that if any Old Notes of a series are tendered for exchange in part, the untendered amount of such Old Notes must be in denominations of \$2,000 and multiples of \$1,000 in excess thereof. We are offering to issue the New Notes to satisfy our obligations contained in the registration rights agreement entered into when the Old Notes were sold in transactions permitted by Rule 144A and Regulation S under the Securities Act and therefore not registered with the SEC. For procedures for tendering, see The Exchange Offer.

Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. See Plan of Distribution.

#### Registration Rights

We have agreed to use our reasonable best efforts to consummate the exchange offer or cause the Old Notes (and related guarantee) to be registered under the Securities Act to permit resales within 365 days after the issue date of the Old Notes. If we are not in compliance with our obligations under the registration rights agreement, then additional interest (in addition to the interest otherwise due on the notes that are the subject of that registration agreement or the New Notes) will accrue on such notes or New Notes upon such occurrence.

If the exchange offer is completed on the terms and within the time period contemplated by this prospectus, no additional interest will be payable on the Notes.

**Tenders, Expiration Date, Withdrawal**

The exchange offer will expire at 5:00 p.m. New York City time on \_\_\_\_\_, 2011 unless it is extended. If you decide to exchange your Old Notes for New Notes, you must acknowledge that you are not engaging in, and do not intend to engage in, a distribution of the New Notes. If you decide to tender your Old Notes in the exchange offer, you may withdraw your tender at any time prior to \_\_\_\_\_, 2011. If we decide for any reason not to accept any Old Notes for exchange, your Old Notes will be returned to you without expense promptly after the exchange offer expires.

**Material United States Federal Income Tax Consequences**

Your exchange of Old Notes for New Notes in the exchange offer will not result in any income, gain or loss to you for Federal income tax purposes. See Material United States Federal Income Tax Consequences of the Exchange Offer.

**Use of Proceeds**

We will not receive any proceeds from the issuance of the New Notes in the exchange offer.

**Exchange Agent**

The Bank of New York Mellon Trust Company, N.A. is the exchange agent for the exchange offer. You can find the address and telephone number of the exchange agent below under the caption The Exchange Offer Exchange Agent.

**Failure to Tender Your Old Notes**

If you fail to tender your Old Notes in the exchange offer, you will not have any further rights under the registration rights agreement, including any right to require us to register your Old Notes or to pay you additional interest as provided in the registration rights agreement.

**You will be able to resell the New Notes without registering them with the SEC if you meet the requirements described below.**

Based on interpretations by the SEC's staff in no-action letters issued to third parties, we believe that New Notes issued in exchange for Old Notes in the exchange offer may be offered for resale, resold or otherwise transferred by you without registering the New Notes under the Securities Act or delivering a prospectus, unless you are a broker-dealer receiving Notes for your own account, so long as:

you are not one of our affiliates, which is defined in Rule 405 of the Securities Act;

you acquire the New Notes in the ordinary course of your business;

you do not have any arrangement or understanding with any person to participate in the distribution of the New Notes; and

you are not engaged in, and do not intend to engage in, a distribution of the New Notes.

If you are an affiliate of SAIC, or you are engaged in, intend to engage in or have any arrangement or understanding with respect to, the distribution of New Notes acquired in the exchange offer, you will not be eligible to participate in the exchange offer, you should not rely on our interpretations of the position of the SEC's staff and you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

If you are a broker-dealer and receive New Notes for your own account in the exchange offer:

you must represent that you do not have any arrangement with us or any of our affiliates to distribute the New Notes;



you must acknowledge that you will deliver a prospectus in connection with any resale of the New Notes you receive from us in the exchange offer; the letter of transmittal states that by so acknowledging and by delivering a prospectus, you will not be deemed to admit that you are an underwriter within the meaning of the Securities Act; and

you may use this prospectus, as it may be amended or supplemented from time to time, in connection with the resale of New Notes received in exchange for Old Notes acquired by you as a result of market-making or other trading activities.  
For a period of 90 days after the expiration of the exchange offer, we will make this prospectus available to any broker-dealer for use in connection with any resale described above.



**SUMMARY DESCRIPTION OF THE NEW NOTES**

The summary below describes the principal terms of the New Notes (and related guarantee). The Description of the New Notes and Related Guarantee section of this prospectus contains a more detailed description of the terms and conditions of the Old Notes and the New Notes. The terms of the New Notes and the Old Notes are identical in all material respects, except that the New Notes will be issued in a transaction registered under the Securities Act, and the transfer restrictions and registration rights relating to Old Notes do not apply to the New Notes. The New Notes will evidence the same debt as the Old Notes, be guaranteed by the subsidiary guarantor and be entitled to the benefits of the indenture.

<b>Issuer</b>	SAIC, Inc.
<b>Subsidiary Guarantor</b>	Science Applications International Corporation
<b>Securities Offered</b>	\$450,000,000 aggregate principal amount of New 2020 Notes  \$300,000,000 aggregate principal amount of New 2040 Notes
<b>Maturity Dates</b>	December 1, 2020 for the New 2020 Notes  December 1, 2040 for the New 2040 Notes
<b>Interest Rates</b>	4.450% per annum for the New 2020 Notes  5.950% per annum for the New 2040 Notes
<b>Interest Payment Dates</b>	Each June 1 and December 1 beginning on the next interest payment date after the issuance of the New Notes
<b>Guarantee</b>	The subsidiary guarantor will fully and unconditionally guarantee the Notes, including the payment of principal, premium, if any, and interest. The guarantee will rank equally with all other general unsecured and unsubordinated obligations of the subsidiary guarantor. The guarantee will be subject to the prior rights of the holders of any secured indebtedness of the subsidiary guarantor to the extent of the assets securing such indebtedness. As of July 31, 2011, the unsubordinated indebtedness of the subsidiary guarantor, excluding the guarantees of the Notes, consisted of \$1.1 billion outstanding under existing notes.
<b>Ranking</b>	The New Notes will be the unsecured and unsubordinated obligations of SAIC. The New Notes and related guarantee will rank equally with all of the existing and future senior indebtedness of SAIC and the subsidiary guarantor from time to time outstanding. All existing and future liabilities of non-guarantor subsidiaries of SAIC will be structurally senior to the Notes. As of July 31, 2011, SAIC had approximately \$1.9 billion of total indebtedness on a consolidated basis, all of which is unsecured and unsubordinated, and

substantially all of which are obligations of SAIC or the subsidiary guarantor. Also, as of July 31, 2011, SAIC had approximately \$3.7 billion of total liabilities on a consolidated basis. SAIC also maintains a

revolving credit facility, guaranteed by the subsidiary guarantor, providing for \$750 million in unsecured borrowing capacity in place with no amounts outstanding as of July 31, 2011.

**Form and Denomination**

The New Notes of each series will be issued in the form of one or more fully registered global securities, without coupons, in denominations of \$2,000 in principal amount and integral multiples of \$1,000 in excess thereof. These global notes will be deposited with the trustee as custodian for, and registered in the name of, a nominee of The Depository Trust Company, or DTC. Except in the limited circumstances described under Description of the New Notes and Related Guarantee Book-Entry; Delivery and Form; Global Note, notes in certificated form will not be issued or exchanged for interests in global securities.

**Governing Law**

New York

**Use of Proceeds**

We will not receive any proceeds from the exchange offer.

**Further Issuances**

We may create and issue further notes of a series ranking equally and ratably with the applicable series of New Notes offered by this prospectus in all respects, so that such further notes and related guarantee of each series will be consolidated and form a single series with the applicable series of New Notes and related guarantee offered by this prospectus. These additional notes would be guaranteed by the subsidiary guarantor on the same basis as the New Notes.

**Sinking Fund**

None

**Optional Redemption**

We may redeem some or all of the notes of any series at any time at the applicable redemption prices indicated under the heading Description of the New Notes and Related Guarantee Optional Redemption.

**Repurchase Upon a Change of Control**

Upon the occurrence of a Change of Control Triggering Event, we will be required to make an offer to purchase the Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to the date of repurchase. See Description of the New Notes and Related Guarantee Repurchase Upon Change of Control Triggering Event.

**Trading**

The New Notes will be freely transferrable but will be new securities for which there will not initially be a market. We do not intend to apply for listing of the New Notes on any securities exchange.

**Trustee**

The Bank of New York Mellon Trust Company, N.A.

**Risk Factors**

You should carefully consider all of the information in this prospectus. In particular, you should evaluate the information set forth under Special Note on Forward-Looking Statements and Risk Factors before deciding whether to invest in the New Notes.



## RISK FACTORS

*In considering whether to exchange your Old Notes (and related guarantee) for the New Notes (and related guarantee), you should carefully consider all the information that has been included in this prospectus. Before exchanging your Old Notes (and related guarantee), you should carefully consider the risks and uncertainties described below, together with information included elsewhere in this prospectus. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties facing us. If any of these risks or uncertainties actually occurs, our business, financial condition or operating results could be materially harmed, and the market price of the New Notes could decline or we may be unable to repay or redeem the New Notes when required. In such a case, you may lose all or part of your investment in the New Notes. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business operations and liquidity.*

### **Risks Related to the New Notes and Related Guarantee**

*The New Notes are the unsecured obligations of SAIC and not obligations of its non-guarantor subsidiaries and will be structurally subordinated to the claims of the creditors of its non-guarantor subsidiaries. Structural subordination increases the risk that SAIC will be unable to meet its obligations on the New Notes when they mature.*

Other than pursuant to the guarantee of the subsidiary guarantor, the New Notes are exclusively the obligations of SAIC and are not obligations of its subsidiaries. As a result, SAIC's cash flow and ability to service its debt, including the New Notes, depend upon the sufficient generation of cash flow by its subsidiaries and the distribution to it of cash from its subsidiaries.

SAIC's subsidiaries are separate and distinct legal entities. No subsidiary other than the subsidiary guarantor has guaranteed the Notes, and the non-guarantor subsidiaries are under no obligation to pay any amounts due on the New Notes or to provide SAIC with funds for its payment obligations, whether by dividends, distributions, loans or other payments. Any payments to SAIC by its subsidiaries will also be contingent upon such subsidiaries' available cash and business considerations and may be subject to legal and contractual restrictions. As of July 31, 2011, we had approximately \$1.9 billion of total indebtedness on a consolidated basis, all of which is unsecured and unsubordinated, and substantially all of which are obligations of SAIC or the subsidiary guarantor. Also, as of July 31, 2011, we had approximately \$3.7 billion of total liabilities on a consolidated basis. SAIC also maintains a revolving credit facility, guaranteed by Science Applications, the subsidiary guarantor, providing for \$750 million in unsecured borrowing capacity in place with no amounts outstanding as of July 31, 2011.

SAIC's right to receive any assets of any of its subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of the New Notes to participate in those assets, other than pursuant to the guarantee, will be effectively subordinated to the claims of that subsidiary's creditors, including senior and subordinated debt holders and bank and trade creditors. In addition, even if SAIC were a creditor of any of its subsidiaries, its rights as a creditor would be subordinate to any security interest in the assets of its subsidiaries and any indebtedness of its subsidiaries senior to that held by SAIC.

*The New Notes and related guarantee will be subject to the prior claims of any future secured creditors.*

The New Notes and related guarantee are unsecured obligations, ranking effectively junior to any secured indebtedness that SAIC or the subsidiary guarantor may incur. Accordingly, the New Notes will be subordinated to the extent SAIC, the subsidiary guarantor or any of our other subsidiaries have or will obtain secured borrowings. The indenture governing the New Notes and related guarantee does not limit the amount of additional debt that SAIC or its subsidiaries may incur, permits SAIC and Science Applications to incur secured

debt under specified circumstances and permits our other subsidiaries to incur secured debt without restriction. If SAIC or the subsidiary guarantor incur additional secured debt, the assets securing any such indebtedness will be subject to prior claims by such secured creditors. In the event of SAIC's and the subsidiary guarantor's bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up, or upon any acceleration of payment of the New Notes, the assets of SAIC and the subsidiary guarantor that secure other indebtedness will be available to pay obligations on the New Notes only after all other such debt secured by those assets has been repaid in full. Any remaining assets will be available to you ratably with all of SAIC's and the subsidiary guarantor's other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the New Notes then outstanding would remain unpaid.

***The guarantee could be voided if it constitutes a fraudulent transfer under U.S. bankruptcy or similar state law, which would prevent the holders of the New Notes from relying on the subsidiary guarantor to satisfy claims.***

Under U.S. bankruptcy law and comparable provisions of state fraudulent transfer laws, the guarantee can be voided, or claims under the guarantee may be subordinated to all other debts of the subsidiary guarantor if, among other things, the subsidiary guarantor, at the time it incurred the indebtedness evidenced by its guarantee or, in some states, when payments become due under the guarantee, received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee and:

was insolvent or rendered insolvent by reason of such incurrence;

was engaged in a business or transaction for which the subsidiary guarantor's remaining assets constituted unreasonably small capital; or

intended to incur, or believed that it would incur, debts beyond its ability to pay those debts as they mature.

The guarantee may also be voided without regard to the above factors if a court found that the subsidiary guarantor entered into its guarantee with the actual intent to hinder, delay or defraud its creditors. A court would likely find that the subsidiary guarantor did not receive reasonably equivalent value or fair consideration for its guarantee if the subsidiary guarantor did not substantially benefit directly or indirectly from the issuance of the notes. If a court were to void the guarantee, you would no longer have a claim against the subsidiary guarantor. Sufficient funds to repay the New Notes may not be available from other sources. In addition, the court might direct you to repay any amounts that you already received from the subsidiary guarantor.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon the governing law. Generally, a guarantor would be considered insolvent if:

the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all its assets;

the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they became absolute and mature; or

it could not pay its debts as they became due.

The guarantee contains a provision intended to limit the subsidiary guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under the guarantee to be a fraudulent transfer. This provision may not be effective to protect the guarantee from being voided under fraudulent transfer law.

*The indenture governing the New Notes and related guarantee contains negative covenants. The limitation on liens and sale and leaseback covenants do not apply to SAIC's subsidiaries, other than the subsidiary guarantor, and contain exceptions that would allow SAIC, the subsidiary guarantor and its other subsidiaries to grant liens or security interests with respect to their assets, rendering the holders of the New Notes structurally or contractually subordinated to new lenders. The limitation on consolidation, merger or sale of assets covenant does not apply to SAIC's subsidiaries, other than the subsidiary guarantor. The indenture governing the New Notes does not contain any financial covenants.*

The indenture governing the New Notes and related guarantee contains negative covenants. The limitation on liens and sale and leaseback covenants apply to SAIC and the subsidiary guarantor, but not to any other subsidiaries. As a result, such other subsidiaries will not be restricted under the indenture from granting liens or security interests with respect to all or any of their assets without having to provide similar liens or security to the holders of the New Notes, or from entering into sale and leaseback transactions. Exceptions to the definition of permitted lien within the limitation on liens covenant would allow SAIC and the subsidiary guarantor to borrow substantial additional amounts and to grant liens or security interests in connection with those borrowings.

In addition, the indenture contains a covenant that provides a limitation on the consolidation, merger or sale of assets of SAIC and the subsidiary guarantor, but does not apply to any other subsidiaries.

The indenture governing the Notes does not contain any financial covenants.

***Increased leverage may harm our financial condition and results of operations.***

As of July 31, 2011, we had approximately \$1.9 billion of total indebtedness on a consolidated basis, all of which was unsecured and unsubordinated.

SAIC and its subsidiaries may incur additional indebtedness in the future, and the New Notes do not restrict future incurrence of indebtedness. Any increase in our level of indebtedness will have several important effects on our future operations, including, without limitation:

we will have additional cash requirements in order to support the payment of interest on our outstanding indebtedness;

increases in our outstanding indebtedness and leverage will increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure; and

depending on the levels of our outstanding debt, our ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes may be limited.

Our ability to make payments of principal and interest on our indebtedness depends upon our future cash flow, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our business, many of which are beyond our control. If we are unable to generate sufficient cash flow in the future to service our debt, we may be required, among other things:

to seek additional financing in the debt or equity markets;

to refinance or restructure all or a portion of our indebtedness, including the New Notes;

to sell assets; or

to reduce or delay planned operating, capital and investment expenditures.

Such measures might not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.





***The provisions of the New Notes will not necessarily protect you in the event of certain highly leveraged transactions.***

Upon the occurrence of a Change of Control Triggering Event, you will have the right to require SAIC to repurchase the New Notes as provided in the indenture governing, and on the terms set forth in, the New Notes. However, the Change of Control Triggering Event provisions will not afford you protection in the event of certain highly leveraged transactions that may adversely affect you. For example, any leveraged recapitalization, refinancing, restructuring or acquisition initiated by SAIC generally will not constitute a Change of Control that would potentially lead to a Change of Control Triggering Event. As a result, SAIC could enter into any such transaction even though the transaction could increase the total amount of its outstanding indebtedness, adversely affect its capital structure or credit rating or otherwise adversely affect the holders of the New Notes. These transactions may not involve a change in voting power or beneficial ownership or result in a downgrade in the ratings of the New Notes, or, even if they do, may not necessarily constitute a Change of Control Triggering Event that affords you the protections described in this prospectus. If any such transaction were to occur, the value of your New Notes could decline.

***We may not be able to repurchase all of the New Notes upon a Change of Control Triggering Event, which would result in a default under the New Notes.***

SAIC will be required to offer to repurchase the New Notes upon the occurrence of a Change of Control Triggering Event as provided in the indenture governing the New Notes. However, SAIC may not have sufficient funds to repurchase the New Notes in cash at such time. In addition, SAIC's ability to repurchase the New Notes for cash may be limited by applicable law or the terms of other agreements relating to its indebtedness outstanding at the time, which agreements may provide that a Change of Control Triggering Event constitutes an event of default or prepayment under such other indebtedness. SAIC's failure to make such a repurchase would result in a default under your New Notes.

***Ratings of the New Notes may change and affect the market price and marketability of the New Notes.***

The debt of SAIC and the subsidiary guarantor is subject to periodic review by independent credit rating agencies. Such ratings are limited in scope and do not address all material risks relating to an investment in the New Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies if, in each rating agency's judgment, circumstances so warrant. It is also possible that such ratings may be lowered in connection with future events, such as future acquisitions. Holders of New Notes will have no recourse against us or any other parties in the event of a change in or suspension or withdrawal of such ratings. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the New Notes. In addition, any decline in the ratings of the New Notes may make it more difficult for us to raise capital on acceptable terms.

***Active trading markets for the New Notes may not develop.***

There are currently no public markets for the New Notes, and we do not currently plan to list the New Notes on any national securities exchange or include the New Notes in any automated quotation system. In addition, the liquidity of any trading markets in the New Notes, and the market prices quoted for the New Notes, may be adversely affected by changes in the overall market for these New Notes, prevailing interest rates, ratings assigned to the New Notes, time remaining to the maturity of the New Notes, outstanding amount of the New Notes, the markets for similar securities, prospects for other companies in our industry and changes in our financial condition, results of operations or prospects. Liquid trading markets in the New Notes may not develop, which could decrease the amounts you would otherwise receive upon a sale or disposition of the New Notes.

### **Risks Related to the Exchange Offer**

***If you do not exchange your Old Notes for New Notes in the exchange offer, the Old Notes will continue to be subject to restrictions on transfer.***

If you do not exchange your Old Notes for New Notes in the exchange offer, you will continue to be subject to the restrictions on transfer described in the legend on your Old Notes and the offering memorandum related to the private offering of such Old Notes. The restrictions on transfer of your Old Notes arise because we issued the Old Notes in private offerings exempt from the registration and prospectus delivery requirements of the Securities Act. In general, you may only offer or sell the Old Notes if they are registered under the Securities Act or are offered and sold under an exemption from these requirements. Except as required by the registration rights agreements for the Old Notes, we do not intend to register sales of the Old Notes under the Securities Act. For further information regarding the consequences of failing to tender your Old Notes in the exchange offer, see the discussion under the caption *The Exchange Offer Consequences of Failure to Exchange*.

***The issuance of the New Notes may adversely affect the market for the Old Notes.***

To the extent that Old Notes are tendered for exchange and accepted in the exchange offer, the trading market, if any, for the untendered and tendered but unaccepted Old Notes could be adversely affected due to a reduction in market liquidity and there could be a significant diminution in value of the Old Notes as compared to the value of the New Notes.

***In some instances you may be obligated to deliver a prospectus in connection with resales of the New Notes.***

Based on certain no-action letters issued by the staff of the SEC to third parties unrelated to us, we believe that you may offer for resale, resell or otherwise transfer the New Notes without compliance with the registration and prospectus delivery requirements of the Securities Act, except in the instances described in this prospectus under *The Exchange Offer Resale of the New Notes*. For example, if you exchange your Old Notes in the exchange offer for the purpose of participating in a distribution of the New Notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

***You must comply with the exchange offer procedures in order to receive freely tradable New Notes.***

We will not accept your Old Notes for exchange if you do not follow the exchange offer procedures. Delivery of New Notes in exchange for Old Notes tendered and accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of the following:

certificates for Old Notes or a confirmation of a book-entry transfer of Old Notes into the exchange agent's account at DTC, as depositary;

a completed and signed letter of transmittal (or facsimile thereof), with any required signature guarantee, or, in the case of tender through DTC's Automated Tender Offer Program, an agent's message in lieu of the letter of transmittal; and

any other documents required by the letter of transmittal.

Therefore, holders of Old Notes who would like to tender Old Notes in exchange for New Notes should be sure to allow enough time to comply with the exchange offer procedures. Neither we nor the exchange agent are required to notify you of defects or irregularities in tenders of Old Notes for exchange. Old Notes that are not tendered or that are tendered but we do not accept for exchange will, following completion of the exchange offer, continue to be subject to the existing transfer restrictions under the Securities Act and, upon completion of the exchange offer, certain registration and other rights under the applicable registration rights agreement will terminate. See *The Exchange Offer Procedures for Tendering Old Notes* and *The Exchange Offer Consequences of Failure to Exchange*.

## **Risks Relating to Our Business**

*We depend on government agencies as our primary customer and if our reputation or relationships with these agencies were harmed, our future revenues and growth prospects would be adversely affected.*

We generated approximately 90% of our total revenues during each of the last three fiscal years from contracts with the U.S. Government (including all branches of the U.S. military), either as a prime contractor or a subcontractor to other contractors. We generated more than 10% of our total revenues during each of the last three fiscal years from each of the U.S. Army and U.S. Navy. We expect to continue to derive most 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, are key factors in maintaining and growing these revenues. Negative press reports or publicity, which could pertain to employee or subcontractor misconduct, conflicts of interest, poor contract performance, information security breaches or other aspects of our business, among other things, regardless of accuracy, could harm our reputation, particularly with these agencies. In addition, negative publicity regarding our work for state and local government and commercial customers may harm our reputation with these customers as well as with our federal government customers. If our reputation is negatively affected, or if we are suspended or debarred (or proposed for suspension or debarment) from contracting with government agencies for any reason, the amount of business with government and other customers would decrease and our future revenues and growth prospects would be adversely affected.

*A decline in the U.S. Government defense budget, changes in budgetary priorities or timing of contract awards may adversely affect our future revenues and limit our growth prospects.*

Revenues under contracts with the DoD, either as a prime contractor or subcontractor to other contractors, represented 76% of our total revenues in fiscal 2011. Our operating results could be adversely affected by spending caps or changes in the budgetary priorities of the U.S. Government or the DoD, as well as delays in program starts or the award of contracts. Current spending levels for defense-related programs by the U.S. Government may not be sustainable and future levels of spending and authorizations for these programs may fail to increase or may actually decrease or shift to programs in areas in which we do not provide services or are less likely to be awarded contracts. Such changes in spending authorizations and budgetary priorities could occur as a result of the rapid growth of the federal budget deficit, increasing political pressure and recent legislation, including the Budget Control Act of 2011, designed to reduce overall levels of government spending, shifts in spending priorities from defense-related programs as a result of competing demands for federal funds, the number and intensity of military conflicts or other factors. In addition, the U.S. Government conducts periodic reviews of U.S. defense strategies and priorities, which may shift DoD budgetary priorities, reduce overall U.S. Government spending or delay contract awards for defense-related programs, including programs from which we expect to derive a significant portion of our future revenues. In September 2010, the DoD announced various initiatives designed to gain efficiencies, refocus priorities and enhance business practices used by the DoD, including those used to procure goods and services from defense contractors. These initiatives are organized into five areas including affordability and cost growth, productivity and innovation, competition, services acquisition, and processes and bureaucracy. These new initiatives are expected to have a significant impact on the contracting environment in which we do business with our DoD customers and they could have a significant impact on current programs as well as new DoD business opportunities. Changes to the DoD acquisition system and contracting models could affect whether and how we pursue certain opportunities and the terms under which we are able to do so. These initiatives are still fairly new and the full impact to our business remains uncertain. A significant decline in overall U.S. Government spending, including in the areas of national security, intelligence and homeland security, a significant shift in its spending priorities, the substantial reduction or elimination of particular defense-related programs or significant delays in contract awards for large programs could adversely affect our future revenues and limit our growth prospects.

***Because we depend on U.S. Government contracts, a delay in the completion of the U.S. Government's budget process could delay procurement of the products, services and solutions we provide 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. A continuing resolution allows federal government agencies to operate at spending levels approved in the previous budget cycle, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of the products, services and solutions that we provide and may result in new initiatives being cancelled. We have from time to time experienced a decline in revenues in our fourth quarter ending January 31 and beyond as a result of this annual budget cycle, including in our fiscal year 2011, and we could experience similar declines in revenues if the budget process is delayed significantly in future years. In years when the U.S. Government fails to complete its budget process or to provide for a continuing resolution, a federal government shutdown may result. This could in turn result in us incurring substantial labor or other costs without reimbursement under customer contracts, or the delay or cancellation of key programs, which could have a negative effect on our cash flows and adversely affect our future results. In addition, when supplemental appropriations are required to operate the U.S. Government or fund specific programs and passage of legislation needed to approve any supplemental appropriation bill is delayed, the overall funding environment for our business could be adversely affected.

***We face substantial uncertainties related to our CityTime contract.***

There are ongoing investigations being conducted by the U.S. Attorney's Office and the New York City Department of Investigations relating to an alleged fraudulent scheme that involves a systems development and implementation contract for an automated time and attendance and workforce management system (CityTime) that we completed in June 2011 for certain agencies of the City of New York (City). We have billed the City approximately \$635 million under the CityTime contract. An adverse outcome of any of these investigations may result in non-payment of the accounts receivable owed by the City to us, reimbursement of other amounts that we previously received under the contract, additional damages and penalties, and criminal fines, restitution and other remedies, including suspension or debarment from government contracting, any of which could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

***Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for penalties, including termination of our U.S. Government contracts, disqualification from bidding on future U.S. Government contracts and suspension or debarment from U.S. Government contracting.***

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 and may impose added costs on our business. Some significant regulations that affect us include:

the Federal Acquisition Regulation (FAR) 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 certain contract negotiations;

the Civil False Claims Act, which provides for substantial civil penalties for violations, including for submission of a false or fraudulent claim to the U.S. Government for payment or approval; and

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

The FAR and many of our U.S. Government contracts contain organizational conflict of interest clauses that may limit our ability to compete for or perform certain other contracts. Organizational conflicts of interest arise when we engage in activities that may make us unable to render impartial assistance or advice to the U.S. Government, impair our objectivity in performing contract work, or provide us with an unfair competitive advantage. A conflict of interest issue that precludes our competition for or performance on a significant program or contract could harm our prospects.

***The U.S. Government may adopt new contract rules and regulations or revise its procurement practices in a manner adverse to us at any time.***

The U.S. Government may face restrictions or pressure regarding the type and amount of services it may obtain from private contractors. Legislation, regulations and initiatives dealing with procurement reform, environmental responsibility or sustainability, and mitigation of potential conflicts of interest, as well as any resulting shifts in the buying practices of U.S. Government agencies, such as increased usage of fixed price contracts which transfer some risks from the U.S. Government to the performing contractors, could have adverse effects on government contractors, including us. Any of these changes could impair our ability to obtain new contracts or renew contracts under which we currently perform when those contracts are put up for recompetition. Any new contracting requirements or procurement methods could be costly or administratively difficult for us to implement and could adversely affect our future revenues.

***Our business is subject to reviews, audits and cost adjustments by the U.S. Government, which, if resolved unfavorably to us, could adversely affect our profitability, cash position or growth prospects.***

U.S. Government agencies, including the Defense Contract Audit Agency (DCAA) and others, routinely audit and review a contractor's performance on government contracts, indirect rates and pricing practices, and compliance with applicable contracting and procurement laws, regulations and standards. They also review the adequacy of the contractor's compliance with government standards for its accounting and management internal control systems, including: control environment and overall accounting system, estimating system, purchasing system, property system and earned value management system.

Both contractors and the U.S. Government agencies conducting these audits and reviews have come under increased scrutiny. For example, it was determined that the audit procedures the DCAA previously used in reviewing some of our systems and other government contractors systems were not in compliance with the requirements of Generally Accepted Government Auditing Standards. As a result, certain previous audit reports were rescinded and the current audits and reviews have become more rigorous and the standards to which we are held are being more strictly interpreted, increasing the likelihood of an audit or review resulting in an adverse outcome. During the course of its current audits, the DCAA is closely examining and questioning several of our long established and disclosed practices that it had previously audited and accepted, increasing the uncertainty as to the ultimate conclusion that will be reached. A finding of significant control deficiencies in our system audits can result in decremented billing rates to our U.S. Government customers until the control deficiencies are corrected and our corrections are accepted. In addition, due to uncertainty created by the lack of timely completion of system and other audits, we have agreed to an insignificant downward adjustment to our provisional billing rates pending resolution of such uncertainty.

Government audits and reviews may conclude that our practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds. Our receipt of adverse audit findings or the failure to obtain an adequate determination of our various accounting and management internal control systems, including our recent changes to indirect cost and direct labor estimating systems, from the responsible U.S. Government agency could significantly and adversely affect our business, including our ability to bid on new contracts and our competitive position in the bidding process. A determination of non-compliance with applicable contracting and procurement laws, regulations and standards could also result in the U.S. Government imposing penalties and sanctions against us, including withholding of payments, suspension of payments and increased government scrutiny that could delay or adversely affect our ability to invoice and receive timely payment on contracts, perform contracts or compete for contracts with the U.S. Government.

Our indirect cost audits by the DCAA have not been completed for fiscal 2005 and subsequent fiscal years. Although we have recorded contract revenues subsequent to fiscal 2004 based upon our estimate of costs that we believe will be approved upon final audit or review, we do not know the outcome of any ongoing or future audits or reviews and adjustments and, if future adjustments exceed our estimates, our profitability would be adversely affected.

***Our business is subject to governmental review and investigation which could adversely affect our profitability, cash position or growth prospects.***

We are routinely subject to governmental investigations relating to our contracts and operations. If 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 governmental agencies. We may suffer harm to our reputation if allegations of impropriety are made against us, which would impair our ability to win new contract awards or receive contract renewals. Penalties and sanctions are not uncommon in our 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. More generally, increases in scrutiny and investigations from government organizations, legislative bodies or agencies into business practices and into major programs supported by contractors may lead to increased legal costs and may harm our reputation and profitability if we are among the targeted companies.

***Misconduct of employees, subcontractors, agents and business partners could cause us to lose customers or our ability to obtain new contracts.***

Misconduct, fraud or other improper activities by our employees, subcontractors, agents or business partners could have a significant adverse impact on our business and reputation. Such misconduct includes falsifying time or other records and violations of the Anti-Kickback Act. Other examples could include the failure to comply with federal, state or local government procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in government contracts, laws and regulations relating to environmental matters, bribery of foreign government officials, import-export control, lobbying or similar activities, and any other applicable laws or regulations. Misconduct involving data security lapses resulting in the compromise of personal information or the improper use of our customer's sensitive or classified information could result in remediation costs, regulatory sanctions against us and serious harm to our reputation. Although we have implemented policies, procedures and controls to prevent and detect these activities, these precautions may not prevent all misconduct, and as a result, we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees, subcontractors, agents or business partners could subject us to fines and penalties, loss of security clearance, loss of current and future customer contracts and suspension or debarment from contracting with federal, state or local government agencies, any of which would adversely affect our business, our reputation and our future results.

***Due to the competitive process to obtain contracts and an increase in bid protests, we may be unable to sustain our revenue growth and profitability.***

We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process. The U.S. Government has increasingly relied on certain types of contracts that are subject to a competitive bidding process, including indefinite delivery/indefinite quantity (IDIQ), U.S. General Services Administration (GSA) Schedule and other multi-award contracts, which has resulted in greater competition and increased pricing pressure. The competitive bidding process involves substantial costs and a number of risks, including the significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us and our failure to accurately estimate the resources and costs that will be required to fulfill any contract we win. Following contract award, we may encounter significant expense, delay, contract

modifications or even contract loss as a result of our competitors protesting the award of contracts to us in competitive bidding. Any resulting loss or delay of start up and funding of work under protested contract awards may adversely affect our revenues and/or profitability. In addition, multi-award contracts require that we make sustained post-award efforts to obtain task orders under the contract. As a result, we may not be able to obtain these task orders or recognize revenues under these multi-award contracts. Our failure to compete effectively in this procurement environment would adversely affect our revenues and/or profitability.

***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 and include one or more base years and one or more option 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 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. For example, in fiscal 2010, the DoD announced its intent to restructure one of our programs, Future Combat Systems, which has been renamed Army Brigade Combat Team Modernization. As a result of this restructuring, certain efforts associated with this program were terminated.

We have experienced and continue to experience periodic performance issues under certain of our contracts. If a government customer terminates a contract for default, we may be exposed to liability, including for excess costs incurred by the customer in procuring undelivered services and products from another source. Depending on the nature and value of the contract, a performance issue or termination for default could cause our actual results to differ from those anticipated and could harm our reputation.

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

As of July 31, 2011, our total backlog was \$17.7 billion, which included \$5.3 billion in funded backlog. Due to the U.S. Government's ability to not exercise contract options or to modify, curtail or terminate our major programs or contracts and the rights of our non-U.S. Government customers to cancel contracts and purchase orders in certain circumstances, we may never realize revenues from some of the contracts that are included in our backlog. Our unfunded backlog, in particular, contains management's estimate of amounts expected to be realized on unfunded contract work that may never be realized as revenues. If we fail to realize as revenues amounts included in our backlog, our expected future revenue and growth prospects could be adversely affected.

***Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to accurately estimate and manage costs, time and resources.***

We generate revenues under various types of contracts, which include cost reimbursement, time and materials (T&M), fixed-price level of effort (FP-LOE) and firm fixed-price (FFP) contracts. Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost reimbursement and T&M contracts generally have lower profitability than FFP contracts. Our operating results in any period may be affected, positively or negatively, by variable purchasing patterns by our customers of our more profitable proprietary products.

Our profitability is adversely affected when we incur contract costs that we cannot bill to our customers. To varying degrees, each of our contract types involves some risk that we could underestimate our costs and resources necessary to fulfill the contract. While FFP contracts allow us to benefit from cost savings, these

contracts also increase our exposure to the risk of cost overruns. Revenues derived from FFP contracts represented 27% of our total revenues for the six months ended July 31, 2011. When making proposals 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 has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in connection with the performance of our contracts, including costs and delays caused by contractual disputes or other factors outside of our control, could make our contracts less profitable than expected or unprofitable.

***We use estimates in recognizing revenues and if we make changes to estimates used in recognizing revenues, our profitability may be adversely affected.***

Revenues from our contracts are primarily recognized using the percentage-of-completion method or on the basis of partial performance towards completion. These methodologies require estimates of total costs at completion, fees earned on the contract, or both. This estimation process, particularly due to the technical nature of the services being performed and the long-term nature of certain contracts, 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. Changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect future financial results.

***Internal system or service failures could disrupt our business and impair our ability to effectively provide our services and products to our customers, which could damage our reputation and adversely affect our revenues and profitability.***

We have a number of projects underway to improve our information technology systems and the delivery of shared services throughout our company. Any system or service disruptions, including those caused by projects to improve our information technology systems and the delivery of shared services, if not anticipated and appropriately mitigated, could have a material adverse effect on our business including, among other things, an adverse effect on our ability to bill our customers for work performed on our contracts, collect the amounts that have been billed and produce accurate financial statements in a timely manner.

We are also subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, intruders or hackers, computer viruses, natural disasters, power shortages or terrorist attacks. Any such failures could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs, subject us to claims and 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.

***Customer systems failures, including security breaches, could damage our reputation and adversely affect our revenues and profitability.***

Many of the systems and networks that we develop, install and maintain for our customers involve managing and protecting personal information and information relating to national security and other sensitive government functions. While we have programs designed to comply with relevant privacy and security laws and restrictions, if a system or network that we develop, install or maintain were to fail or experience a security breach or service interruption, we may experience loss of revenue, remediation costs or face claims for damages or contract termination. Any such event could cause serious harm to our reputation and prevent us from having



access to or being eligible for further work on such systems and networks. Our errors and omissions liability insurance may be inadequate to compensate us for all of the damages that we may incur and, as a result, our future results could be adversely affected.

***We have contracts with the U.S. Government that are classified which may limit investor insight into portions of our business.***

We derive a portion of our revenues from programs with the U.S. Government that are subject to security restrictions (classified programs), which preclude the dissemination of information that is classified for national security purposes. We are limited in our ability to provide information about these classified programs, their risks or any disputes or claims relating to such programs. As a result, investors have less insight into our classified programs than our other businesses and therefore less ability to fully evaluate the risks related to our classified business.

***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 and we compete with larger companies that have greater name recognition, financial resources and larger technical staffs. We also compete with smaller, more specialized companies that are able to concentrate their resources on particular areas. We additionally compete with the U.S. Government's own capabilities and federal non-profit contract research centers.

The markets in which we operate are characterized by rapidly changing technology and the needs of our customers change and evolve regularly. Accordingly, our success depends on our ability to develop services and products that address these changing needs and to provide people and technology needed to deliver these services and products. To remain competitive, we must consistently provide superior service, technology and performance on a cost-effective basis to our customers. Our competitors may be able to provide our customers with different or greater capabilities or technologies or better contract terms than we can provide, including technical qualifications, past contract experience, geographic presence, price and the availability of qualified professional personnel. In addition, our competitors may consolidate or establish teaming or other relationships among themselves or with third parties to increase their ability to address customers' needs. Accordingly, we anticipate that larger or new competitors or alliances among competitors may emerge which may adversely affect our ability to compete.

***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. Any claims or litigation, even if fully indemnified or insured, could damage our reputation and make it more difficult to compete effectively or obtain adequate insurance in the future. 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.

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

Our business involves the development of tailored solutions for our clients, a process that relies heavily upon the expertise and services of our employees. Our continued success depends on our ability to recruit and retain highly trained and skilled engineering, technical and professional personnel. Competition for skilled personnel is intense and competitors aggressively recruit key employees. In addition, 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 and personnel with security clearances are in great demand. Particularly in highly specialized areas, it has become more difficult to retain employees and meet all of our needs for employees in a timely manner, which 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 could impair our ability to perform our contractual obligations efficiently and timely meet our customers' needs and win new business, which could adversely affect our future results.

In addition to attracting and retaining qualified engineering, technical and professional personnel, we believe that our success will also depend on the continued employment of a highly qualified and experienced senior management team and its ability to retain existing business and generate new business. Our senior management team is important to our business because personal reputations and individual business relationships are a critical element of retaining and obtaining customer contracts in our industry, particularly with agencies performing classified operations. Our inability to retain appropriately qualified and experienced senior executives could cause us to lose customers or new business opportunities.

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

Our operations sometimes involve the investigation or remediation of environmental hazards, as well as the use, handling or disposal of hazardous substances. 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 handling or disposing of hazardous substances. Furthermore, failure to comply with these environmental protection and health and safety laws and regulations could result in civil, criminal, administrative or contractual 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 hazardous substance releases, even if they did not know of and were not responsible for the releases. If we have any violations of, or liabilities pursuant to, these laws or regulations, our financial condition and operating results could be adversely affected.

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

One of our key operating strategies is to selectively pursue strategic acquisitions, investments and joint ventures. As with past growth, we expect that a significant portion of our future growth will continue to come from these transactions. These transactions require significant investment of time and resources and may disrupt our business and distract our management from other responsibilities. Even if successful, these transactions could, for some period, reduce earnings due to the amortization of intangible assets acquired or the payment of additional consideration under earn-out arrangements if an acquisition performs significantly better than expected. Acquisitions, investments and joint ventures pose many other risks, including:

we may not be able to identify, compete effectively for or complete suitable acquisitions and investments at prices we consider attractive;

we may not be able to accurately estimate the financial effect of acquisitions and investments on our business and we may not realize anticipated synergies or acquisitions may not result in improved operating performance;

we may encounter performance problems with acquired technologies, capabilities and products, particularly with respect to those that are still in development when acquired;

we may have trouble retaining key employees and customers of an acquired business or otherwise integrating such businesses, such as incompatible accounting, information management, or other control systems, which could result in unforeseen difficulties;

we may assume material liabilities that were not identified as part of our due diligence or for which we are unable to receive a purchase price adjustment or reimbursement through indemnification;

acquired entities or joint ventures may not operate profitably, which could adversely affect our operating income or operating margins and we may be unable to recover investments in any such acquisitions;

future acquisitions, investments and joint ventures may require us to spend a significant amount of cash or to issue capital stock, resulting in dilution of ownership; and

we may not be able to effectively influence the operations of our joint ventures, which could adversely affect our operations. If our acquisitions, investments or joint ventures fail, perform poorly or their value is otherwise impaired for reasons including contractions in credit markets and global economic conditions, our business and financial results could be adversely affected.

In addition, we periodically divest businesses, including businesses that are no longer a part of our ongoing strategic plan. These divestitures may result in losses on disposal or continued financial involvement in the divested business, including through indemnification, guarantee or other financial arrangements, for a period of time following the transaction, which would adversely affect our financial results.

***Goodwill and other intangible assets represent approximately 30% of our total assets and any impairment of these assets could negatively impact our results of operations.***

Intangible assets, including goodwill, are assessed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Factors considered a change in circumstance, indicating that the carrying value of intangible assets may not be recoverable, could include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel, or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of. In addition, goodwill and non-amortizable intangible assets are assessed for impairment at least annually as required under U.S. generally accepted accounting principles. Future events or changes in circumstances that result in an impairment of goodwill or other intangible assets would have a negative impact on our profitability and financial results.

***We depend on our teaming arrangements and relationships with other contractors and subcontractors. If we are not able to maintain these relationships, or if these parties fail to satisfy their obligations to us or the customer, our revenues, profitability and growth prospects could be adversely affected.***

We rely on our teaming relationships with other prime contractors and subcontractors in order to submit bids for large procurements or other opportunities where we believe the combination of services and products provided by us and the other companies will help us to win and perform the contract. Our future revenues and growth prospects could be adversely affected if other contractors eliminate or reduce their contract 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. Companies that do not have access to U.S. Government contracts may perform services as our subcontractor and that exposure could enhance such companies' prospect of securing a future position as a prime U.S. Government contractor which could increase competition for future contracts and impair our ability to perform on contracts.

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, our hiring of a subcontractor's personnel or the subcontractor's failure to comply with applicable law. Current uncertain economic conditions heighten the risk of

financial stress of our subcontractors, which could adversely impact their ability to meet their contractual requirements to us. If any of our subcontractors fail to timely meet their contractual obligations or have regulatory compliance or other problems, our ability to fulfill our obligations as a prime contractor may be jeopardized. Significant 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 task orders, especially if the customer is an agency of the U.S. Government.

***We could incur significant liabilities and suffer negative publicity if our inspection or detection systems fail to detect bombs, explosives, weapons, contraband or other threats.***

We design, develop, manufacture, sell, service and maintain various inspection systems that are designed to assist in the detection of bombs, explosives, weapons, contraband or other threats. In some instances, we also train operators of such systems. Many of these systems utilize software algorithms that are probabilistic in nature and subject to significant technical limitations. Many of these systems are also dependent on the performance of their operators. There are many factors, some of which are beyond our control, which could result in the failure of our products to help detect the presence of bombs, explosives, weapons, contraband or other threats. Some of these factors could include operator error, inherent limitations in our systems, and misuse or malfunction of our systems. The failure of our systems to help detect the presence of any of these dangerous materials could lead to injury, death and extensive property damage and may lead to product liability, professional liability, or other claims against us. Further, if our systems fail to, or are perceived to have failed to help detect a threat, the negative publicity from such incident could have a material adverse effect on our business.

***Our insurance may be insufficient to protect us from product and other liability claims.***

Our insurance may be insufficient to protect us from significant product and other liability claims. Moreover, there is a risk that commercially available liability insurance will not continue to be available to us at a reasonable cost, if at all. If liability claims exceed our current or available insurance coverage, our business and prospects may be harmed. Regardless of the adequacy of our liability insurance coverages, any significant claim may have an adverse affect on our industry and market reputation, leading to a substantial decrease in demand for our products and services and reduced revenues.

***We face risks associated with our international business.***

Our international business operations may be subject to additional and different risks than our U.S. business. Failure to comply with U.S. Government laws and regulations applicable to international business such as the Foreign Corrupt Practices Act or U.S. export control regulations could have an adverse impact on our business with the U.S. Government and could expose us to administrative, civil or criminal penalties. Additionally, these risks relating to international operations may expose us to potentially significant contract losses.

In some countries, there is increased chance for economic, legal or political changes that may adversely affect the performance of our services, sale of our products or repatriation of our profits. International transactions can also involve increased financial and legal risks arising from foreign exchange rate variability, imposition of tariffs or additional taxes, restrictive trade policies and differing legal systems. We sometimes provide services and products in support of U.S. Government customers in countries with governments that may be or may become unstable, which increases the risk of an incident resulting in injury or loss of life, or damage or destruction of property, or inability to meet our contractual obligations. Although our international operations have historically generated a small proportion of our revenues, 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 adversely affect our business.

***Our financial results may be adversely affected by our underfunded United Kingdom pension plan.***

Our financial results may be adversely impacted by the expense amount that we record for a pension plan that we sponsor in the United Kingdom for plan participants that primarily performed services on a specific customer contract, which has expired. In April 2010, plan participants who were then performing services on the contract transferred to a successor contractor. We expect that certain plan participants will transfer their pension plan assets and obligations to a successor contractor. The impact of these transfers on plan assets and obligations will depend on the number of plan participants who elect to transfer their pension benefits to a successor contractor's plan, the amount of assets and obligations to be transferred, the performance of the pension plan assets and agreement on the timing of the transfer of the pension plan assets and obligations to a successor contractor's plan. We have continuing defined benefit pension obligations with respect to certain plan participants however benefits are no longer accruing under the plan as of May 2011. During the six months ended July 31, 2011, we sold certain components of our business, including the component of our business that contained this pension and employed the pension plan participants. Under terms of the definitive agreement, we retained the assets and obligations of this defined benefit pension plan.

On February 1, 2011, we elected to change our method of recognizing pension expense. Immediately prior to the change, net actuarial gains or losses in excess of 10% of the greater of the market-related value of plan assets or the plans' projected benefit obligation (which is referred to as the corridor) were recognized over the average remaining life expectancy of the plan participants. Under this accounting method, we will recognize all net actuarial gains or losses in excess of the corridor annually in continuing operations in the fourth quarter of each fiscal year and whenever a plan is remeasured. This accounting method results in an accelerated recognition of net actuarial gains and losses as compared to our previous amortization method. This accounting method may cause our pension expense in our fourth quarter ending January 31 to be volatile and our financial results to fluctuate, potentially adversely. Our pension plan expense may also be affected by economic factors, such as the level of return on pension plan assets and changes in interest rates, legislation and other government regulatory actions.

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

We rely principally on trade secrets to protect much of our intellectual property in cases where we do not believe that patent 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 could 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.

In the course of conducting our business, we may inadvertently infringe the intellectual property rights of others, resulting in claims against us or our customers. Our contracts generally indemnify our customers for third-party claims for intellectual property infringement by the services and products we provide. The expense of defending these claims may adversely affect our financial results.

***Business disruptions caused by natural disasters and other crises could adversely affect our profitability and our overall financial position.***

We have significant operations located in regions of the United States that may be exposed to damaging storms and other natural disasters, such as hurricanes, tornadoes, blizzards, flooding, wildfires or earthquakes. Our business could also be disrupted by pandemics and other national or international crises. Although preventative measures may help mitigate damage, the damage and disruption to our business resulting from any

of these events may be significant. If our insurance and other risk mitigation mechanisms are not sufficient to recover all costs, including loss of revenues from sales to customers, we could experience a material adverse effect on our financial position and results of operations. Performance failures by our subcontractors due to these types of events may also adversely affect our ability to perform our obligations on a prime contract, which could reduce our profitability due to damages or other costs that may not be fully recoverable from the subcontractor or the customer and could result in a termination of the prime contract and have an adverse effect on our ability to compete for future contracts.

***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 other matters described elsewhere in this prospectus.

**Risks Relating to SAIC's Stock**

***Provisions in SAIC's charter documents and under Delaware law could delay or prevent transactions that many stockholders may favor.***

Some provisions of SAIC's 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:

SAIC's certificate of incorporation provides that its bylaws and certain provisions of its certificate of incorporation may be amended by only 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 SAIC's certificate of incorporation and bylaws.

SAIC's certificate of incorporation contains certain supermajority voting provisions, which generally provide that mergers and certain other business combinations between SAIC and a related person be approved by the holders of securities having at least 80% of SAIC's 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.

SAIC's stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of SAIC's capital stock are limited in their ability to take certain actions other than in connection with its annual stockholders' meeting or a special meeting called at the request of qualified stockholders as provided in SAIC's certificate of incorporation and bylaws.

SAIC's board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to authorize undesignated preferred stock makes it possible for SAIC's 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.

As a Delaware corporation, SAIC is 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, SAIC's 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.

### USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the New Notes (and related guarantee). The New Notes will be exchanged for Old Notes as described in this prospectus upon our receipt of Old Notes. We will cancel all of the Old Notes (and related guarantee) surrendered in exchange for the New Notes (and related guarantee). Accordingly, no additional debt will result from the exchange offer.

### RATIO OF EARNINGS TO FIXED CHARGES

Our ratios of earnings to fixed charges were as follows for the respective periods indicated:

	Six Months Ended		Year Ended January 31			
	July 31		2010	2009	2008	2007
	2011	2011				
Ratio of earnings to fixed charges:						
SAIC	5.6x	7.3x	7.0x	6.4x	5.4x	5.2x
Science Applications	5.4x	6.6x	5.9x	4.8x	3.6x	5.0x

For purposes of calculating the ratio of earnings to fixed charges, earnings are the amount resulting from adding (a) pretax income from continuing operations, (b) fixed charges, (c) minority interests in consolidated subsidiaries, and (d) cash distributions from equity method investments; and subtracting (e) income (loss) from equity method investments. Fixed charges consist of (a) interest expense inclusive of amortized premiums, discounts and capitalized expenses related to indebtedness and (b) the portion of rental expense deemed representative of interest expense (estimated to be one-third of rental expense). Interest associated with our uncertain tax positions is a component of income tax expense and not fixed charges.

### SELECTED FINANCIAL DATA

The selected financial data presented below as of January 31, 2011 and 2010 and for the three years in the period ended January 31, 2011 has been derived from our consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus. The selected financial data relating to prior years has been derived from our consolidated financial statements which are not contained within this prospectus. The selected financial data presented as of July 31, 2011 and for the six months ended July 31, 2011 and 2010 are derived from our unaudited consolidated financial statements contained in this prospectus. All prior periods presented have been adjusted to reflect the fiscal year 2012 reclassification of certain components of a business to discontinued operations as described in Note 18 and the retrospective application of a pension accounting change as described in Note 1 of the combined notes to consolidated financial statements as of January 31, 2011 and 2010 and for the three years in the period ended January 31, 2011. As SAIC is a holding company and it consolidates Science Applications for financial statement purposes, the following financial data relates to both companies, except where otherwise indicated. Science Application's revenues and expenses comprise 100% of SAIC's revenues and operating expenses. In addition, Science Applications comprises approximately the entire balance of SAIC's assets, liabilities and operating cash flows, except for a note receivable from Science Applications to SAIC on which Science Applications pays interest.

The selected financial information set forth below should be read in conjunction with our consolidated financial statements, including the respective notes thereto, and with our Management's Discussion and Analysis of Financial Condition and Results of Operations contained within this prospectus.

	Six Months Ended July 31		Year Ended January 31				
	2011	2010 as adjusted (in millions,	2011	2010	2009 as adjusted	2008	2007
(in millions, except per share data)							
<b>Consolidated Statement of Income Data:</b>							
<b>SAIC:</b>							
Revenues	\$ 5,284	\$ 5,376	\$ 10,921	\$ 10,580	\$ 9,768	\$ 8,592	\$ 7,734
Operating income	439	478	947	836	747	638	542
Income from continuing operations	242	281	558	479	428	367	347
Income from discontinued operations	67	34	61	17	18	49	45
Net income	309	315	619	496	446	416	392
Earnings per share:							
Basic:							
Income from continuing operations	\$ .68	\$ .73	\$ 1.48	\$ 1.20	\$ 1.05	\$ .89	\$ .98
Income from discontinued operations	.19	.09	.17	.05	.05	.11	.12
	\$ .87	\$ .82	\$ 1.65	\$ 1.25	\$ 1.10	\$ 1.00	\$ 1.10
Diluted:							
Income from continuing operations	\$ .68	\$ .73	\$ 1.48	\$ 1.19	\$ 1.03	\$ .86	\$ .95
Income from discontinued operations	.19	.09	.16	.04	.05	.12	.12
	\$ .87	\$ .82	\$ 1.64	\$ 1.23	\$ 1.08	\$ .98	\$ 1.07
<b>Science Applications:</b>							
Revenues	\$ 5,284	\$ 5,376	\$ 10,921	\$ 10,580	\$ 9,768	\$ 8,592	\$ 7,734
Operating income	439	478	947	836	747	638	542
Income from continuing operations	241	275	550	465	401	322	336
Income from discontinued operations	67	34	61	17	18	49	45
Net income	308	309	611	482	419	371	381



	July 31		January 31			
	2011	2011	2010	2009	2008	2007
			as adjusted			
			(in millions, except per share data)			
<b>Consolidated Balance Sheet Data:</b>						
Total assets	\$ 6,113	\$ 6,223	\$ 5,295	\$ 5,048	\$ 4,983	\$ 4,560
Notes payable and long-term debt, including current portion	1,852	1,852	1,106	1,116	1,228	1,228
Other long-term liabilities	143	135	195	180	145	103
Cash dividends per share declared and paid <sup>(1)</sup>						15

- (1) Prior to our October 2006 reorganization merger in which Science Applications became a subsidiary of SAIC, Science Applications declared a dividend of \$2.45 billion. SAIC then completed an initial public offering of its common stock for net proceeds of \$1.24 billion. Science Applications has never declared or paid cash dividends to its sole stockholder, SAIC. Science Applications may declare and pay cash dividends to SAIC from time to time, but there is no present intention to do so in the foreseeable future.

## BUSINESS

*This prospectus is part of a combined registration statement of SAIC and Science Applications and includes separate consolidated financial statements for each of these two entities. As SAIC is a holding company and it consolidates Science Applications for financial reporting purposes, disclosures relate to activities of both companies, unless otherwise noted. Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ended January 31, 2011 as *fiscal 2011* and the fiscal year ending January 31, 2012 as *fiscal 2012*.*

### Overview

SAIC is a holding company. Its principal operating company, Science Applications, was formed in 1969. In October 2006, in connection with becoming a publicly-traded company, Science Applications completed a merger (reorganization merger) in which it became a 100%-owned subsidiary of SAIC, after which SAIC completed an initial public offering of its common stock.

We are a provider of scientific, engineering, systems integration and technical services and solutions in the areas of defense, health, energy, infrastructure, intelligence, surveillance, reconnaissance and cybersecurity to all agencies of the U.S. Department of Defense (DoD), the intelligence community, the U.S. Department of Homeland Security (DHS) and other U.S. Government civil agencies, state and local government agencies, foreign governments and customers in select commercial markets. Our business is focused on solving issues of national and global importance in the areas of national security, energy and the environment, critical infrastructure and health. We combine technology and domain and mission expertise to deliver solutions that solve our customers' most challenging issues. We are focusing our investments in our strategic growth areas including: intelligence, surveillance and reconnaissance; cybersecurity; logistics, readiness and sustainment; energy, environment and infrastructure; and health information technology.

### Reportable Segments

Our reportable segments include Defense Solutions; Health, Energy and Civil Solutions; and Intelligence and Cybersecurity Solutions. We also maintain a Corporate and Other segment. While each reportable segment is organized around the markets served and the nature of the products and services provided to customers in those markets as described in further detail below, there are a wide array of scientific, engineering, systems integration and technical services and solutions that we provide across these reportable segments, but which are performed specifically to meet the needs of the market and customers served in the segment. These include:

*Systems Engineering and Integration.* We provide systems engineering and implementation services and solutions to help our customers design and integrate complex network processes and infrastructure. These services and solutions include designing, installing, testing, repairing, maintaining and upgrading systems and processes.

*Software Development.* We provide software development services and solutions to help our customers maximize value by extending and renovating critical systems through software capabilities. These services include automating code generation, managing computer resources, and merging and evaluating large amounts of data.

*Cybersecurity.* We provide services and solutions to help our customers prepare for, protect against, and respond to a wide array of cybersecurity threats. These services and solutions include designing comprehensive cyber-risk management programs to identify and neutralize cyber attacks, integrating and managing information security services to protect customers' mission-critical data, identifying and advising in connection with the selection of disaster recovery plans and performing tests to certify that information technology (IT) systems operate in accordance with design requirements.

*Secure Information Sharing and Collaboration.* We provide services and solutions to help our customers share information and resources, including designing and developing information systems that access, process and analyze vast amounts of data from various sources to facilitate timely information sharing, collaboration and decision making.

*Communication Systems and Infrastructure.* We provide services and solutions to help our customers design and implement state-of-the-art communication systems. These services and solutions include designing, installing, testing, repairing and maintaining voice, data and video communication systems and infrastructures.

*Research and Development.* We conduct leading-edge research and development of new technologies with applications in areas such as national security, intelligence and life sciences.

*Securing Critical Infrastructure.* We provide customers with services and solutions to protect critical infrastructure from acts of terrorism and natural disasters as well as from threats due to error, maliciousness, wear and tear, planning oversights and previously unforeseen vulnerabilities. These services and solutions include risk management (vulnerability assessments and threat identification), training exercises and simulations, awareness programs, physical security, protection and detection systems and critical infrastructure continuity and contingency planning as well as casualty and damage assessment tools and disaster recovery services.

*Modeling and Simulation.* We provide applied research and technology and modeling and simulation services and solutions to the U.S. military, space and intelligence communities, including support related to mission preparation, launch and execution.

*Enterprise Information Solutions.* We provide a comprehensive set of IT service offerings including enterprise information technology optimization, business intelligence, enterprise resource planning maintenance and staff augmentation services.

#### *Defense Solutions*

Defense Solutions provides systems engineering and specialized technical services and solutions in support of command and control, communications, modeling and simulation, logistics, readiness and sustainment and network operations to a broad customer base within the defense industry. Defense Solutions helps design and implement advanced, networked command and control systems to enable U.S. and allied defense customers to plan, direct, coordinate and control forces and operations at strategic, operational and tactical levels. Defense Solutions also provides a wide range of logistics and product support solutions, including supply chain management, demand forecasting, distribution, maintenance and training services, to enhance the readiness and operational capability of U.S. military personnel and their weapons and support systems. Major customers of Defense Solutions include most branches of the U.S. military. Defense Solutions represents 43%, 43% and 41% of total revenues for fiscal 2011, 2010 and 2009, respectively.

#### *Health, Energy and Civil Solutions*

Health, Energy and Civil Solutions provides services and solutions in the areas of critical infrastructure, homeland security, safety and mission assurance, training, environmental assessments and restoration, engineering design, construction and sophisticated IT services across a broad customer base. These services and solutions range from design and construction services, energy renewables and energy distribution/smart-grid, to healthcare IT and engineering, health infrastructure, biomedical support and research. Health, Energy and Civil Solutions also provides integrated security solutions and training expertise in the detection of chemical, biological, radiological, nuclear and explosive threats and designs and develops products and applied technologies that aid anti-terrorism and homeland security efforts, including border, port and security inspection systems and checked baggage explosive detection systems. Major customers of Health, Energy and Civil Solutions primarily include the U.S. federal government, foreign governments, state and local governmental agencies and commercial enterprises in various industries. Health, Energy and Civil Solutions represents 26%, 27% and 27% of total revenues for fiscal 2011, 2010 and 2009, respectively.

### *Intelligence and Cybersecurity Solutions*

Intelligence and Cybersecurity Solutions provides systems and services focused on intelligence, surveillance, reconnaissance and cybersecurity across a broad spectrum of national security programs. Intelligence and Cybersecurity Solutions provides quick reaction, manned and unmanned airborne, maritime, space and ground-based surveillance systems which leverage an understanding of the underlying physics and operating in space, weight and power-constrained environments. Intelligence and Cybersecurity Solutions also provides intelligence processing, exploitation, and dissemination solutions, including systems designed to optimize decision-making in high rate, large volume, and complex data environments. Intelligence and Cybersecurity Solutions provides cybersecurity technology solutions, analytics and forensics, and products that protect data, applications, and modern information technology infrastructures from advanced and persistent threats as well as mission support in the geospatial, intelligence analysis, technical operations, and linguistics domains. Major customers of Intelligence and Cybersecurity Solutions include the national and military intelligence agencies, and other federal, civilian and commercial customers in the national security complex. Intelligence and Cybersecurity Solutions represents 31%, 30% and 32% of total revenues for fiscal 2011, 2010 and 2009, respectively.

### *Corporate and Other*

Corporate and Other includes the operations of our internal real estate management subsidiary, various corporate activities, certain corporate expense items that are not reimbursed by our U.S. Government customers and certain revenue and expense items excluded from the chief operating decision maker's evaluation of a reportable segment's performance.

Substantially all of our revenues and tangible long-lived assets are generated by or owned by entities located in the United States. For additional information regarding our reportable segments, see the Management's Discussion and Analysis of Financial Condition and Results of Operations section, Note 17 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 and Note 9 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

### **Acquisitions**

The acquisition of businesses is part of our growth strategy to provide new or enhance existing capabilities and offerings to customers and to establish new or enhance existing relationships with customers. We expect that a portion of our future growth will come from recent and future acquisitions. Since February 1, 2006, we have completed 23 acquisitions, most notably:

In the third quarter of fiscal 2012, we acquired Vitalize Consulting Solutions, Inc., a provider of clinical, business and information technology services for healthcare enterprises. This acquisition by our Health, Energy and Civil Solutions segment expands our capabilities in both federal and commercial markets to help customers better address electronic health record implementation and optimization demand.

In fiscal 2011, we acquired Cloudshield Technologies, Inc., a provider of cybersecurity and management services solutions. This acquisition by our Intelligence and Cybersecurity Solutions segment enhanced our cybersecurity offerings and positioned us to bring to market deep packet inspection solutions for high speed networks, enabling us to better meet emerging customer requirements. We also acquired Reveal Imaging Technologies, Inc., a provider of threat detection products and services. This acquisition by our Health, Energy and Civil Solutions segment enhanced our homeland security solutions portfolio by adding U.S. Transportation Security Administration certified explosive detection systems for checked baggage screening to our passenger and cargo inspections systems product offerings.

In fiscal 2010, we acquired R.W. Beck Group, Inc., a provider of business, engineering, energy and infrastructure consulting services. This acquisition by our Health, Energy and Civil Solutions segment

both enhanced our existing capabilities and offerings in the areas of energy and infrastructure consulting services and provided new capabilities and offerings in disaster preparedness and recovery services. We also acquired Science, Engineering and Technology Associates Corporation, a provider of intelligence, surveillance and reconnaissance information technologies. This acquisition by our Intelligence and Cybersecurity Solutions segment enhanced our service offerings and capabilities by adding information technologies that detect human behaviors to identify human-borne suicide bombers.

In fiscal 2009, we acquired SM Consulting, Inc., a provider of language translation, interpretation and training, and other consulting services to federal, state and local governments and commercial customers. While this acquisition by our Intelligence and Cybersecurity Solutions segment enhanced our existing capabilities and offerings, it also expanded our relationships with DoD customers in adjacent markets for these services. We also acquired Icon Systems, Inc., a provider of laser-based systems and products for military training and testing. This acquisition by our Defense Solutions segment enhanced our wireless live training offerings.

In fiscal 2008, we acquired The Benham Companies LLC, a consulting, engineering, and architectural design company. This acquisition by our Health, Energy and Civil Solutions segment provided us with new capabilities and offerings in the areas of industrial manufacturing and facilities design/build and enhanced our existing capabilities and offerings in the areas of energy consulting services and software development and integration services.

In fiscal 2007, we acquired Applied Marine Technology, Inc., a provider of training, systems engineering and integration, information systems and communications, and rapid prototyping of technical solutions and products focused on support to intelligence and special warfare operations, which enhanced the existing capabilities and offerings of our Intelligence and Cybersecurity Solutions segment.

#### **Divestitures**

From time to time, we divest non-strategic components of our business. Since February 1, 2006, our most notable divestitures were:

In the second quarter of fiscal 2012, we completed the sale of certain components of our business which were primarily focused on providing information technology services to international oil and gas companies.

In fiscal 2008, we completed a reorganization transaction involving our 55% interest in AMSEC LLC, a consolidated majority-owned subsidiary, resulting in the disposition of our 55% interest in AMSEC LLC in exchange for our acquisition of certain divisions and subsidiaries of AMSEC LLC.

In fiscal 2007, we completed the sale of our majority-owned subsidiary, ANXeBusiness Corp.

#### **Contract Procurement**

Our business is heavily regulated and we must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government and other contracts. The U.S. Government procurement environment has evolved due to statutory and regulatory procurement reform initiatives. Today, U.S. Government customers employ several procurement contracting methods to purchase services and solutions. Budgetary pressures and reforms in the procurement process have caused many U.S. Government customers to increasingly purchase services and products using contracting processes that give them the ability to select multiple winners or pre-qualify certain contractors to provide various services or products on established general terms and conditions rather than through single award contracts. The predominant contracting methods through which U.S. Government agencies procure services and products include the following:

*Single Award Contracts.* U.S. Government agencies may procure services and products through single award contracts which specify the scope of services and products that will be delivered and identify the



contractor that will provide the specified services. When an agency has a requirement, interested contractors are solicited, qualified and then provided with a request for a proposal. The process of qualification, request for proposals and evaluation of contractor bids requires the agency to maintain a large, professional procurement staff and the bidding and selection process can take a year or more to complete. For the contractor, this method of contracting may provide greater certainty of the timing and amounts to be received at the time of contract award because it generally results in the customer contracting for a specific scope of services or products from the single successful awardee.

*Indefinite Delivery/Indefinite Quantity (IDIQ) Contracts.* The U.S. Government uses IDIQ contracts to obtain commitments from contractors to provide certain services or products on pre-established terms and conditions. The U.S. Government then issues task orders under the IDIQ contracts for the specific services or products it needs. IDIQ contracts are awarded to one or more contractors following a competitive procurement process. Under a single-award IDIQ contract, all task orders under that contract are awarded to one pre-selected contractor. Under a multi-award IDIQ contract, task orders can be awarded to any of the pre-selected contractors, which can result in further limited competition for the award of task orders. Multi-award IDIQ contracts that are open for any government agency to use for the procurement of services are commonly referred to as government-wide acquisition contracts. IDIQ contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling, but not committing, the U.S. Government to purchase substantial amounts of services or products from one or more contractors. At the time an IDIQ contract is awarded (prior to the award of any task orders), a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract, and in the case of a multi-award IDIQ, the contractor from which such purchases may be made.

*U.S. General Services Administration (GSA) Schedule Contracts.* The GSA maintains listings of approved suppliers of services and products with agreed-upon prices for use throughout the U.S. Government. In order for a company to provide services under a GSA Schedule contract, a company must be pre-qualified and awarded a contract by the GSA. When an agency uses a GSA Schedule contract to meet its requirements, the agency, or the GSA on behalf of the agency, conducts the procurement. The user agency, or the GSA on its behalf, evaluates the user agency's services requirements and initiates a competition limited to GSA Schedule qualified contractors. GSA Schedule contracts are designed to provide the user agency with reduced procurement time and lower procurement costs. Similar to IDIQ contracts, at the time a GSA Schedule contract is awarded, a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract.

We often collaborate with other parties, including our competitors, to submit bids for large U.S. Government procurements or other opportunities where we believe that the combination of services and products that we can provide as a team will help us win and perform the contract. Our relationships with our teammates, including whether we serve as the prime contractor or as a subcontractor, vary with each contract opportunity and typically depend on the program, contract or customer requirements, as well as the relative size, qualifications, capabilities and experience of our company and our teammates. Contracting with the U.S. Government also subjects us to substantial regulation and unique risks, including the U.S. Government's ability to cancel any contract 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 fees for work performed. These regulations and risks are described in more detail below under [Business Regulation](#) and in the [Risk Factors](#) section of this prospectus.

## **Contract Types**

Generally, the type of contract for our services and products is determined by or negotiated with the U.S. Government and may depend on certain factors, including the type and complexity of the work to be performed, degree and timing of the responsibility to be assumed by the contractor for the costs of performance, the extent of price

competition and the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals. We generate revenues under several types of contracts, including the following:

Cost-reimbursement contracts provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee. This type of contract is generally used when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract. Cost-reimbursement contracts generally subject us to lower risk, but generally require us to use our best efforts to accomplish the scope of the work within a specified time and amount of costs.

Time-and-materials (T&M) contracts typically provide for negotiated fixed hourly rates for specified categories of direct labor plus reimbursement of other direct costs. This type of contract is generally used when there is uncertainty of the extent or duration of the work to be performed by the contractor at the time of contract award or it is not possible to anticipate costs with any reasonable degree of confidence. On T&M contracts, we assume the risk of providing appropriately qualified staff to perform these contracts at the hourly rates set forth in the contracts over the period of performance of the contracts.

Fixed-price-level-of-effort (FP-LOE) contracts are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time on work that can be stated only in general terms. This type of contract is generally used when the contractor is required to perform an investigation or study in a specific research and development area and to provide a report showing the results achieved based on the level of effort. Payment is based on the effort expended rather than the results achieved.

Firm-fixed-price (FFP) contracts provide for a fixed price for specified products, systems and/or services. This type of contract is generally used when the government acquires commercial items or products and services on the basis of reasonably definitive specifications and which have a determinable fair and reasonable price. These contracts subject us to higher risk, but offer us potential increased profits if we can complete the work at lower costs than planned. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns.

Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost reimbursement and T&M contracts generally have lower profitability than FFP contracts. For the proportionate amount of revenues derived from each type of contract for fiscal 2011, 2010 and 2009 and for the six months ended July 31, 2011 and 2010, see Key Financial Metrics Contract Types in Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus.

## **Backlog**

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. Our backlog consists of funded backlog and negotiated unfunded backlog, each of which are described in Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus. 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 at any time. In addition, certain contracts with commercial customers 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 fees for work performed. For additional discussion and analysis of backlog, see Key Financial Metrics Bookings and Backlog in Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus.



## Key Customers

In each of fiscal 2011, 2010 and 2009, approximately 90% of our total revenues were attributable to prime contracts with the U.S. Government or to subcontracts with other contractors engaged in work for the U.S. Government. We generated more than 10% of our total revenues during each of the last three fiscal years from each of the U.S. Army and U.S. Navy. Each of these customers has a number of subsidiary agencies which have separate budgets and procurement functions. Our contracts may be with the highest level of these agencies or with the subsidiary agencies of these customers.

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

	Year Ended January 31		
	2011	2010	2009
U.S. Army	23%	24%	25%
U.S. Navy	13	13	12

## Competition

Competition for contracts is intense and we often compete against a large number of established multinational corporations which may have greater financial capabilities than we do. We also compete against smaller, more specialized companies that concentrate their resources on particular areas. As a result of the diverse requirements of the U.S. Government and our commercial customers, we frequently collaborate with other companies to compete for large contracts, and bid against these team members in other situations. We believe that our principal competitors currently include the following companies:

the engineering and technical services divisions of large defense contractors which provide U.S. Government IT services in addition to other hardware systems and products, including such companies as The Boeing Company, General Dynamics Corporation, Lockheed Martin Corporation, Northrop Grumman Corporation, BAE Systems plc, L-3 Communications Corporation and Raytheon Company;

contractors focused principally on technical services, including U.S. Government IT services, such as Battelle Memorial Institute, Booz Allen Hamilton Inc., CACI International Inc, ManTech International Corporation, Serco Group plc and SRA International, Inc.;

diversified commercial and U.S. Government IT providers, such as Accenture plc, Computer Sciences Corporation, HP Enterprise Services, International Business Machines Corporation and Unisys Corporation;

contractors who provide engineering, consulting, design and construction services, such as KBR, Inc. and CH2M Hill Companies Ltd.; and

contractors focused on supplying homeland security product solutions, including American Science and Engineering, Inc., OSI Systems, Inc. and Smiths Group plc and contractors providing supply chain management and other logistics services, including Agility Logistics, Inc. (a subsidiary of Agility Public Warehousing Company K.S.C.).

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

The U.S. Government has indicated that it intends to increase industry competition for its future procurement of products and services, which could lead to fewer sole source awards and more emphasis on cost competitiveness and affordability. In addition, the DoD has announced several initiatives to improve efficiency, refocus priorities and enhance DoD best practices including those used to procure goods and services from defense contractors. These new initiatives, when implemented, could result in fewer new opportunities for our industry as a whole, which may intensify competition within the industry as companies compete for a more limited set of new programs.



### **Patents and Proprietary Information**

Our technical services and products are not generally dependent upon patent protection, although we do selectively seek patent protection. We claim a proprietary interest in certain of our products, software programs, methodologies and know-how. This proprietary information is protected by copyrights, trade secrets, licenses, contracts and other means. We selectively pursue opportunities to license or transfer our technologies to third parties.

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

### **Research and Development**

We conduct research and development activities under customer-funded contracts and with company-funded internal research and development (IR&D) funds. IR&D efforts consist of projects involving basic research, applied research, development, and systems and other concept formulation studies. In fiscal 2011, 2010 and 2009, our company-funded IR&D expense was \$55 million, \$49 million and \$46 million, respectively, which was included in selling, general and administrative expenses. We charge expenses for research and development activities performed under customer contracts directly to cost of revenues.

### **Seasonality**

The U.S. Government's fiscal year ends on September 30 of each year. It is not uncommon for U.S. Government agencies to award extra tasks or complete other contract actions in the timeframe leading up to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds, which may favorably impact our third fiscal quarter ending October 31. In addition, as a result of the cyclical nature of the U.S. Government budget process and a greater number of holidays in our fourth fiscal quarter ending January 31, as compared to our third fiscal quarter ending October 31, we typically experience sequentially higher revenues in our third fiscal quarter and lower revenues in our fourth fiscal quarter. For selected quarterly financial data, see Note 21 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus.

### **Regulation**

We are heavily regulated in most of the fields in which we operate. We provide services and products to numerous U.S. Government agencies and entities, including all of the branches of the U.S. military, the National Aeronautics and Space Administration (NASA), intelligence agencies and DHS. When working with these and other U.S. Government agencies and entities, we must comply with laws and regulations relating to the formation, administration and performance of contracts. Among other things, these laws and regulations:

require certification and disclosure of all cost and pricing data in connection with certain contract negotiations;

define allowable and unallowable costs and otherwise govern our right to reimbursement under various cost-based U.S. Government contracts;

require reviews by the Defense Contract Audit Agency (DCAA) and other U.S. Government agencies of compliance with government standards for accounting and management internal control systems;

restrict the use and dissemination of information classified for national security purposes and the export of certain products and technical data; and

require us not to compete for or to divest work if an organizational conflict of interest, as defined by these laws and regulations, related to such work exists and/or cannot be appropriately mitigated.



The U.S. Government may revise its procurement practices or adopt new contract rules and regulations at any time. In order to help ensure compliance with these complex laws and regulations, all of our employees are required to complete ethics training and other compliance training relevant to their position.

Internationally, we are subject to special U.S. Government laws and regulations, local government laws and regulations and procurement policies and practices (including laws and regulations relating to bribery of foreign government officials, import-export control, investments, exchange controls and repatriation of earnings) and varying currency, political and economic risks.

### **Environmental Matters**

Our operations are subject to various foreign, federal, state and local environmental protection and health and safety laws and regulations. In addition, our operations may become subject to future laws and regulations, including those related to climate change concerns. Failure to comply with these laws and regulations could result in civil, criminal, administrative or contractual sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. Government, or could cause us to incur costs to change, upgrade, remediate and/or close some of our operations or properties. Some environmental laws hold current or previous owners or operators of businesses and real property liable for hazardous substance releases, even if they did not know of and were not responsible for the releases. Environmental laws may also impose liability on any person who disposes, transports, or arranges for the disposal or transportation of hazardous substances to any site. In addition, we may face liability for personal injury, property damage and natural resource damages relating to hazardous substance releases for which we are otherwise liable or relating to exposure to or the mishandling of hazardous substances in connection with our current and former operations or services. Although we do not currently anticipate that the costs of complying with, or the liabilities associated with, environmental laws will materially and adversely affect us, we cannot ensure that we will not incur material costs or liabilities in the future.

### **Employees and Consultants**

As of July 31, 2011, we employed approximately 41,200 full and part-time employees. We also utilize consultants to provide specialized technical and other services on specific projects. To date, we have not experienced any strikes or work stoppages and we consider our relations with our employees to be good.

The highly technical and complex services and products that we provide are dependent upon the availability of professional, administrative and technical personnel having high levels of training and skills and, in many cases, security clearances. Due to the increased competition for qualified personnel, it has become more difficult to retain employees and meet all of our needs for employees in a timely manner, which has affected and may to continue to affect our growth. We intend to continue to devote significant resources to recruit, develop and retain qualified employees.

### **Properties**

As of July 31, 2011, we conducted our operations in approximately 427 offices located in 41 states, the District of Columbia and various foreign countries. We consider our facilities suitable and adequate for our present needs. We occupy approximately 9.8 million square feet of floor space. Of this amount, we own approximately 2.1 million square feet, and the remaining balance is leased. Our major locations are in the Washington, D.C. and San Diego, California metropolitan areas, where we occupy approximately 3 million square feet of floor space and 1 million square feet of floor space, respectively. We also have employees working at customer sites throughout the United States and in other countries.

As of July 31, 2011, we owned the following properties:

Location	Number of buildings	Square footage	Acreage
McLean, Virginia	4	896,000	18.3
San Diego, California	4	455,000	11.4
Virginia Beach, Virginia	2	159,000	22.5
Huntsville, Alabama	1	102,000	11.3
Columbia, Maryland	1	95,000	7.3
Colorado Springs, Colorado	1	86,000	5.8
Orlando, Florida	1	85,000	18.0
Oak Ridge, Tennessee	1	83,000	12.5
Dayton, Ohio	2	79,000	4.5
Reston, Virginia	1	62,000	2.6
Richland, Washington	1	24,000	3.1

The nature of our business is such that there is no practicable way to relate occupied space to our reportable segments. See Note 15 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus for information regarding commitments under leases.

#### Legal Proceedings

We have provided information about legal proceedings in which we are involved in Note 10 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 and Note 19 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus.

In addition to the matters disclosed in Note 10 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 and Note 19 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011, we are routinely subject to investigations and reviews relating to compliance with various laws and regulations, including those associated with contract performance, compliance with applicable laws and organizational conflicts of interest, with respect to our role as a contractor to governmental agencies and departments and in connection with performing services in countries outside of the United States. Adverse findings in these investigations or reviews can lead to criminal, civil or administrative proceedings and we could face penalties, fines, repayments or compensatory damages. Adverse findings could also have a material adverse effect on our business, consolidated financial position, results of operations and cash flows due to our reliance on government contracts.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This prospectus is part of a combined registration statement of SAIC and Science Applications and includes separate consolidated financial statements for each of these two entities. As SAIC is a holding company and consolidates Science Applications for financial statement purposes, disclosures that relate to activities of Science Applications also apply to SAIC, unless otherwise noted. Science Applications' revenues and expenses comprise 100% of SAIC's revenues and operating expenses. In addition, Science Applications comprises approximately the entire balance of SAIC's assets, liabilities and operating cash flows. Therefore, the following qualitative discussion is applicable to both SAIC and Science Applications, unless otherwise noted. This combined Management's Discussion and Analysis of Financial Condition and Results of Operations of SAIC and Science Applications should be read in conjunction with the consolidated financial statements and the combined notes to the consolidated financial statements contained within this prospectus.*

*We use the terms Company, we, us, and our to refer to SAIC, Science Applications and their consolidated subsidiaries. Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ended January 31, 2011 as fiscal 2011 and to the fiscal year ending January 31, 2012 as fiscal 2012. All information for the periods presented in this section has been recast to give effect to the change in reportable segments and for discontinued operations.*

**Overview**

We are a provider of scientific, engineering, systems integration and technical services and solutions in the areas of defense, health, energy, infrastructure, intelligence, surveillance, reconnaissance and cybersecurity to all agencies of the U.S. Department of Defense (DoD), the intelligence community, the U.S. Department of Homeland Security (DHS) and other U.S. Government civil agencies, state and local government agencies, foreign governments and customers in select commercial markets.

Our business is focused on solving issues of national and global importance in the areas of national security, energy and the environment, critical infrastructure and health. We combine technology and domain and mission expertise to deliver solutions that solve our customers' most challenging issues. We are focusing our investments in our strategic growth areas including: intelligence, surveillance and reconnaissance; cybersecurity; logistics, readiness and sustainment; energy and environment; and health information technology. Our significant long-term management initiatives include:

achieving internal, or non-acquisition related, annual revenue growth through internal collaboration and better leveraging of key differentiators across our company and the deployment of resources and investments into higher growth markets;

improving our operating income margin through strong contract execution and growth in higher-margin business areas and continued improvement in our information technology (IT) systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;

disciplined deployment of our cash resources and use of our capital structure to enhance growth and shareholder value through internal growth initiatives, strategic acquisitions, stock repurchases and other uses as conditions warrant; and

investing in our people, including enhanced training and career development programs, with a focus on retention and recruiting.

Key financial highlights and events, including progress against our management initiatives, during the six months ended July 31, 2011 include:

Revenues for the six months ended July 31, 2011 decreased 2% as compared to the same period in the prior year reflecting internal revenue contraction (as defined in Non-GAAP Financial Measures ) of 3%. The internal revenue contraction was driven by revenue declines in our Defense Solutions and Health, Energy

and Civil Solutions segments and the effect of revenues from the receipt of a \$56 million royalty payment included in our Corporate and Other segment in the same period of the prior year, partially offset by a revenue increase in our Intelligence and Cybersecurity Solutions segment.

Operating income as a percentage of revenues decreased to 8.3% for the six months ended July 31, 2011 from 8.9% for the same period in the prior year primarily due to the \$56 million royalty payment received in our Corporate and Other segment during the six months ended July 31, 2010.

Income from continuing operations for the six months ended July 31, 2011 decreased \$39 million, or 14%, over the same period in the prior year primarily due to decreased operating income of \$39 million and an increase in interest expense of \$19 million as the result of the issuance of senior unsecured notes in December 2010, partially offset by lower taxes of \$12 million due to the decline in operating income as compared to the same period in the prior year.

Diluted earnings per share (EPS) from continuing operations for the six months ended July 31, 2011 decreased \$.05 per share, or 7%, as compared to the same period in the prior year primarily due to the decrease in income from continuing operations partially offset by a decline in the diluted weighted average number of shares outstanding of 28 million, or 8%, primarily due to stock repurchases.

Discontinued operations for the six months ended July 31, 2011 reflects the June 2011 sale of certain components of the business primarily focused on providing information technology services to international oil and gas companies, including a gain on sale before income taxes of \$109 million.

Cash and cash equivalents decreased \$31 million during the six months ended July 31, 2011 reflecting cash used to repurchase our stock totaling \$417 million partially offset by cash generated from operations of \$210 million and proceeds of \$169 million from the completion of the sale of certain components of our business.

Net bookings (as defined in Key Financial Metrics Bookings and Backlog ) were approximately \$5.9 billion for the six months ended July 31, 2011. Total backlog was \$17.7 billion at July 31, 2011 as compared to \$17.1 billion at January 31, 2011.

Key financial highlights and events, including progress against our management initiatives, during fiscal 2011 include:

Revenues increased 3% over the prior year with minimal internal revenue growth. Our revenue growth for fiscal 2011 was the result of growth in our Defense Solutions and Intelligence and Cybersecurity Solutions segments, including an increase in materials and subcontract revenues on a number of programs. Revenue growth was negatively impacted by ongoing industry-wide delays in procurement decisions, which has resulted in an increase in submitted proposals awaiting decisions.

Operating income as a percentage of revenues increased to 8.7% for fiscal 2011 from 7.9% for fiscal 2010. The increase in operating income margin was primarily due to the favorable impact of a \$56 million royalty payment received in fiscal 2011 in addition to strong program performance, particularly on certain fixed-price contracts.

Income from continuing operations for fiscal 2011 increased \$79 million, or 16%, over the prior year primarily due to increased operating income of \$111 million and a lower effective tax rate.

Diluted EPS from continuing operations for fiscal 2011 increased \$.29 per share, or 24%, as compared to the prior year primarily due to a \$79 million, or 16%, increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 24 million, or 6%, primarily due to stock repurchases.



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Cash and cash equivalents increased \$506 million during fiscal 2011, primarily due to \$725 million generated from operations and net proceeds of \$742 million from issuance of debt, partially offset by repurchases of our stock of \$601 million and \$382 million used to acquire businesses.

Net bookings were approximately \$12.6 billion for fiscal 2011, as compared to \$9.2 billion in the prior year. Total backlog was \$17.1 billion at January 31, 2011, an increase of approximately \$1.8 billion from January 31, 2010.

## **Business Environment**

In fiscal 2011, we generated approximately 90% of our total revenues from contracts with the U.S. Government, either as a prime contractor or a subcontractor. Revenues under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented approximately 75% of our total revenues in fiscal 2011. Accordingly, our business performance is subject to changes in the overall level of U.S. Government spending, especially national security, including defense, spending, and the alignment of our service and product offerings and capabilities with current and future budget priorities.

While we believe that national security, including defense, spending will continue to be a priority, the U.S. Government deficit and budget situation has created increasing pressure to closely examine and reduce spending in these areas. In August 2011, President Obama signed into law the Budget Control Act of 2011, which increased the U.S. Government's debt ceiling and enacted 10-year discretionary spending caps which are expected to generate over \$900 billion in savings for the U.S. Government. According to the Office of Management and Budget, these savings include \$420 billion in national security spending reductions, \$330 billion of which is specifically from DoD's budget, over the next 10 years. If an additional \$1.2 trillion to \$1.5 trillion in savings are not voted into law by both houses of Congress by December 23, 2011, automatic spending cuts totaling an additional \$1.2 trillion over 10 years will be triggered, which are expected to reduce DoD and Homeland Security spending by approximately \$500 billion and other federal agency spending by approximately \$700 billion over that timeframe, beginning in the government fiscal year ending September 30, 2013. We are evaluating the potential impacts of the new legislation on our business, and while the ultimate effect on our business is uncertain, the amount and nature of these federal budget spending reductions could adversely impact our future revenues and growth prospects.

In February 2011, the Obama Administration submitted the Presidential Budget for the government fiscal year ending September 30, 2012 (GFY 2012) to Congress. However, based on the recent debt ceiling debate and delays in the appropriations process, we expect that a continuing resolution will be put in place for at least part of GFY 2012. A continuing resolution authorizes agencies of the U.S. Government to continue to operate, generally at the same funding levels from the prior year (in this case, GFY 2011), but does not authorize new spending initiatives. If continuing resolutions remain in effect for an extended period of time, it could delay new contract awards, delay the procurement of products, services and solutions we provide, or result in new spending initiatives being cancelled.

Competition for contracts with the U.S. Government continues to be intense. 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 services or products at established general terms and conditions. Such processes include purchasing services and solutions using indefinite-delivery/indefinite-quantity (IDIQ) and U.S. General Services Administration (GSA) contract vehicles. This trend has served to increase competition for U.S. Government contracts. There are a number of additional risks and uncertainties which could impact our U.S. Government business. For more information on these risks and uncertainties, see **Risk Factors** contained within this prospectus.

## **Reportable Segments**

We define our reportable segments based on the way our chief operating decision maker (CODM), currently our chief executive officer, manages the operations of the Company for purposes of allocating resources and assessing performance.

Prior to February 1, 2011, our CODM managed our operations at the business unit level, each of which reported to one of several operating groups. Our business units were aggregated into reportable segments, Government and Commercial, based on the nature of the customers served, contractual requirements and the regulatory environment governing the business unit's operations. We also had a Corporate and Other segment.

Effective February 1, 2011, we further aligned our operations within the maturing group structure that is better organized around the markets served and the nature of products and services provided to customers in those markets. Coincident with the completion of this organizational alignment, the CODM commenced management of our operations at the group level for purposes of allocating resources and assessing performance. As a result of this change, we redefined our Government and Commercial reportable segments into the following: Defense Solutions; Health, Energy and Civil Solutions; and Intelligence and Cybersecurity Solutions.

Except with respect to Results of Operations Discontinued Operations, Net Income, and Diluted EPS, all amounts in this Management s Discussion and Analysis of Financial Condition and Results of Operations are presented for our continuing operations. For additional information regarding our reportable segments, see Business and Note 17 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 and Note 9 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

### Key Financial Metrics

Our revenues are generated primarily from contracts with the U.S. Government, commercial customers, and various foreign, state and local governments or from subcontracts with other contractors engaged in work with such customers. We perform under various types of contracts, which include firm-fixed-price, time-and-materials, fixed-price-level-of-effort, cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee contracts.

We recognize revenues under cost-plus-fixed-fee contracts with the U.S. Government on the basis of partial performance, as costs are incurred together with an estimate of applicable fees as we become contractually entitled to reimbursement of costs and the applicable fees. We recognize revenues under our other 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.

*Bookings and Backlog.* We received net bookings worth an estimated \$5.9 billion during the six months ended July 31, 2011 and \$12.6 billion and \$9.2 billion during fiscal 2011 and 2010, respectively. Net bookings represent the estimated amount of revenue to be earned in the future from funded and unfunded contract awards that were received during the year, net of any adjustments to previously awarded backlog amounts. We calculate net bookings as the year s ending backlog plus the year s revenues less the prior year s ending backlog and less the backlog obtained in acquisitions during the year.

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. We segregate our backlog into two categories as follows:

*Funded Backlog.* Funded backlog for contracts with government agencies primarily represents contracts for which funding is appropriated less revenues previously recognized on these contracts, and does not include the unfunded portion of contracts where funding is incrementally appropriated or authorized on a quarterly or annual basis by the U.S. Government and other customers, even though the contract may call for performance over a number of years. Funded backlog for contracts with non-government agencies represents the estimated value on contracts, which may cover multiple future years, under which we are obligated to perform, less revenues previously recognized on these contracts.

*Negotiated Unfunded Backlog.* Negotiated unfunded backlog represents estimated amounts of revenue to be earned in the future from (1) negotiated contracts 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 expected to be awarded under IDIQ, GSA Schedule, or other master agreement contract vehicles.

The estimated value of our total backlog as of the end of the periods presented was as follows:

	July 31 2011	January 31 2011* (in millions)	2010
<b>Defense Solutions:</b>			
Funded backlog	\$ 2,025	\$ 2,272	\$ 2,045
Negotiated unfunded backlog	4,948	5,400	4,012
Total Defense Solutions backlog	\$ 6,973	\$ 7,672	\$ 6,057
<b>Health, Energy and Civil Solutions:</b>			
Funded backlog	\$ 1,742	\$ 1,780	\$ 1,767
Negotiated unfunded backlog	3,264	2,131	1,960
Total Health, Energy and Civil Solutions backlog	\$ 5,006	\$ 3,911	\$ 3,727
<b>Intelligence and Cybersecurity Solutions:</b>			
Funded backlog	\$ 1,511	\$ 1,330	\$ 1,265
Negotiated unfunded backlog	4,234	4,207	4,317
Total Intelligence and Cybersecurity Solutions backlog	\$ 5,745	\$ 5,537	\$ 5,582
<b>Total:</b>			
Funded backlog	\$ 5,278	\$ 5,382	\$ 5,077
Negotiated unfunded backlog	12,446	11,738	10,289
Total backlog	\$ 17,724	\$ 17,120	\$ 15,366

\* Adjusted to reclassify \$195 million from Intelligence and Cybersecurity Solutions to Defense Solutions.

Total backlog may fluctuate from period to period depending on our success rate in winning contracts and the timing of contract awards, renewals, modifications and cancellations. While backlog increased during the six months ended July 31, 2011 and fiscal 2011, contract awards continue to be negatively impacted by ongoing industry-wide delays in procurement decisions, which have resulted in an increase in the value of our submitted proposals awaiting decisions.

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 at any time. In addition, certain contracts with commercial customers 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 fees for work performed.

*Contract Types.* For a discussion of the types of contracts under which we generate revenue, see *Contract Types* in the *Business* section contained within this prospectus. The following table summarizes revenues by contract type as a percentage of total revenues for the periods presented:

	Six Months Ended July 31		Year Ended January 31		
	2011	2010	2011	2010	2009
Cost-reimbursement	43%	47%	47%	49%	49%
T&M and FP-LOE	30	30	29	29	32
FFP	27	23	24	22	19
Total	100%	100%	100%	100%	100%

The increase in the percentage of revenues generated from FFP contracts during the six months ended July 31, 2011, as compared to the same period of the prior year was primarily due to increased revenues from design and construction services and increased sales of proprietary products.

The increase in the percentage of revenues generated from FFP contracts for fiscal 2011 as compared to prior years was primarily due to increased deliveries of logistics, readiness and sustainment products and proprietary products in addition to a \$56 million royalty payment received in fiscal 2011.

*Revenue Mix.* 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 materials provided on a contract and efforts of our subcontractors, 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, readiness and sustainment business area, as well as through sales of our proprietary products, such as our border, port and mobile security products and our checked baggage explosive detection systems. While our proprietary products are more profitable, these products represent a small percentage of our M&S revenues and the majority of our M&S revenues generally have lower margins than our labor-related revenues.

The following table presents changes in labor-related revenues and M&S revenues for the periods presented:

	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011 (\$ in millions)	Percent change	2010	Percent change	2009
Labor-related revenues	\$ 3,059	(1)%	\$ 3,087	\$ 6,154	2%	\$ 6,051	5%	\$ 5,742
<i>As a percentage of revenues</i>	<b>58%</b>		57%	<b>56%</b>		57%		59%
M&S revenues	2,225	(3)	2,289	4,767	5	4,529	12	4,026
<i>As a percentage of revenues</i>	<b>42%</b>		43%	<b>44%</b>		43%		41%

M&S revenues decreased as a percentage of total revenues during the six months ended July 31, 2011 as compared with the same period in the prior year primarily due to a \$56 million royalty payment received during the six months ended July 31, 2010. Labor-related revenues for the six months ended July 31, 2011 decreased slightly as compared to the same period in the prior year due to a decrease in the number of full-time and part-time employees as compared to the same periods in the prior year.

In recent years, the increase in relative proportion of M&S revenues as compared to labor-related revenues was primarily due to increased activity as a prime contractor on large programs involving significant subcontracted efforts and increased volume of material deliveries under certain programs primarily with DoD customers, in addition to a \$56 million royalty payment received in fiscal 2011. The labor-related revenues in fiscal 2011 were relatively consistent as compared to fiscal 2010 while the increase in labor-related revenues in fiscal 2010 as compared to fiscal 2009 was primarily due to the start of several new programs and increases in both labor rates and the number of personnel performing on contracts.

*Customer Concentration.* In each of fiscal 2011, 2010, and 2009, approximately 90% of our total revenues were attributable to prime contracts with the U.S. Government or to subcontracts with other contractors engaged in work for the U.S. Government. The percentage of total revenues from customers representing greater than 10% of our total revenues for each of the last three fiscal years was as follows:

	Year Ended January 31		
	2011	2010	2009
U.S. Army	23%	24%	25%
U.S. Navy	13	13	12

*Geographic Location.* The majority of our services are performed by entities located in the United States. Revenues earned by entities located within the United States accounted for substantially all of our total revenues in fiscal 2011, 2010 and 2009.

**Results of Operations**

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

	Six Months Ended July 31			Year Ended January 31				
	2011	Percentage Change	2010 as adjusted	2011	Percentage Change	2010 as adjusted	Percentage Change	2009
	(\$ in millions)							
Revenues	\$ 5,284	(2)%	\$ 5,376	\$ 10,921	3%	\$ 10,580	8%	\$ 9,768
Cost of revenues	4,615	(1)	4,656	9,476	4	9,151	8	8,464
Selling, general and administrative expenses:								
General and administrative (G&A)	118	(15)	139	296	(26)	401	2	395
Bid and proposal	76	(3)	78	147	3	143	23	116
Internal research and development	36	44	25	55	12	49	7	46
Operating income	439	(8)	478	947	13	836	12	747
<i>As a percentage of income</i>	8.3%		8.9%	8.7%		7.9%		7.6%
Non-operating expense, net	(50)		(38)	(75)		(68)		(73)
Income from continuing operations before income taxes	389	(12)	440	872	14	768	14	674
Provisions for income taxes	(147)	(8)	(159)	(314)	9	(289)	17	(246)
Income from continuing operations	242	(14)	281	558	16	479	12	428
Income from discontinued operations, net of tax	67		34	61		17		18
Net income	\$ 309	(2)	\$ 315	\$ 619	25	\$ 496	11	\$ 446

We classify indirect costs incurred within or allocated to our Government customers as overhead (included in cost of revenues) and G&A expenses in the same manner as such costs are defined in our disclosure statements under U.S. Government Cost Accounting Standards. Effective in fiscal 2012, one of our subsidiaries adopted our more prevalent disclosure statement resulting in \$13 million in costs classified as G&A for the six months ended July 31, 2010 being classified as cost of revenues in fiscal 2012 on a prospective basis. Effective in fiscal 2011, we updated our disclosure statements with the Defense Contract Management Agency, resulting in certain costs being classified differently as either overhead or G&A expenses on a prospective basis. This change has caused a net increase in reported cost of revenues and a net decrease in reported G&A expenses in fiscal 2011 as compared to fiscal 2010 and 2009. Total operating costs were not affected by these changes.

*Reportable Segment Results.*

The following table summarizes changes in Defense Solutions revenues and operating income for the periods presented:

Defense Solutions	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011	Percent change	2010	Percent change	2009
	(\$ in millions)							
Revenues	\$ 2,222	(2)%	\$ 2,269	\$ 4,657	3%	\$ 4,518	12%	\$ 4,035
Operating income	178	1	177	380	7	355	12	317
Operating income margin	8.0%		7.8%	8.2%		7.9%		7.9%

Defense Solutions revenues decreased by \$47 million, or 2%, all of which was attributable to internal revenue contraction, for the six months ended July 31, 2011 as compared to the same period in the prior year. Internal





revenue contraction was primarily attributable to a systems development and implementation contract for a local government which was completed in the period (\$31 million), reduced activity on our U.S. Army Brigade Combat Team Modernization contract (\$31 million) and reduced activity on an infrastructure support services program for an agency of the DoD (\$18 million) in addition to one less business day as compared to the same period in the prior year (\$17 million). This decline was partially offset by continued growth on a number of existing contract vehicles including a systems and software maintenance/upgrade program for the U.S. Army (\$48 million).

Defense Solutions revenues increased \$139 million, or 3%, including internal revenue growth of 3%, in fiscal 2011 as compared to fiscal 2010. Fiscal 2011 internal revenue growth was driven by increased activity on our systems integration and logistics programs for tactical and mine resistant ambush protected vehicles (\$175 million), a systems and software maintenance and upgrades program with the U.S. Army (\$78 million), and a systems engineering solutions program for the U.S. Navy (\$65 million). These growth areas were partially offset by revenue declines on certain programs including from fewer deliveries of emergency responder equipment (\$99 million), and a reduction in scope under the U.S. Army Brigade Combat Team Modernization program (\$62 million).

Defense Solutions revenues increased \$483 million, or 12%, including internal revenue growth of 12%, in fiscal 2010 as compared to fiscal 2009. Fiscal 2010 internal revenue growth was driven by increased activity in military logistics and supply chain management services for the DoD (\$180 million), increases in systems engineering solutions for the U.S. Navy (\$91 million), increased activity on a systems and software maintenance and upgrades program for the U.S. Army (\$60 million) and increased activity on a program to support, operate and maintain a command, control, communication and computer system network for the DoD (\$55 million).

Defense Solutions operating income margin increased to 8.0% for the six months ended July 31, 2011 as compared to 7.8% for the same period in the prior year primarily due to more effective cost management (\$17 million) partially offset by lower fees on a systems development and implementation contract for a local government which was completed in the period (\$12 million).

Defense Solutions operating income margin increased to 8.2% in fiscal 2011 as compared to 7.9% in fiscal 2010 primarily due to increased cost recovery on cost reimbursement contracts and increased fees related to a specific contract partially offset by increased bid and proposal expenses. The level of bid and proposal activities fluctuates depending on the timing of bidding opportunities.

Defense Solutions operating income margin remained consistent in fiscal 2010 as compared to fiscal 2009 reflecting increased cost recovery on cost reimbursement contracts partially offset by an intangible asset impairment.

The following table summarizes changes in Health, Energy and Civil Solutions revenues and operating income for the periods presented:

Health, Energy and Civil Solutions	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011	Percent change	2010	Percent change	2009
	(\$ in millions)							
Revenues	\$ 1,336	(3)%	\$ 1,377	\$ 2,792	(2)%	\$ 2,848	10%	\$ 2,591
Operating income	117	(8)	127	258	9	236	11	213
<i>Operating income margin</i>	<i>8.8%</i>		<i>9.2%</i>	<i>9.2%</i>		<i>8.3%</i>		<i>8.2%</i>

Health, Energy and Civil Solutions revenues decreased \$41 million, or 3%, including internal revenue contraction of 7%, for the six months ended July 31, 2011 as compared to the same period in the prior year. Internal revenue contraction reflects a timing-related reduction in delivery of units of our non-intrusive cargo inspection systems (\$25 million) and checked baggage explosive detection systems (\$37 million) related to an

acquisition completed in August 2010. In addition, certain U.S. federal civilian agency programs experienced reduced activity, including various programs in support of National Aeronautics and Space Administration (NASA) (\$16 million). There was also one less business day as compared to the same period in the prior year (\$11 million). These decreases were partially offset by growth in our energy and health business areas, including new design-build projects for geothermal power plant construction (\$22 million) and expanded scope on new and existing programs with our DoD military health system customers (\$20 million).

Health, Energy and Civil Solutions revenues decreased \$56 million, or 2%, including internal revenue contraction of 6%, in fiscal 2011 as compared to fiscal 2010. The internal revenue contraction was primarily due to a decline in revenues under an IT services contract with NASA (\$62 million).

Health, Energy and Civil Solutions revenues increased \$257 million, or 10%, including internal revenue growth of 3%, in fiscal 2010 as compared to fiscal 2009. Internal revenue growth was driven by growth across a number of programs including a medical research program with our DoD military health system customers (\$66 million), a design-build effort with a commercial customer (\$59 million) and an information technology support program with the Department of Homeland Security (\$43 million).

Health, Energy and Civil Solutions operating income margin decreased to 8.8% for the six months ended July 31, 2011 as compared to 9.2% for the same period in the prior year. The decline in operating income margin was primarily driven by increased investment in growth-oriented research and development activities related to the development of new homeland security product offerings (\$9 million), increased amortization expense (\$7 million) related to acquisition activities in the current and prior years, and reduced deliveries of our non-intrusive cargo inspection systems, which have higher relative operating income margins. These decreases were partially offset by favorable program fee performance and efficiency actions to reduce indirect expenses across the segment.

Health, Energy and Civil Solutions operating income margin increased to 9.2% in fiscal 2011 as compared to 8.3% in fiscal 2010 due primarily to strong program performance, particularly on certain fixed price contracts, increased cost recovery on cost reimbursement contracts and reduced infrastructure costs related to organizational streamlining and cost efficiency actions taken in fiscal 2011 and 2010 partially offset by increased amortization expense for intangible assets related to recent business acquisitions.

Health, Energy and Civil Solutions operating income margin increased to 8.3% in fiscal 2010 as compared to 8.2% in fiscal 2009 due to increased cost recovery on cost reimbursement contracts.

The following table summarizes changes in Intelligence and Cybersecurity Solutions revenues and operating income for the periods presented:

Intelligence and Cybersecurity Solutions	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011	Percent change	2010	Percent change	2009
	(\$ in millions)							
Revenues	\$ 1,727	3%	\$ 1,677	\$ 3,421	6%	\$ 3,216	2%	\$ 3,147
Operating income	159	21	131	288	2	281	8	261
Operating income margin	9.2%		7.8%	8.4%		8.7%		8.3%

Intelligence and Cybersecurity Solutions revenues increased \$50 million, or 3%, all of which was attributable to internal revenue growth, for the six months ended July 31, 2011 as compared to the same period in the prior year. Internal revenue growth was primarily attributable to increased activity on an existing intelligence analysis contract (\$37 million), a new manned airborne surveillance program (\$33 million), and several cybersecurity programs (\$5 million). These increases were partially offset by a decline in revenues due to the conclusion of a forward operating base integrated security equipment supply contract (\$16 million) and one less business day as compared to the same period in the prior year (\$13 million).

Intelligence and Cybersecurity Solutions revenues increased \$205 million, or 6%, including internal revenue growth of 4%, in fiscal 2011 as compared to fiscal 2010. Fiscal 2011 internal revenue growth was driven by increased activity in our manned and unmanned airborne surveillance programs (\$81 million) and intelligence analysis programs for the DoD (\$69 million).

Intelligence and Cybersecurity Solutions revenues increased \$69 million, or 2%, including internal revenue growth of 1%, in fiscal 2010 as compared to fiscal 2009. Fiscal 2010 internal revenue growth was primarily driven by increased activity in a systems integration, development and support program with an intelligence customer (\$66 million).

Intelligence and Cybersecurity Solutions operating income margin increased to 9.2% for the six months ended July 31, 2011 as compared to 7.8% for the same period in the prior year primarily due to strong program execution and effective cost management (\$9 million), increased sales of higher-margin proprietary products (\$8 million), and lower bid and proposal expenses (\$5 million) primarily attributable to the timing of bid and proposal activities.

Intelligence and Cybersecurity Solutions operating income margin decreased to 8.4% in fiscal 2011 as compared to 8.7% in fiscal 2010 due primarily to increased amortization expense for intangible assets and operating losses related to a business acquisition (\$24 million). Operating income margin improved to 8.7% during fiscal 2010 as compared to 8.3% in fiscal 2009 due to strong program performance and increased cost recovery on cost reimbursement contracts.

The following table summarizes changes in Corporate and Other revenues and operating income (loss) for the periods presented:

Corporate and Other	Six Months Ended July 31			Year Ended January 31			2009
	2011	Percent change	2010	2011	Percent change	2010	
	(\$ in millions)						
Revenues	\$ 1		\$ 56	\$ 58		\$ 4	\$ (2)
Operating income (loss)	(15)	(135)%	43	21		(36)	(18)% (44)

Corporate and Other operating income (loss) for the six months ended July 31, 2011 includes charges related to the proposed settlement of a litigation matter involving work performed at the National Center for Critical Information Processing and Storage of \$22 million partially offset by gains on the sale of real estate of \$27 million. Corporate and Other revenues and operating income for the six months ended July 31, 2010 includes a \$56 million royalty payment received in connection with the resolution of a patent infringement matter.

Corporate and Other revenues for fiscal 2011 reflect a \$56 million royalty payment received in fiscal 2011 in connection with the resolution of a patent infringement matter. Corporate and Other operating income for fiscal 2011 was favorably impacted by the receipt of a royalty payment (\$56 million) and a decline in stock option expense (\$4 million) as a result of a decrease in the number of stock options issued in recent years and \$3 million received for reimbursement of legal-related costs in connection with the resolution of a patent infringement matter in fiscal 2011 (for a discussion of this matter, see Note 19 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus). Corporate and Other operating loss decreased in fiscal 2010 as compared to fiscal 2009 primarily due to a gain on sale of real estate of \$4 million in fiscal 2010.

*Interest Income.* Interest income for the six months ended July 31, 2011 was consistent with the same period in the prior year. Interest income was consistent in fiscal 2011 as compared to fiscal 2010. Interest income decreased \$18 million, or 90%, in fiscal 2010 as compared to fiscal 2009 primarily due to lower market interest rates, a reduction in our average cash balance and the change in our investment strategy to a higher concentration invested in lower-yielding U.S. Treasury and government securities money market accounts in the latter part of fiscal 2009.

*Interest Expense.* Interest expense primarily reflects interest on our outstanding debt securities and notes payable. Interest expense for the six months ended July 31, 2011 increased \$19 million, or 51% as compared to the same period in the prior year. Interest expense increased \$3 million, or 4%, for fiscal 2011 as compared to fiscal 2010. These increases in interest expense are primarily due to issuance of \$750 million of senior unsecured notes in December 2010. Interest expense declined by \$2 million, or 3%, for fiscal 2010 as compared to fiscal 2009 primarily due to the payment of an outstanding debt balance at the beginning of fiscal 2010.

Interest expense for Science Applications increased \$14 million during the six months ended July 31, 2011 as compared to the same period in the prior year, reflecting a \$19 million increase in interest on third-party debt partially offset by a \$5 million decrease in interest on its note payable to SAIC. Interest expense for Science Applications decreased \$4 million in fiscal 2011 as compared to fiscal 2010 reflecting a \$7 million decrease in interest on its note payable to SAIC partially offset by the \$3 million increase in interest on third-party debt. Interest expense for Science Applications decreased \$22 million during fiscal 2010 as compared to fiscal 2009 reflecting a \$20 million decrease in interest on its note payable to SAIC and a \$2 million decrease in interest on third party debt. Interest expense related to Science Application's note payable to SAIC may fluctuate significantly from year to year based on changes in the underlying note balance and interest rates throughout the fiscal year.

As more fully described in Quantitative and Qualitative Disclosures About Market Risk and Note 9 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus, we are currently exposed to interest rate risks and foreign currency risks that are inherent in the financial instruments and contracts arising from transactions entered into in the normal course of business. From time to time, we use derivative instruments to manage these risks.

*Other Income (Expense), Net.* The components of other income (expense), net were as follows:

	Six Months Ended July 31		Year Ended January 31		
	2011	2010	2011	2010	2009
	(in millions)				
Impairment losses on investments	\$	\$	\$ (4)	\$ (1)	\$ (14)
Net gain on sale of other investments	1	1	5	3	6
Equity interest in earnings and impairment losses on investments in unconsolidated affiliates, net				1	(9)
Other	4	(3)	1	3	2
<b>Total other income (expense), net</b>	<b>\$ 5</b>	<b>\$ (2)</b>	<b>\$ 2</b>	<b>\$ 6</b>	<b>\$ (15)</b>

In fiscal 2009, we recognized \$29 million of impairment losses on our ownership interests in Danet GmbH and certain private equity securities held by our venture capital subsidiary. These impairments were due to other-than-temporary declines in their fair values caused by poor business performance, contraction in credit markets and general declines in global economic conditions. The carrying value of our investments as of July 31, 2011 was \$13 million.

*Provision for Income Taxes.* The provision for income taxes as a percentage of income from continuing operations before income taxes increased to a more normative effective tax rate of 37.8% for the six months ended July 31, 2011 as compared to 36.1% for the same period in the prior year primarily due to a \$11 million reduction in the provision for income taxes for the six months ended July 31, 2010 resulting from the resolution of certain tax uncertainties. The provision for income taxes as a percentage of income from continuing operations before income taxes was 36.0%, 37.6% and 36.5% in fiscal 2011, 2010 and 2009, respectively. The lower effective income tax rates for fiscal 2011 and fiscal 2009 as compared to fiscal 2010 were primarily due to the reversal of \$7 million and \$8 million, respectively, in accruals for unrecognized tax benefits as a result of the settlement of federal and state tax audits.

We file income tax returns in the United States and various state and foreign jurisdictions and have effectively settled with the Internal Revenue Service (IRS) for fiscal years prior to and including fiscal 2008. Effective fiscal 2011, we are participating in the IRS Compliance Assurance Process, in which we and the IRS endeavor to agree on the treatment of all tax positions prior to the filing of the tax return, thereby greatly reducing the period of time between return submission and settlement with the IRS.

*Diluted Earnings per Share (EPS) from Continuing Operations.* Diluted EPS from continuing operations decreased \$.05 per share, or 7%, for the six months ended July 31, 2011 as compared to the same period in the prior year, primarily due to the decrease in income from continuing operations partially offset by a reduction in the diluted weighted average number of shares outstanding of 8%, or 28 million shares, for the six months ended July 31, 2011 primarily due to share repurchases. Diluted EPS from continuing operations increased \$.29 per share, or 24%, for fiscal 2011 as compared to fiscal 2010 primarily due to a \$79 million, or 16%, increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 6%, or 24 million shares, primarily due to stock repurchases. Diluted EPS from continuing operations increased \$.16 per share, or 16%, for fiscal 2010 as compared to fiscal 2009 primarily due to a \$51 million, or 12%, increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 3%, or 12 million shares, primarily due to stock repurchases.

*Discontinued Operations.* On June 10, 2011, in order to better align our business portfolio with our strategy, we sold certain components of the business, which were historically included in our Commercial segment, primarily focused on providing information technology services to international oil and gas companies. Pursuant to the definitive sale agreement, we retained the assets and obligations of a defined benefit pension plan in the United Kingdom. In fiscal 2010, we also sold non-strategic components of our Intelligence and Cybersecurity Solutions segment. We have classified the operating results of these businesses, including the pension activity through the date of sale, as discontinued operations for all periods presented.

The pre-sale operating results of the businesses sold for the periods presented were as follows:

	Six Months Ended July 31		Year Ended January 31		
	2011	2010 as adjusted	2011 (in millions)	2010 as adjusted	2009
Revenues	\$ 69	\$ 103	\$ 196	\$ 267	\$ 310
Costs and expenses:					
Cost of revenues	54	84	156	192	234
Selling, general and administrative expenses	8	17	28	45	67
Operating income	\$ 7	\$ 2	\$ 12	\$ 30	\$ 9

During the six months ended July 31, 2011, we received proceeds of \$169 million resulting in a preliminary gain on sale before income taxes of \$109 million related to the June 10, 2011 sale, subject to contractual adjustments. During the six months ended July 31, 2010, the Company recorded a pre-tax gain of \$52 million related to the settlement of an arbitration proceeding brought against Telkom South Africa by the Company's former subsidiary, Telcordia Technologies, Inc.

In fiscal 2011, discontinued operations included pre-tax net gains of \$77 million primarily related to the settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary and resolution of other contingencies related to the sale of this former subsidiary.

Our results of discontinued operations included pre-tax net losses of \$6 million and \$8 million in fiscal 2010 and 2009, respectively. In fiscal 2009, we recorded a reduction in the provision for income taxes of discontinued operations of \$17 million due to the reversal of uncertain tax positions as a result of the settlement of federal and state tax audits for amounts lower than the recorded amounts and the expiration of statutes of limitation for certain tax years.

Income from discontinued operations also includes other activity that is immaterial and not reflected above.

*Net Income.* Net income decreased \$6 million, or 2%, for the six months ended July 30, 2011, as compared to the same period in the prior year primarily due to a decrease in income from continuing operations.

Net income increased \$123 million, or 25%, for fiscal 2011 as compared to fiscal 2010. The increase in net income for fiscal 2011 as compared to fiscal 2010 reflects an increase in income from continuing operations of \$79 million and an increase in income from discontinued operations of \$44 million. Net income increased \$50 million, or 11%, for fiscal 2010 as compared to fiscal 2009. The increase in net income for fiscal 2010 as compared to fiscal 2009 reflects an increase in income from continuing operations of \$51 million and a decrease in income from discontinued operations of \$1 million.

Net income for Science Applications decreased \$1 million for the six months ended July 31, 2011 as compared to the same period in the prior year for the reasons described above. Net income for Science Applications increased \$129 million in fiscal 2011 and \$63 million in fiscal 2010 as compared to the respective prior year periods for the reasons described above and declines in interest expense on the note payable to SAIC.

*Diluted EPS.* Diluted EPS increased \$.05 per share, or 6%, for the six months ended July 31, 2011, as compared to the same period in the prior year due to a reduction in the diluted weighted average number of shares outstanding of 28 million, or 8%, primarily due to share repurchases, partially offset by a decrease in net income of \$6 million.

Diluted EPS increased \$.41 per share, or 33%, for fiscal 2011 as compared to fiscal 2010 due to increases in net income and declines in the diluted number of shares outstanding as discussed above. Diluted EPS increased \$.15 per share, or 14%, for fiscal 2010 as compared to fiscal 2009 due to increases in net income and declines in the diluted number of shares outstanding as discussed above.

#### **Liquidity and Capital Resources**

We had \$1.336 billion in cash and cash equivalents at July 31, 2011, which were primarily comprised of investments in several large institutional money market funds that invest primarily in bills, notes and bonds issued by the U.S. Treasury, U.S. government guaranteed repurchase agreements fully collateralized by U.S. Treasury obligations, U.S. Government guaranteed securities, and investment-grade corporate securities that have original maturities of three months or less. We anticipate our principal sources of liquidity for the next 12 months and beyond will be our existing cash and cash equivalents and cash flows from operations. We may also borrow under our \$750 million revolving credit facility. Our revolving credit facility is backed by a number of financial institutions, matures in fiscal 2016, and by its terms can be accessed on a same-day basis. We anticipate our principal uses of cash for the next 12 months and beyond will be for operating expenses, capital expenditures, acquisitions of businesses, stock repurchases, and payment of current portions of notes payable and long-term debt. We anticipate that our operating cash flows, existing cash and cash equivalents, which have no restrictions on withdrawal, and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

**Historical Trends**

Cash and cash equivalents was \$1.336 billion, \$1.367 billion and \$861 million at July 31, 2011, January 31, 2011, and January 31, 2010, respectively. The following table summarizes cash flow information for the periods presented:

	Six Months Ended July 31		Year Ended January 31		
	2011	2010	2011	2010	2009
	(in millions)				
Total cash flows provided by continuing operations	\$ 210	\$ 241	\$ 725	\$ 588	\$ 558
Total cash flows provided by (used in) investing activities of continuing operations	19	(174)	(445)	(306)	(248)
Total cash flows provided by (used in) financing activities of continuing operations	(407)	(411)	187	(398)	(427)
Increase (decrease) in cash and cash equivalents from discontinued operations	146	89	40	36	(27)
Effect of foreign exchange rate changes on cash and cash equivalents	1	(2)	(1)	5	(16)
Total increase (decrease) in cash and cash equivalents	\$ (31)	\$ (257)	\$ 506	\$ (75)	\$ (160)

*Cash Provided by Continuing Operations.* Cash flows from continuing operations decreased \$31 million for the six months ended July 31, 2011 as compared to the same period in the prior year. Cash flows from continuing operations were primarily impacted by the receipt of a \$56 million royalty payment during the six months ended July 31, 2010.

Cash flows from continuing operations increased \$137 million in fiscal 2011 as compared to fiscal 2010. Cash flows from continuing operations were favorably impacted by improved cash management, including a reduction in the average time to collect receivables, and a \$79 million increase in income from continuing operations. Cash flows from continuing operations were partially offset by an increase in cash paid for income taxes (\$62 million) and the funding of performance bonds on our contract with the Greek government (\$23 million).

Cash flows from continuing operations increased \$30 million in fiscal 2010 as compared to fiscal 2009. Cash flows from continuing operations were favorably impacted by \$58 million related to an inventory reduction in fiscal 2010 as compared to inventory growth on certain logistics and product support programs during fiscal 2009, an additional payroll cycle in fiscal 2009 and a \$51 million increase in income from continuing operations. Cash flows from continuing operations were negatively impacted by a decrease in the relative amount of payables outstanding and accrued liabilities during fiscal 2010 as compared to fiscal 2009 as a result of a \$68 million decline in customer advance payments. Other significant drivers of cash flows from continuing operations included an increase in accounts receivable related to growth in our operations while the average time to collect receivables increased slightly from fiscal 2009 to 2010 after it had declined significantly during the prior year.

Cash flows from continuing operations for Science Applications decreased \$40 million for the six months ended July 31, 2011 and increased \$118 million in fiscal 2011 and \$24 million in fiscal 2010, each as compared to the same periods in their respective prior years primarily for the reasons described for SAIC above. Differences in cash flows from operations for Science Applications as compared to SAIC are primarily due to changes in interest payments (which reduce cash flows from operations of Science Applications) made by Science Applications on its note to SAIC and changes in excess tax benefits related to stock-based compensation (which reduce cash flows from operations for SAIC).

*Cash Provided by (Used in) Investing Activities of Continuing Operations.* We generated \$19 million of cash in support of investing activities of continuing operations during the six months ended July 31, 2011 including \$78

million of proceeds from the sale of real estate, partially offset by \$26 million to acquire a business and \$30 million to purchase property, plant and equipment. We used \$174 million of cash in support of investing activities of continuing operations during the six months ended July 31, 2010 including \$140 million to acquire a business and \$35 million to purchase property, plant and equipment primarily related to spending on information technology modernization projects and construction projects for leased facilities.

We used \$445 million of cash in support of investing activities of continuing operations in fiscal 2011, including \$382 million (net of cash acquired) to acquire three businesses and \$73 million to purchase property, plant and equipment. We used \$306 million of cash in support of investing activities of continuing operations in fiscal 2010, including \$256 million (net of cash acquired) to acquire six businesses and \$58 million to purchase property, plant and equipment. We used \$248 million of cash in support of investing activities of continuing operations in fiscal 2009, including \$201 million (net of cash acquired) to acquire two businesses and \$58 million to purchase property, plant and equipment.

*Cash Provided by (Used in) Financing Activities of Continuing Operations.* We used \$407 million of cash in support of financing activities of continuing operations during the six months ended July 31, 2011, including \$417 million to repurchase shares of our stock. We used \$411 million of cash in support of financing activities of continuing operations during the six months ended July 31, 2010, including \$445 million to repurchase shares of our stock partially offset by \$22 million in proceeds from the sale of stock under our employee stock purchase plan (ESPP) and exercises of stock options and \$13 million in excess tax benefits associated with stock-based compensation.

We generated \$187 million of cash from financing activities of continuing operations in fiscal 2011, including \$742 million of net proceeds from the issuance of debt, \$38 million in proceeds from the sale of stock under our employee stock purchase plan (ESPP) and exercises of stock options and \$11 million in excess tax benefits associated with stock-based compensation partially offset by \$601 million to repurchase shares of our stock. We used \$398 million of cash in support of financing activities of continuing operations in fiscal 2010, including \$474 million to repurchase shares of our stock and \$18 million for payments on notes payable and long-term debt partially offset by \$58 million in proceeds from the sale of stock under our ESPP and exercises of stock options and \$36 million in excess tax benefits associated with stock-based compensation. We used \$427 million of cash in support of financing activities of continuing operations in fiscal 2009, including \$445 million to repurchase shares of our stock and \$113 million for payments on notes payable and long-term debt partially offset by \$76 million in proceeds from the sale of stock under our ESPP and exercises of stock options and \$56 million in excess tax benefits associated with stock-based compensation.

Science Applications used cash in financing activities of \$406 million for the six months ended July 31, 2011, including repayment on its note with SAIC of \$868 million partially offset by proceeds on the note of \$466 million. Science Applications used cash in financing activities of \$419 million for the six months ended July 31, 2010, including repayment on its note with SAIC of \$908 million partially offset by proceeds on the note of \$490 million.

Science Applications generated cash from financing activities of \$184 million in fiscal 2011, including proceeds on third-party debt of \$742 million and proceeds from its note with SAIC of \$1.298 billion offset by repayments on the note with SAIC of \$1.853 billion. Science Applications used cash in financing activities of \$420 million in fiscal 2010, including repayments on its note with SAIC of \$782 million partially offset by proceeds on the note of \$380 million. Science Applications used cash in financing activities of \$455 million in fiscal 2009, including repayments on third-party debt of \$113 million and repayment on its note with SAIC of \$461 million partially offset by proceeds on the note with SAIC of \$120 million.

*Cash Flows from Discontinued Operations.* Cash flows from discontinued operations for the six months ended July 31, 2011 included proceeds of \$169 million from the sale of certain components of the business. Cash flows from discontinued operations for the six months ended July 31, 2010 included proceeds of \$82 million from the



settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary Telcordia Technologies, Inc.

***Stock Repurchase Program***

In December 2006, our board of directors authorized a stock repurchase program (the 2006 Repurchase Program) under which we could repurchase shares of SAIC common stock as part of our overall strategy for capital allocation. We repurchased an aggregate of 82 million shares under the 2006 Repurchase Program. In December 2010, our board of directors terminated the 2006 Repurchase Program and authorized a new stock repurchase program (the 2010 Repurchase Program) under which we may repurchase up to 40 million shares of SAIC common stock. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. As of July 31, 2011, there were 6 million shares remaining authorized for repurchase under the 2010 Repurchase Program.

***Underfunded Pension Obligation***

We sponsor a defined benefit pension plan in the United Kingdom for plan participants that primarily performed services on a specific customer contract, which has expired. As of January 31, 2011, the pension plan had an underfunded projected benefit obligation of \$20 million. In April 2010, plan participants who were then performing services on the contract transferred to a successor contractor. We expect that certain plan participants will transfer their pension plan assets and obligations to a successor contractor. The impact of these transfers on plan assets and obligations will depend on the number of plan participants who elect to transfer their pension benefits to a successor contractor's plan, the amount of assets and obligations to be transferred, the performance of the pension plan assets and agreement on the timing of the transfer of the pension plan assets and obligations to a successor contractor's plan. We have continuing defined benefit pension obligations with respect to certain plan participants however benefits are no longer accruing under the plan as of May 2011. In June 2011, we sold the component of our business that contained this pension and employed the pension plan participants. Pursuant to the definitive sale agreement, we retained the assets and obligations of this defined benefit pension plan.

**Outstanding Indebtedness**

*Notes Payable and Long-term Debt.* Our outstanding notes payable and long-term debt consisted of the following:

	Stated interest rate	Effective interest rate	July 31 2011	January 31 2011 (in millions)	2010
<b>SAIC senior unsecured notes:</b>					
\$450 million notes issued in fiscal 2011, which mature in December 2020	4.45%	4.59%	\$ 448	\$ 448	\$
\$300 million notes issued in fiscal 2011, which mature in December 2040	5.95%	6.03%	300	300	
<b>Science Applications senior unsecured notes:</b>					
\$550 million notes issued in fiscal 2003, which mature in July 2012	6.25%	6.50%	550	550	549
\$250 million notes issued in fiscal 2003, which mature in July 2032	7.13%	7.43%	248	248	248
\$300 million notes issued in fiscal 2004, which mature in July 2033	5.50%	5.78%	296	296	296
Other notes payable due on various dates through fiscal 2017	0%-3.1%	Various	10	10	13
<b>Total notes payable and long-term debt</b>			<b>1,852</b>	<b>1,852</b>	<b>1,106</b>
Less current portion			553	3	3
<b>Total notes payable and long-term debt, net of current portion</b>			<b>\$ 1,299</b>	<b>\$ 1,849</b>	<b>\$ 1,103</b>
<b>Fair value of notes payable and long-term debt</b>			<b>\$ 2,010</b>	<b>\$ 1,930</b>	<b>\$ 1,165</b>

These notes contain financial covenants and customary restrictive covenants, including, among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions. We were in compliance with all covenants as of July 31, 2011 and January 31, 2011. Our other notes payable have interest rates ranging up to 3.1% and are due on various dates through fiscal 2017. For additional information on our notes payable and long-term debt, see Note 6 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

*Credit Facility.* At July 31, 2011, SAIC had an unused revolving credit facility providing for \$750 million in unsecured borrowing capacity at interest rates determined, at our option, based on either LIBOR plus a margin or a defined base rate through fiscal 2016. Science Applications has fully and unconditionally guaranteed any borrowings under SAIC's revolving credit facility. The facility contained financial covenants and customary restrictive covenants. As of July 31, 2011, we were in compliance with all covenants under the credit facility. For additional information on our credit facility, see Note 6 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

**Off-Balance Sheet Arrangements**

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain of our unconsolidated joint venture investments. We also have letters of credit outstanding principally related to guarantees on contracts with foreign government customers and surety bonds outstanding principally related to performance and payment bonds as described in Note 20 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus. These arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition.

## Contractual Obligations

The following table summarizes, as of January 31, 2011, our obligations to make future payments pursuant to certain contracts or arrangements and provides an estimate of the fiscal years in which these obligations are expected to be satisfied:

	Total	Payments Due by Fiscal Year			2017 and Thereafter
		2012	2013- 2014 (in millions)	2015- 2016	
<b>Contractual obligations:</b>					
Long-term debt (including current portion) <sup>(1)</sup>	\$ 3,393	\$ 105	\$ 712	\$ 146	\$ 2,430
Operating lease obligations <sup>(2)</sup>	654	139	206	137	172
Capital lease obligations	7	3	3	1	
Estimated purchase obligations <sup>(3)</sup>	149	115	29	3	2
Other long-term liabilities <sup>(4)</sup>	135	66	50	13	6
<b>Total contractual obligations</b>	<b>\$ 4,338</b>	<b>\$ 428</b>	<b>\$ 1,000</b>	<b>\$ 300</b>	<b>\$ 2,610</b>

- (1) Includes total interest payments on our outstanding debt of \$105 million in fiscal 2012, \$161 million in fiscal 2013-2014, \$145 million in fiscal 2015-2016 and \$1,129 million in fiscal 2017 and thereafter.
- (2) Excludes \$46 million related to an operating lease on a contract with the Greek government as we are not obligated to make the lease payments to the lessee if our customer defaults on payments to us.
- (3) Includes estimated obligations to transfer funds under legally enforceable agreements for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Excludes purchase orders for services or products to be delivered pursuant to U.S. Government contracts in which we have full recourse under normal contract termination clauses.
- (4) Other long-term liabilities were allocated by fiscal year as follows: a liability for our foreign defined benefit pension plan is based upon the expected near-term contributions to the plan (for a discussion of potential changes in these pension obligations, see Note 10 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus); liabilities under deferred compensation arrangements are based upon the average annual payments in prior years upon termination of employment by participants; liabilities for uncertain tax positions are based upon the fiscal year that the statute of limitations is currently expected to expire; a liability to reimburse a customer for cash advances on a contract that is periodically renewed is based upon the fiscal year that the most recent contract renewal is ending; and other liabilities are based on the fiscal year that the liabilities are expected to be realized.

## Commitments and Contingencies

We are subject to a number of reviews, investigations, claims, lawsuits and other uncertainties related to our business. For a discussion of these items, see Notes 19 and 20 of the combined notes to the consolidated financial statements for the fiscal year ended January 31, 2011 and Notes 10 and 11 of the combined notes to the condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

## Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

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

*Accounting Change.* Effective February 1, 2010, we changed our method of revenue recognition for cost-plus-fixed-fee, time-and-materials and fixed-price-level-of-effort contracts with the U.S. Government to the methods described below. Contract costs will continue to be expensed as incurred under these contracts.

**Cost-plus-fixed-fee contracts** Revenue is recognized on the basis of partial performance as costs are incurred together with an estimate of applicable fees as we become contractually entitled to reimbursement of costs and the applicable fees pursuant to the guidance in Accounting Standards Codification (ASC) 912-605-25 Contractors-Federal Government Recognition of Fees Under Cost-Plus-Fixed-Fee Contracts.

**Time-and-materials contracts** Revenue is recognized using the percentage-of-completion method of accounting utilizing an output measure to measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

**Fixed-price-level-of-effort contracts** These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, we recognize revenue in a manner similar to time-and-materials contracts whereby we utilize the percentage-of-completion method of accounting utilizing an output measure. We measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

The revenue recognition change impacts contracts accounting for approximately two-thirds of our revenues. We believe the change is to an alternative accounting principle that is preferable because we believe it better reflects the economic substance and earnings process under these arrangements. This change was facilitated by the implementation of a new information technology system.

Although this change impacts contracts accounting for approximately two-thirds of our revenues, the result of the accounting change was immaterial to our consolidated financial position and results of operations for all periods presented because the resulting measurement of the progress toward completion under the two methods is not significantly different. Accordingly, the cumulative effect of the accounting change was recognized in the consolidated statement of income in the first quarter of fiscal 2011, rather than retrospectively applied to the prior period consolidated financial statements.

*Revenue Recognition.* We generate our revenues from various types of contracts, which include firm-fixed-price, time-and-materials, fixed-price-level-of-effort, cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee contracts.

**Cost-plus-fixed-fee contracts** Revenue is recognized on cost-plus-fixed-fee contracts with the U.S. Government on the basis of partial performance equal to costs incurred plus an estimate of applicable fees earned as we become contractually entitled to reimbursement of costs and the applicable fees.

**Time-and-materials contracts** Revenue is recognized on time-and-materials contracts with the U.S. Government using the percentage-of-completion method of accounting utilizing an output measure of progress. Revenue is recognized on time-and-materials contracts with non-U.S. Government customers using a proportional performance method. Under both of these methods, revenue is recognized based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

**Fixed-price-level-of-effort contracts (FP-LOE)** These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, we recognize

revenue on FP-LOE contracts with the U.S. Government in a manner similar to time-and-materials contracts whereby we measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

**Cost-plus-award-fee/cost-plus-incentive fee contracts** Revenues and fees on these contracts with the U.S. Government are primarily recognized using the percentage-of-completion method of accounting, most often based on the cost-to-cost method. We include an estimate of the ultimate incentive or award fee to be received on the contract in the estimate of contract revenues for purposes of applying the percentage-of-completion method of accounting.

**Firm-fixed-price contracts** Revenues and fees on these contracts that are system integration or engineering in nature are primarily recognized using the percentage-of-completion method of accounting utilizing the cost-to-cost method.

Revenues from services and maintenance contracts, notwithstanding the type of contract, are recognized over the term of the respective contracts as the services are performed and revenue is earned. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. Revenues from the sale of manufactured products are recorded upon passage of title and risk of loss to the customer, which is generally upon delivery, provided that all other requirements for revenue recognition have been met.

We also use the efforts-expended method of percentage-of-completion using measures such as labor dollars for measuring progress toward completion in situations in which this approach is more representative of the progress on the contract. For example, the efforts-expended method is utilized when there are significant amounts of materials or hardware procured for the contract that is not representative of progress on the contract. Additionally, we utilize the units-of-delivery method under percentage-of-completion on contracts where separate units of output are produced. Under the units-of-delivery method, revenue is generally recognized when the units are delivered to the customer, provided that all other requirements for revenue recognition have been met.

We also evaluate contracts for multiple elements, and when appropriate, separate the contracts into separate units of accounting for revenue recognition.

We provide for anticipated losses on all types of contracts by recording an expense during the period in which the losses are determined. Amounts billed and collected but not yet recognized as revenues under certain types of contracts are deferred. Contract costs incurred for U.S. Government contracts, including indirect costs, are subject to audit and adjustment through negotiations with government representatives. Revenues on U.S. Government contracts have been recorded in amounts that are expected to be realized upon final settlement.

Our accounts receivable include unbilled receivables, which consist of costs and fees billable upon contract completion or the occurrence of a specified event, the majority of which is expected to be billed and collected within one year. Unbilled receivables are stated at estimated realizable value. Contract retentions are billed when we have negotiated final indirect rates with the U.S. Government and, once billed, are subject to audit and approval by government representatives. Consequently, the timing of collection of retention balances is outside our control. Based on our historical experience, the majority of retention balances are expected to be collected beyond one year.

Contract claims are unanticipated additional costs incurred but not provided for in the executed contract price that we seek to recover from the customer. Such costs are expensed as incurred. Additional revenue related to contract claims is recognized when the amounts are awarded by the customer.

In certain situations, primarily where we are not the primary obligor on certain elements of a contract such as the provision of administrative oversight and/or management of government-owned facilities or logistical support services related to other vendors' products, we recognize as revenues the net management fee associated with the services and exclude from our income statement the gross sales and costs associated with the facility or other vendors' products.

*Business Combinations and Goodwill and Intangible Assets Impairment.* We have engaged and expect to continue to engage in business acquisition activity. The accounting for business combinations requires management to make judgments and estimates of the fair value of assets acquired, including the identification and valuation of intangible assets, as well as the liabilities and contingencies assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with each acquisition.

Goodwill is assessed for impairment at least annually and whenever events or circumstances indicate that the carrying value may not be recoverable. We perform our annual goodwill impairment assessment as of the beginning of the fourth quarter. The goodwill impairment test is a two-step process performed at the reporting unit level. The first step consists of estimating the fair values of each of the reporting units based on a combination of two valuation methods, a market approach and an income approach. Fair value computed using these two methods is determined using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable market data with a consistent industry grouping, and the cost of capital. The estimated fair values are compared with the carrying values of the reporting units, which include the allocated goodwill. If the fair value is less than the carrying value of a reporting unit, which includes the allocated goodwill, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit's identifiable assets and liabilities from its estimated fair value calculated in the first step. The impairment expense represents the excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the reporting unit's goodwill. The goodwill impairment test process requires management to make significant judgments and assumptions, including revenue, profit and cash flow forecasts, about the business units to which goodwill is assigned. Misjudgments in this forecasting process could result in management not taking an impairment charge when one may be required. Our goodwill impairment tests performed for fiscal 2011, 2010, and 2009 did not result in any impairment of goodwill. The carrying value of goodwill as of January 31, 2011 was \$1.664 billion.

Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In fiscal 2010, we recognized impairment losses of \$6 million for intangible assets. We did not recognize any impairment losses on intangible assets in fiscal 2011 and 2009. The carrying value of intangible assets as of January 31, 2011 was \$211 million.

*Income Taxes.* We account for income taxes under the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Under this method, changes in tax rates and laws are recognized in income in the period such changes are enacted. The provision for federal, state, foreign and local income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes. Recording our provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until the final resolution of an examination by the IRS or state agencies. Additionally, recording liabilities for uncertain tax positions involves significant judgment in evaluating our tax positions and developing our best estimate of the taxes ultimately expected to be paid.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount or would no longer be able to realize our deferred income tax assets in the future as currently recorded, we would make an adjustment to the valuation allowance which would decrease or increase the provision for income taxes.

We have also recognized liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We have experienced years when liabilities for uncertain tax positions were settled for amounts different from recorded amounts as described in Note 13 of the combined notes to the consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus.

*Stock-Based Compensation.* We account for stock-based compensation in accordance with the accounting standard for stock compensation. Under the fair value recognition provisions of this standard, share-based

compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The estimation of stock option fair value requires management to make complex estimates and judgments about, among other things, employee exercise behavior, forfeiture rates, and the volatility of our common stock. These judgments directly affect the amount of compensation expense that will ultimately be recognized. The expected term for all awards granted is derived from our historical experience except for awards granted to our outside directors, for which the expected term of awards granted is derived utilizing the simplified method presented in SEC Staff Accounting Bulletin Nos. 107 and 110, Share-Based Payment. Expected volatility is based on an average of the historical volatility of our stock and the implied volatility from traded options on our stock. We assumed weighted average volatilities of 25.1%, 30.6% and 26.2% for fiscal 2011, 2010 and 2009, respectively. All other assumptions held constant, a ten percentage point change in our fiscal 2011 volatility assumption would have increased or decreased the grant-date fair value of our fiscal 2011 option awards by approximately 30%.

### Non-GAAP Financial Measures

In this prospectus, we refer to internal revenue growth percentage, which is a non-GAAP financial measure that we reconcile to the most directly comparable GAAP financial measure. We calculate our internal revenue growth percentage by comparing our reported revenue for the current year to the revenue for the prior year adjusted to include the actual revenue of acquired businesses for the comparable prior year before acquisition. This calculation has the effect of adding revenue for the acquired businesses for the comparable prior year to our prior year reported revenue.

We use internal revenue growth percentage as an indicator of how successful we are at growing our base business and how successful we are at growing the revenues of the businesses that we acquire. Our integration of acquired businesses allows our current management to leverage business development capabilities, drive internal resource collaboration, utilize access to markets and qualifications, and refine strategies to realize synergies, which benefits both acquired and existing businesses. As a result, the performance of the combined enterprise post-acquisition is an important measurement. In addition, as a means of rewarding the successful integration and growth of acquired businesses, and not acquisitions themselves, incentive compensation for our executives and the broader employee population is based, in part, on achievement of revenue targets linked to internal revenue growth.

The limitation of this non-GAAP financial measure as compared to the most directly comparable GAAP financial measure is that internal revenue growth percentage is one of two components of the total revenue growth percentage, which is the most directly comparable GAAP financial measure. We address this limitation by presenting the total revenue growth percentage next to or near disclosures of internal revenue growth percentage. This financial measure is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. The method that we use to calculate internal revenue growth percentage is not necessarily comparable to similarly titled financial measures presented by other companies.

Internal revenue growth (contraction) percentages for the periods presented were calculated as follows:

	Six Months Ended July 31 2011	Year Ended January 31 2011	2010
		(\$ in millions)	
<b>Defense Solutions:</b>			
Prior year period's revenues, as reported	\$ 2,269	\$ 4,518	\$ 4,035
Revenues of acquired businesses for the comparable prior year period	4	6	5
Prior year period's revenues, as adjusted	\$ 2,273	\$ 4,524	\$ 4,040
Current year period's revenues, as reported	2,222	4,657	4,518
Internal revenue growth (contraction)	\$ (51)	\$ 133	\$ 478
Internal revenue growth (contraction) percentage	(2)%	3%	12%

	Six Months Ended July 31 2011	Year Ended January 31 2011 2010 (\$ in millions)	
<b>Health, Energy and Civil Solutions:</b>			
Prior year period's revenues, as reported	\$ 1,377	\$ 2,848	\$ 2,591
Revenues of acquired businesses for the comparable prior year period	61	128	170
Prior year period's revenues, as adjusted	\$ 1,438	\$ 2,976	\$ 2,761
Current year period's revenues, as reported	1,336	2,792	2,848
Internal revenue growth (contraction)	\$ (102)	\$ (184)	\$ 87
Internal revenue growth (contraction) percentage	(7)%	(6)%	3%
<b>Intelligence and Cybersecurity Solutions:</b>			
Prior year period's revenues, as reported	\$ 1,677	\$ 3,216	\$ 3,147
Revenues of acquired businesses for the comparable prior year period	4	88	25
Prior year period's revenues, as adjusted	\$ 1,681	\$ 3,304	\$ 3,172
Current year period's revenues, as reported	1,727	3,421	3,216
Internal revenue growth	\$ 46	\$ 117	\$ 44
Internal revenue growth percentage	3%	4%	1%
<b>Total*:</b>			
Prior year period's revenues, as reported	\$ 5,376	\$ 10,580	\$ 9,768
Revenues of acquired businesses for the comparable prior year period	69	222	200
Prior year period's revenues, as adjusted	\$ 5,445	\$ 10,802	\$ 9,968
Current year period's revenues, as reported	5,284	10,921	10,580
Internal revenue growth (contraction)	\$ (161)	\$ 119	\$ 612
Internal revenue growth (contraction) percentage	(3)%	1%	6%

\* Total revenues include amounts related to Corporate and Other and intersegment eliminations.

#### Recently Adopted and Issued Accounting Pronouncements

For additional information regarding recently adopted and issued accounting pronouncements, see Note 1 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 and condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

#### Effects of Inflation

Approximately 50% of our revenues are derived from cost-reimbursement type contracts, which are generally completed within one year. Bids for longer-term FFP and T&M and FP-LOE contracts typically include sufficient provisions for labor and other cost escalations to cover anticipated cost increases over the period of performance. Consequently, revenues and costs have generally both increased commensurate with inflation. As a result, net income as a percentage of total revenues has not been significantly impacted by inflation.

#### Quantitative and Qualitative Disclosures About Market Risk



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

**Interest Rate Risk.** Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and long-term debt obligations. We have established an investment policy to protect the safety, liquidity and after-tax yield of invested funds. This policy establishes guidelines regarding acceptability of instruments and maximum maturity dates and requires diversification in the investment portfolios by establishing maximum amounts that may be invested in designated instruments and issuers. We do not authorize the use of derivative instruments in our managed short-term investment portfolios. Our policy authorizes, with board of directors approval, the limited use of derivative instruments only to hedge specific interest rate risks.

The table below provides information about our financial instruments at January 31, 2011 that are sensitive to changes in interest rates. For debt obligations and short-term investments, the table presents principal cash flows in U.S. dollars and related weighted average interest rates by expected maturity dates.

	2012	2013	2014	2015	2016	Thereafter	Total	Estimated Fair Value as of January 31, 2011
	(\$ in millions)							
<b>Assets</b>								
Cash and cash equivalents <sup>(1)</sup>	\$ 1,367	\$	\$	\$	\$	\$	\$ 1,367	\$ 1,367
Average interest rate	.3%							
<b>Liabilities:</b>								
<b>Short-term and long-term debt:</b>								
Variable interest rate	\$	\$ 1	\$	\$	\$ 1	\$ 1	\$ 3	\$ 3
Weighted average interest rate		3.1%			3.1%	3.1%		
Fixed rate	\$ 3	\$ 552	\$ 1	\$ 1	\$	\$ 1,300	\$ 1,857	\$ 1,927
Weighted average interest rate	5.2%	6.2%	4.7%	4.4%		5.6%		

(1) Includes \$27 million denominated in British pounds, \$7 million denominated in Euros, \$3 million denominated in Canadian dollars, \$1 million denominated in Indian rupees, \$1 million denominated in Australian dollars and \$1 million denominated in Korean Won.

At January 31, 2011 and 2010, our cash and cash equivalents included investments in several large institutional money market funds that invest primarily in bills, notes and bonds issued by the U.S. Treasury, U.S. Government guaranteed repurchase agreements fully collateralized by U.S. Treasury obligations, U.S. Government guaranteed securities, and investment-grade corporate securities, that had original maturities of three months or less. A 10% unfavorable interest rate movement would not materially impact the value of the holdings and would have a negligible impact on interest income at current market interest rates.

**Foreign Currency Risk.** Although the majority of our transactions are denominated in U.S. dollars, some transactions are denominated in foreign currencies, principally British pounds, Euros, Canadian dollars and Indian rupees. Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and certain intercompany transactions denominated in currencies other than our (or one of our subsidiaries) functional currency. We may enter into foreign currency forward contracts from time to time to fix, or limit the adverse impact on, the amount of firmly committed and forecasted non-functional payments, receipts and intercompany transactions related to our ongoing business and operational financing activities. These contracts are designed to minimize our risk when we enter into transactions outside our functional currency. We do not use derivative instruments for trading or speculative purposes. As of January 31, 2011 and 2010, we had outstanding foreign currency forward contracts with a notional amount of \$3 million and \$9 million, respectively, with an immaterial fair value.

During the six months ended July 31, 2011, there were no material changes in our market risk exposure.

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**MANAGEMENT**
**Executive Officers and Directors**

The following table provides information regarding our executive officers and directors as of the date of this prospectus. The executive officers of SAIC serve in the same positions as executive officers of Science Applications. Likewise, the individuals that comprise the Board of Directors of SAIC are the same individuals that comprise the Board of Directors of Science Applications.

Name	Age	Position
Deborah H. Alderson	54	Group President
Joseph W. Craver III	53	Group President
James E. Cuff	52	Executive Vice President for Business Development, Strategy and M&A
John R. Hartley	45	Senior Vice President and Corporate Controller
Walter P. Havenstein	62	Chief Executive Officer and Director
Deborah L. James	52	Executive Vice President for Communications and Government Affairs
Brian F. Keenan	55	Executive Vice President for Human Resources
Vincent A. Maffeo	60	Executive Vice President and General Counsel
Anthony J. Moraco	51	Executive Vice President for Operations and Performance Excellence
K. Stuart Shea	54	Group President
Mark W. Sopp	46	Executive Vice President and Chief Financial Officer
France A. Córdova	64	Director
Jere A. Drummond	72	Director
Thomas F. Frist, III	43	Director
John J. Hamre	61	Director
Miriam E. John	62	Director
Anita K. Jones	69	Director
John P. Jumper	66	Director
Harry M.J. Kraemer	56	Director
Lawrence C. Nussdorf	64	Director
Edward J. Sanderson, Jr.	62	Director
Louis A. Simpson	74	Director
A. Thomas Young	73	Director, Non-Executive Chair of the Board

**Executive Officers**

Science Applications became a 100%-owned subsidiary of SAIC in October 2006 through a reorganization merger in connection with SAIC's initial public offering and listing on the New York Stock Exchange (NYSE). Accordingly, in the following biographical information, references to terms of service as an executive officer beginning or continuing after the reorganization merger refer to service for both companies, while service prior to the reorganization merger refers to service for the Science Applications only.

**Deborah H. Alderson** has served as Group President since 2005. Ms. Alderson previously served as Deputy Group President from August 2005 to October 2005. Prior to joining us, Ms. Alderson held various positions with Anteon International Corporation, a systems integration services provider, including President of the Systems Engineering Group from 2002 to 2005, and Senior Vice President and General Manager of the Systems Engineering Group from 1998 to 2002. Ms. Alderson held various positions with Techmatics, Inc., a systems engineering provider, from 1985 to 1998.

**Joseph W. Craver III** has served as Group President since 2007. Mr. Craver previously held various positions with us since 1989, including serving in successive line managerial positions from 1997 to 2007. Prior to joining us, Mr. Craver held various positions with the U.S. Navy nuclear submarine program from 1981 to 1989.

**James E. Cuff** has served as Executive Vice President for Business Development, Strategy, and Mergers and Acquisitions since 2010. Mr. Cuff has held various positions with us since 1991, including Senior Vice President and General Manager of our Logistics and Engineering Solutions Business Unit from April 2001 to August 2010. Prior to joining us through our acquisition of Logistics Systems Architects in 1991, Mr. Cuff served four years in several senior positions, and seven years in the private sector systems integration business, serving in a variety of management and business development positions.

**John R. Hartley** has served as Senior Vice President and Corporate Controller since 2005. Mr. Hartley has held various positions within our finance organization since 2001. For 12 years prior to that, Mr. Hartley was with the accounting firm currently known as Deloitte & Touche LLP.

**Walter P. Havenstein** has served as Chief Executive Officer and Director since September 2009. From January 2007 until joining us, Mr. Havenstein served as Chief Operating Officer and member of the Board of Directors for BAE Systems plc, a \$34 billion global aerospace and defense company, and as President and Chief Executive Officer of its U.S. subsidiary, BAE Systems Inc., with 53,000 employees and annual sales in excess of \$20 billion. From August 2005 to August 2007, Mr. Havenstein served as President of the Electronics & Integrated Solutions Operating Group of BAE Systems, Inc. and served as Executive Vice President since January 2004. Before that, he was president of BAE Systems Information and Electronic Warfare Systems business unit. Mr. Havenstein was president of the Sanders defense electronics business prior to it being acquired by BAE from Lockheed Martin in 2000. Before joining Sanders in 1999, he had been vice president and general manager of the Strategic Systems Division of Raytheon.

Mr. Havenstein's experience in our industry and in-depth knowledge of our company gained by serving as our CEO provide valuable insights for our Board. In addition, our Board believes that the company's CEO should serve on the Board of Directors to help communicate the Board's priorities to management.

**Deborah L. James** has served as Executive Vice President for Communications and Government Affairs since 2010. Ms. James served as Business Unit General Manager for the Command, Control, Communications, Computers, and Information Technology business unit from March 2005 to August 2010. Immediately prior to joining us in 2002, Ms. James was the Executive Vice President and Chief Operating Officer of the Business Executives for National Security. She has served in senior homeland and national security management, policy and program positions in government and the private sector for more than 25 years.

**Brian F. Keenan** has served as Executive Vice President for Human Resources since 2007. Mr. Keenan previously held various positions with us since 2000, including serving as Vice President and Director of U.S. Human Resource operations from 2004 to 2007. Prior to joining us, Mr. Keenan held various positions with Mobil and ExxonMobil from 1985 to 2000.

**Vincent A. Maffeo** has served as Executive Vice President and General Counsel since 2010. Prior to joining us in June 2010, from 1977 to 2009, Mr. Maffeo was with ITT Corporation, a high-technology engineering and manufacturing company, where he served as Senior Vice President and General Counsel from 1995 until 2009. He held various other increasingly responsible legal positions at ITT Corporation in the telecommunications, defense and automotive businesses, and at the European Headquarters of ITT Europe, before becoming General Counsel.

**Anthony J. Moraco** has served as Executive Vice President for Operations and Performance Excellence since August 2010. Mr. Moraco served as Business Unit General Manager and deputy of the Space and Geospatial Intelligence business unit from February 2006 to August 2010. Prior to joining us in 2006, Mr. Moraco was with the Boeing Company from 2000 to 2006 and served as the Deputy General Manager of Mission Systems in the Space & Intelligence Systems organization and also the Director of Homeland Security Technology Integration.

**K. Stuart Shea** has served as Group President since 2007. Since joining us in 2005, Mr. Shea first served as Senior Vice President and Business Unit General Manager. Prior to joining us, Mr. Shea served as Vice President and Executive Director of Northrop Grumman Corporation's TASC Space and Intelligence operating unit from 1999 to 2005, and led other organizations from 1987 to 1999. Mr. Shea held positions with PAR Technology Corporation from 1982 to 1987.

**Mark W. Sopp** has served as Executive Vice President and Chief Financial Officer since 2005. Prior to joining us, Mr. Sopp served as Senior Vice President, Chief Financial Officer and Treasurer of Titan Corporation, a defense and intelligence contractor, from April 2001 to July 2005 and Vice President and Chief Financial Officer of Titan Systems Corporation, a subsidiary of Titan Corporation, from 1998 to 2001.

#### **Other Key Employees**

**Amy E. Alving**, age 48, has served as Chief Technology Officer and Senior Vice President since 2007. Dr. Alving held various positions with us since 2005, including serving as Chief Scientist from June 2007 to December 2007. Prior to joining us, Dr. Alving served as the Director of the Special Projects Office with Defense Advanced Research Projects Agency from 2001 to 2005 and was a White House fellow at the Department of Commerce from 1997 to 1998.

**Steven P. Fisher**, age 50, has served as Treasurer and Senior Vice President since 2001. Mr. Fisher has held various positions with us since 1988, including serving as Assistant Treasurer and Corporate Vice President for Finance from 1997 to 2001 and Vice President from 1995 to 1997.

#### **Board of Directors**

SAIC, Inc., as the sole shareholder of Science Applications, elects all of Science Applications' directors. The directors of SAIC are also the directors of Science Applications and the board committees of SAIC are the board committees of Science Applications. The Boards of Directors of SAIC and Science Applications have been identical since October 2006 when Science Applications became a 100%-owned subsidiary of SAIC through a reorganization merger in connection with SAIC's initial public offering and listing on the NYSE. Accordingly, references to terms of service on our Board beginning or continuing after the reorganization merger refer to service on both Boards, while service prior to the reorganization merger refers to service on the Science Applications board only.

**France A. Córdova** has served on our Board of Directors since 2008. Dr. Córdova has been President of Purdue University since 2007. She was Chancellor at the University of California, Riverside, from July 2002 to July 2007, and was Vice Chancellor for Research and Professor of Physics at University of California, Santa Barbara from August 1996 to July 2002. Dr. Córdova served as Chief Scientist of the National Aeronautics and Space Administration from 1993 to 1996 and headed the Department of Astronomy and Astrophysics at Pennsylvania State University from 1989 to 1993. Dr. Córdova is also a member of the Board of Directors of Edison International and of Southern California Edison. She was previously a director of Belo Corp. until July 2007.

As an accomplished scientist with leadership experience managing prominent academic institutions and expertise in areas relevant to SAIC's business, Dr. Córdova provides special insight and perspectives that the Board views as important to SAIC as a leading science and technology company.

**Jere A. Drummond** has served on our Board of Directors since 2003. Mr. Drummond was employed by BellSouth Corporation from 1962 until his retirement in December 2001. He served as Vice Chairman of BellSouth Corporation from January 2000 until his retirement. He was President and Chief Executive Officer of BellSouth Communications Group, a provider of traditional telephone operations and products, from January 1998 until December 1999. He was President and Chief Executive Officer of BellSouth Telecommunications, Inc. from January 1995 until December 1997. Mr. Drummond is also a member of the Boards of Directors of

Borg-Warner Automotive and AirTran Holdings, Inc. He was previously a director of Centillium Communications Inc. until October 2008.

The Board believes that Mr. Drummond's demonstrated leadership abilities and business judgment, shaped during four decades of executive management and board experience at complex commercial companies, provide an important leadership element to our Board, our Nominating and Corporate Governance Committee and our Ethics and Corporate Responsibility Committee.

**Thomas F. Frist, III** has served on our Board of Directors since 2009. Mr. Frist is a principal of Frist Capital LLC, a private investment vehicle for Mr. Frist and certain related persons, and has held such position since 1994. Prior to that, he co-managed FS Partners, L.L.C. and worked at Rainwater, Inc. in Fort Worth, Texas and in New York. Since 2006, Mr. Frist has served on the Board of Directors of HCA Holdings, Inc., one of the largest non-governmental operators of health care facilities in the U.S. since 2006. From 1999 to 2006, he served on the board of Triad Hospitals, Inc.

The Board believes that Mr. Frist's financial background and experience as an investment manager add a valuable dimension to our Board and to our Audit and Finance committees. He is an audit committee financial expert as defined in SEC rules. Mr. Frist's understanding of the healthcare industry also brings perspectives beneficial to the Board as the company seeks to enhance its position as a provider of health solutions to both government and commercial customers.

**John J. Hamre** has served on our Board of Directors since 2005. Dr. Hamre has served as the President and Chief Executive Officer of the Center for Strategic & International Studies, a public policy research institution, since 2000. Dr. Hamre served as U.S. Deputy Secretary of Defense from 1997 to 2000 and Under Secretary of Defense (Comptroller) from 1993 to 1997. Dr. Hamre is also a member of the Boards of Directors of ITT Corporation, Oshkosh Corporation and MITRE Corporation. He also serves as Chairman of the Defense Policy Board Advisory Committee. He was previously a director of ChoicePoint Inc. until September 2008.

Dr. Hamre is a leading expert on issues of national security, defense and international affairs with extensive experience working in these areas from serving in high-ranking positions at the U.S. Department of Defense. His particular expertise in matters key to SAIC's business, as well as his executive management experience as Chief Executive Officer of a leading public policy research institution, offer important contributions to our Board.

**Miriam E. John** has served on our Board of Directors since 2007. Dr. John retired from Sandia National Laboratories, a science and engineering laboratory, in September 2006, after having served as Vice President of Sandia's California Division from April 1999 to September 2006. She previously served in a number of managerial and technical roles for Sandia from 1982 to 1999. Dr. John is a member of the Department of Defense's Defense Science Board and Threat Reduction Advisory Committee and chairs the National Research Council's Naval Studies Board. She also serves on the boards of a number of federally funded national security laboratories, including MIT Lincoln Lab and the Charles Stark Draper Laboratory. She has recently assumed chairmanship of the California Council on Science and Technology, a legislatively established body of the state's leading scientists and engineers chartered to provide independent advice to the governor and the legislature.

Dr. John is a highly respected scientist and brings to our Board her diverse experience managing multi-disciplinary science and engineering organizations supporting national security and defense. Our Board believes that Dr. John's scientific background and leadership experience enable her to provide our Board with critical perspectives on issues important to our business.

**Anita K. Jones** has served on our Board of Directors since 1998. Dr. Jones is University Professor Emerita at the University of Virginia, where she has taught since 1989. From 1993 to 1997, Dr. Jones was on leave of absence from the University to serve as Director of Defense Research and Engineering of the U.S. Department of Defense. Dr. Jones also served as one of our directors from 1987 to 1993. She has been a director of ATS Corporation since 2010.

Dr. Jones is a distinguished leader in computer science, widely recognized for her scholarship in the field and her prior service to the U.S. Government in managing the U.S. Department of Defense's science and technology program and overseeing its numerous research activities. She has also served on an array of advisory boards for national security and high technology matters. In addition to her exceptional professional reputation and expertise in areas critical to SAIC's business, Dr. Jones has demonstrated a deep commitment to business ethics and an ability to build consensus, enhancing the effectiveness of our Board.

**John P. Jumper** has served on our Board of Directors since 2007. General Jumper retired from the United States Air Force in 2005 after nearly 40 years of service. From September 2001 to November 2005, General Jumper was the Chief of Staff of the United States Air Force, serving as the senior uniformed Air Force officer responsible for the organization, training and equipping of active-duty, guard, reserve and civilian forces serving in the United States and overseas. As a member of the Joint Chiefs of Staff, General Jumper functioned as a military advisor to the Secretary of Defense, National Security Council and the President. General Jumper is also a member of the Boards of Directors of Goodrich Corporation, Jacobs Engineering Group Inc. and Wesco Aircraft Holdings, Inc. He was previously a director of TechTeam Global, Inc. until May 2009 and Somanetics Corporation until June 2010.

The Board believes that General Jumper's proven leadership ability and management skills, demonstrated by his service as the highest-ranking officer in the U.S. Air Force, and his expertise in defense and intelligence matters, make him highly qualified to serve as a director. General Jumper's experience gives him a unique understanding of the needs of our largest customers. He is also an audit committee financial expert as defined in SEC rules.

**Harry M.J. Kraemer, Jr.** has served on our Board of Directors since 1997. Mr. Kraemer has been an executive partner of Madison Dearborn Partners, LLC, a private equity investment firm, since April 2005, and has served as a professor at the Kellogg School of Management at Northwestern University since January 2005. Mr. Kraemer previously served as the Chairman of Baxter International, Inc., a health-care products, systems and services company, from January 2000 until April 2004, as Chief Executive Officer of Baxter from January 1999 until April 2004, and as President of Baxter from April 1997 until April 2004. Mr. Kraemer also served as the Senior Vice President and Chief Financial Officer of Baxter from November 1993 to April 1997. Mr. Kraemer is also a member of the Boards of Directors of Sirona Dental Systems, Inc. and VWR Funding, Inc.

Mr. Kraemer brings comprehensive executive management experience to our Board as a former Chairman, Chief Executive Officer and Chief Financial Officer of a major global corporation. His investment and health expertise, background in commercial and international business, qualification as an audit committee financial expert as defined by SEC rules, and thought leadership as a distinguished educator at a leading business school provide valuable contributions to our Board.

**Lawrence C. Nussdorf** has served on our Board of Directors since 2010. Mr. Nussdorf since 1998 has been President and Chief Operating Officer of Clark Enterprises, Inc., a privately held investment and real estate company based in Bethesda, Maryland, whose interests include the Clark Construction Group, LLC, a general contracting company, of which Mr. Nussdorf has been Vice President and Treasurer since 1977. Mr. Nussdorf is responsible for all aspects of its financial, investment and legal activities and directs the company's business strategies for growth and diversification. Mr. Nussdorf is also a member of the Board of Directors of Pepco Holdings, Inc. He was previously a director of CapitalSource, Inc. until 2010.

Mr. Nussdorf has been at the forefront of strategic and long-term planning and has vast experience managing operations and finance for multiple businesses. Our Board believes that this experience, as well as Mr. Nussdorf's public company board leadership experience, adds valuable perspectives to our Board and our Finance and Audit committees. He is an audit committee financial expert as defined in SEC rules.

**Edward J. Sanderson, Jr.** has served on our Board of Directors since 2002. Mr. Sanderson retired from Oracle Corporation in 2002 as an Executive Vice President after having served since 1995. At Oracle, Mr. Sanderson was responsible for Oracle Product Industries, Oracle Consulting and the Latin American Division. Prior to Oracle, he was President of Unisys Worldwide Services and a partner at both McKinsey & Company and Accenture (formerly Andersen Consulting). He was previously a director of Quantum Corp. until September 2005.

Mr. Sanderson has over 25 years of experience in senior management in the technology industry and consulting with major commercial and federal government clients on a broad array of issues. His expertise in information technology and leadership experience managing technology businesses, including international operations, provides insights and perspectives that our Board views as important to SAIC as a global provider of information technology services.

**Louis A. Simpson** has served on our Board of Directors since 2006. Mr. Simpson served as President and Chief Executive Officer, Capital Operations, of GEICO Corporation, an automobile insurance company, from May 1993 through December 2010. Mr. Simpson previously served as Vice Chairman of the Board of Directors of GEICO from 1985 to 1993. Mr. Simpson is also a member of the Board of Directors of VeriSign, Inc., Chesapeake Energy Corporation and Chesapeake Granite Wash Trust. He was previously a director of Western Asset Funds Inc. and Western Asset Income Fund and a trustee of Western Asset Premier Bond Fund until 2006.

Mr. Simpson's executive management experience and extensive background in finance and investment matters provide important contributions to our Board. His past service on a number of public company boards provides additional relevant experience beneficial to our Board.

**A. Thomas Young** has served on our Board of Directors since 1995. Mr. Young retired from Lockheed Martin Corp. in 1995 after having served as an Executive Vice President from March 1995 to July 1995. Prior to its merger with Lockheed Corporation, Mr. Young served as the President and Chief Operating Officer of Martin Marietta Corp. from 1990 to 1995. Mr. Young was previously a member of the Board of Directors of Goodrich Corporation until April 2010 and of Pepco Holdings, Inc. until May 2005.

The Board believes that Mr. Young's extensive experience organizing and directing complex, technically challenging space and defense programs and serving in senior management at major companies in our industry is a significant benefit to our Board, as demonstrated by his leadership as our Board's Chair.

### **Director Independence**

The Board of Directors annually determines the independence of each of our directors and nominees in accordance with SAIC's Corporate Governance Guidelines. These guidelines provide that independent directors are those who are independent of management and free from any relationship that, in the judgment of the Board of Directors, would interfere with their exercise of independent judgment. No director qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with us (either directly or as a partner, shareholder or officer of an organization with which we have a relationship). The Board of Directors has established independence standards set forth in the Corporate Governance Guidelines that include all elements of independence required by the listing standards of the New York Stock Exchange, or NYSE.

All members of the Audit, Human Resources and Compensation and Nominating and Corporate Governance Committees must be independent directors as defined by SAIC's Corporate Governance Guidelines. Members of the Audit Committee must also satisfy a separate independence requirement pursuant to the Securities Exchange Act of 1934 which requires that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from us or any of our subsidiaries other than their directors' compensation or be an affiliated person of ours or any of our subsidiaries.



Each year, directors are obligated to complete a questionnaire which requires them to disclose any transactions with us in which the director or any member of his or her immediate family might have a direct or potential conflict of interest. Based on its review of an analysis of the responses, the Board of Directors determined that all directors, except for Walter P. Havenstein because of his role as our CEO, are independent under SAIC's guidelines and free from any relationship that would interfere with the exercise of their independent judgment.

In making these independence determinations, the Board considered that in the ordinary course of business, transactions may occur between us and organizations with which some of our directors are or have been affiliated. Specifically, the Board considered that we make payments or contributions in the usual course of business and annual giving programs to the following organizations that employ a member of our Board: (i) the Center for Strategic and International Studies, a non-profit, public policy research institution for which Dr. Hamre serves as Chief Executive Officer; (ii) entities affiliated with Clark Enterprises, Inc., for which Mr. Nussdorf serves as President and Chief Operating Officer; (iii) Purdue University, for which Dr. Córdova serves as President; and (iv) Northwestern University, for which Mr. Kraemer serves as a professor at the Kellogg School of Management. The Board determined that our relationships with these organizations are immaterial and would not interfere with the exercise of independent judgment by those directors who are affiliated with these organizations.

Although Science Applications is not subject to the same independence requirements as SAIC, the respective Boards of Directors are comprised of the same individuals and, therefore, all directors of Science Applications, except for Walter P. Havenstein because of his role as CEO, are likewise considered to be independent.

#### **Compensation Committee Interlocks and Insider Participation**

None of the members of our Human Resources and Compensation Committee has, at any time, been an officer or employee of ours. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Human Resources and Compensation Committee.

#### **Certain Relationships and Related Person Transactions**

The Board of Directors has adopted written policies and procedures for the review and approval of transactions between us and certain related parties, which are generally considered to be our directors and executive officers, nominees for director, holders of five percent or more of our outstanding capital stock and members of their immediate families. The Board of Directors has delegated to the Ethics and Corporate Responsibility Committee the authority to review and approve the material terms of any proposed related party transaction. If a proposed related party transaction involves a non-employee director or nominee for election as a director and may be material to a consideration of that person's independence, the matter is also considered by the Chair of the Board of Directors and the Chair of the Nominating and Corporate Governance Committee.

In determining whether to approve or ratify a related party transaction, the Ethics and Corporate Responsibility Committee considers, among other factors it deems appropriate, the potential benefits to us, the impact on a director's or nominee's independence or an executive officer's relationship with or service to us, whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. In deciding to approve a transaction, the Committee may, in its sole discretion, impose such conditions as it deems appropriate on us or the related party. Any transactions involving the compensation of executive officers, however, are to be reviewed and approved by the Human Resources and Compensation Committee. If a related party transaction will be ongoing, the Ethics and Corporate Responsibility Committee may establish guidelines to be followed in our ongoing dealings with the related party. Thereafter, the Ethics and

Corporate Responsibility Committee will review and assess ongoing relationships with the related party on at least an annual basis to determine whether they are in compliance with the Committee's guidelines and that the related party transaction remains appropriate.

We engage in transactions and have relationships with many entities, including educational and professional organizations, in the ordinary course of our business. Some of our directors, executive officers or their immediate family members may be directors, officers, partners, employees or shareholders of these entities. We carry out transactions with these firms on customary terms. There were no transactions during fiscal 2011 in which any related party had a direct or indirect material interest.

### **Non-Employee Director Compensation**

The Board of Directors uses a combination of cash and stock-based incentives to attract and retain qualified candidates to serve as directors. In determining director compensation, the Board of Directors considers the significant amount of time required of our directors in fulfilling their duties, as well as the skill and expertise of our directors. The Human Resources and Compensation Committee periodically reviews director compensation with the assistance of independent compensation consultants and recommends to the Board of Directors the form and amount of compensation to be provided. The director compensation described below represents the total compensation received by our directors for their service as directors for both SAIC and Science Applications.

The following is a summary of the compensation that we provide to our non-employee directors:

*Cash Compensation.* Our directors receive a cash retainer for their service on the Board of Directors. For fiscal 2011, our directors were paid an annual retainer of \$50,000 and the Chair of each committee of the Board was paid an additional annual retainer of \$10,000, except for the Chair of the Audit Committee who was paid an additional annual retainer of \$15,000. The non-executive Chair of the Board also receives an additional annual retainer of \$160,000. In addition to the cash retainers, non-employee directors also received \$2,000 for each meeting of the Board and committee they attended. We also reimburse our directors for expenses incurred while attending meetings or otherwise performing services as a director.

*Equity Compensation.* Directors receive annual equity awards under our equity incentive plan. For fiscal 2011, each of our directors received equity awards valued at approximately \$150,000, of which two-thirds was in the form of restricted shares of SAIC common stock and one-third was in the form of stock options. These equity awards will vest on the later of one year from the date of grant or on the date of SAIC's next annual meeting of stockholders following the date of grant. If a director retires due to our mandatory retirement policy, the director's equity awards will continue to vest as scheduled and options will remain exercisable for the remainder of the option term.

*Deferral Plans.* The directors are eligible to defer all or any portion of their cash bonus or certain equity compensation into our Keystaff Deferral Plan or Key Executive Stock Deferral Plan, or both. These plans are described in further detail under the caption "Executive Compensation - Nonqualified Deferred Compensation" below.

*Stock Ownership Guidelines and Policies.* The Board of Directors believes that its members should acquire and hold shares of SAIC stock in an amount that is meaningful and appropriate. To encourage directors to have a material investment in SAIC stock, the Board has adopted stock ownership guidelines that encourage directors to hold shares of SAIC stock with a value of at least five times the amount of the annual cash retainer within three years of joining the Board. All of our directors met this requirement in fiscal 2011. In addition to these ownership guidelines, our directors are also subject to policies that prohibit certain short-term or speculative transactions in SAIC securities that we believe carry a greater risk of liability for insider trading violations or may create an appearance of impropriety. Our policy requires directors to obtain preclearance from our General Counsel for all transactions in our securities.

The following table sets forth information regarding the compensation paid to our directors for service in fiscal 2011:

Name <sup>(1)</sup>	Fees earned or paid in cash (\$) <sup>(2)</sup>	Stock awards (\$) <sup>(3)</sup>	Option awards (\$) <sup>(4)</sup>	All other compensation(\$)	Total (\$)
France A. Córdova	100,000	100,008	50,001		250,009
Kenneth C. Dahlberg <sup>(5)</sup>				363,888	363,888
Jere A. Drummond	108,000	100,008	50,001		258,009
Thomas F. Frist, III	112,000	100,008	50,001		262,009
John J. Hamre	104,000	100,008	50,001		254,009
Miriam E. John	104,000	100,008	50,001		254,009
Anita K. Jones	110,000	100,008	50,001		260,009
John P. Jumper	90,000	100,008	50,001		240,009
Harry M. J. Kraemer, Jr.	127,000	100,008	50,001		277,009
Lawrence C. Nussdorf	39,000	100,001	49,999		189,000
Edward J. Sanderson, Jr.	124,000	100,008	50,001		274,009
Louis A. Simpson	116,000	100,008	50,001		266,009
A. Thomas Young	232,250	100,008	50,001		382,259

- (1) Walter P. Havenstein, our CEO, is not included in this table because he received no additional compensation for his services as a director.
- (2) Amounts in this column represent the aggregate dollar amount of all fees earned or paid in cash for services as a director for annual retainer fees, committee and/or chair fees and meeting fees. The directors are eligible to defer such cash fees into our Keystaff Deferral Plan and Key Executive Stock Deferral Plan. Director fees that are deferred into the Key Executive Stock Deferral Plan result in stock units of equal value based on the closing sales price of SAIC common stock on the second business day of the calendar quarter. In fiscal 2011, John P. Jumper deferred \$38,750 into our Keystaff Deferral Plan and the following directors deferred the following amounts and received the following number of stock units in our Key Executive Stock Deferral Plan:

Name	Amount deferred (\$)	Stock units received upon deferral of fees (#)
Jere A. Drummond	60,000	3,678
Thomas F. Frist, III	99,500	6,130
John J. Hamre	104,000	6,342
Miriam E. John	104,000	6,329
Harry M. J. Kraemer, Jr.	127,000	7,759
A. Thomas Young	232,250	14,227

- (3) Amounts in this column reflect the grant date fair value computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718). For fiscal 2011, each of our non-employee directors received 5,741 restricted shares of SAIC common stock, except for Mr. Nussdorf, who received 6,460 shares. For more information regarding our application of FASB ASC Topic 718, including the assumptions used in the calculations of these amounts, see Note 11 of Combined Notes to Consolidated Financial Statements for the fiscal year ended January 31, 2011 contained within this prospectus.

At the end of fiscal 2011, the following non-employee directors held the following number of unvested stock awards and the following number of unvested stock units in our Key Executive Stock Deferral Plan:

Name	Unvested stock awards	Unvested stock units
France A. Córdova		5,741
Jere A. Drummond	8,165	
Thomas F. Frist, III	5,741	
John J. Hamre		8,164
Miriam E. John		8,111
Anita K. Jones	8,165	
John P. Jumper	5,242	2,870
Harry M. J. Kraemer, Jr.		8,164
Lawrence C. Nussdorf	6,460	
Edward J. Sanderson, Jr.	8,165	
Louis A. Simpson	8,165	
A. Thomas Young		8,164

- (4) Amounts in this column reflect the grant date fair value computed in accordance with FASB ASC Topic 718. Option awards granted to directors in fiscal 2009 and after vest on the later of one year from the date of grant or on the date of SAIC's next annual meeting of stockholders following the date of grant. Option awards granted to directors prior to fiscal 2009 vest as to 20%, 20%, 20% and 40% of the underlying shares on the first, second, third and fourth year anniversaries of the date of grant, respectively.

During fiscal 2011, each of our non-employee directors was issued options to purchase 13,959 shares of SAIC common stock (except for Mr. Nussdorf who was issued an option to purchase 18,683 shares), with a grant date fair value of approximately \$50,000. At the end of fiscal 2011, our non-employee directors held vested and unvested options to purchase the following number of shares of SAIC common stock:

Name	Aggregate shares subject to outstanding options
France A. Córdova	38,127
Jere A. Drummond	47,211
Thomas F. Frist, III	24,905
John J. Hamre	47,211
Miriam E. John	47,016
Anita K. Jones	47,211
John P. Jumper	47,016
Harry M. J. Kraemer, Jr.	47,211
Lawrence C. Nussdorf	18,683
Edward J. Sanderson, Jr.	47,211
Louis A. Simpson	47,211
A. Thomas Young	47,211

- (5) Mr. Dahlberg served as our CEO until September 21, 2009 and remained employed by the company as Executive Chairman until his retirement on June 18, 2010. Amounts shown for Mr. Dahlberg represent \$345,534 in base salary, \$10,854 in matching contributions that we made on his behalf in Science Applications' Retirement Plan and a gift valued at \$7,500 given in connection with his retirement. In addition, in recognition of Mr. Dahlberg's contributions to the company, we extended our Strategic University Alliances Program to include a donation of \$500,000 to the University of Southern California's Viterbi School of Engineering over the next five years, of which \$75,000 was funded in fiscal 2011.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) provides important information on our executive compensation program and the amounts shown in the executive compensation tables that follow. In this prospectus, the term *named executive officers* means the executive officers named in the executive compensation tables. In this CD&A, the *Committee* refers to the Human Resources and Compensation Committee of the Board of Directors of SAIC and Science Applications, which is responsible for overseeing the compensation program for all of our executives. The members of the Committee are the same for SAIC and Science Applications. All compensation is paid or payable for services rendered in all capacities to SAIC and its subsidiaries, including Science Applications.

#### Executive Summary

##### *Our Pay for Performance Philosophy*

Our executive compensation program is designed to align the interests of senior management with stockholders by tying a significant majority of their potential compensation to the achievement of performance goals or stock price appreciation through annual incentive bonuses, stock options and performance share awards. Each year the Committee establishes performance targets for the annual incentive plan and performance share plan that require the achievement of significant financial results. At the end of each year (or three-year performance period), the Committee assesses actual performance against these financial targets. While the Committee believes that financial performance should be the most significant driver of compensation, other factors that drive long-term value for stockholders are also considered as part of our annual cash incentive program, including factors contributing to a top-tier workplace environment, improvements in efficiency and effectiveness, and winning key business opportunities. Ultimately, the amount of compensation awarded to executives is determined based on performance and what the Committee believes is in the best interests of stockholders.

For fiscal 2011, the Committee continued its practice of awarding a significant majority of total compensation to the named executive officers in the form of performance-based incentive compensation, with only a small minority of the total potential compensation being provided in the form of base salary. In the case of our CEO, Mr. Havenstein, only about 19% of his target compensation in fiscal 2011 was paid in the form of base salary. The value of the remaining 81% is linked directly to performance. For our other named executive officers, about 75% of their targeted compensation was tied to performance.

As shown in the chart below, our performance in fiscal 2011 improved over the prior year in several of the key financial measures that we believe help drive stockholder value, and which we therefore use as part of our incentive compensation program. However, our financial performance on the financial metrics used for our annual incentive program was below the targets set by the Committee at the beginning of the year. As a result, the total compensation paid to our named executive officers decreased in fiscal 2011 from the prior year, consistent with our pay for performance philosophy.

	Fiscal 2010	Fiscal 2011	% Increase or (Decrease)
	(in millions, except per share amounts)		
Revenue <sup>(1)</sup>	\$ 10,846	\$ 11,117	2.5%
Operating Income <sup>(1)</sup>	\$ 867	\$ 958	10.5%
Diluted Earnings Per Share from Continuing Operations <sup>(1)</sup>	\$ 1.24	\$ 1.51	21.8%
Total CEO Compensation <sup>(2)</sup>	\$ 5.76	\$ 5.15	(10.6)%
Average Total Other NEO Compensation <sup>(3)</sup>	\$ 2.05	\$ 1.99	(2.9)%

- (1) Amounts shown are derived from SAIC's audited financial statements included in our annual report on Form 10-K filed with the SEC on March 25, 2011, which the Committee used as a basis for determining performance-based compensation for fiscal 2011. Subsequently, in the second quarter of fiscal 2012, we

sold certain components of our business primarily focused on providing information technology services to international oil and gas companies. In the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements included in this prospectus, we have classified the operating results of these business components as discontinued operations for all periods presented.

- (2) The amount for fiscal 2010 is compensation for Mr. Dahlberg, who served as our CEO for two-thirds of the year and continued as Executive Chair of the Board throughout fiscal 2010 without adjustment to his compensation. This amount includes the target value of unvested performance share awards granted in fiscal 2010, although Mr. Dahlberg will only be eligible for a pro rata portion because he retired before the end of the performance period. The amount for fiscal 2011 is compensation for Mr. Havenstein for his first full year as CEO. More information about Mr. Havenstein's compensation for fiscal 2010, including one-time equity awards received upon joining the company, is provided in the Summary Compensation Table on page 85.
- (3) Average total compensation for the three executives, other than the CEO, who qualified as named executive officers in both fiscal 2010 and 2011 based on the compensation reported in the Summary Compensation Table on page 85.

*Compensation Governance*

Other aspects of our compensation program are intended to further align our executives' interest with stockholders. These include:

total compensation for executives targeted at competitive market median levels;

stock ownership guidelines that require executive officers to accumulate and hold SAIC shares with a value of at least five times their base salary;

a clawback policy that permits the Committee to recover incentive compensation if there is a material restatement of our financial results for any reason, or if the executive was involved in misconduct;

an annual compensation risk assessment to identify incentives that could lead to excessive risk-taking;

no special or supplemental pension, health or death benefits for executives; and

a double-trigger for change in control benefits, meaning that no benefits are paid solely due to a change in control (an executive's employment must be terminated following a change in control to receive benefits).

**Elements and Objectives of Our Compensation Program**

Under the direction of the Committee, we provide the following principal elements of compensation to our executive officers:

*Base Salary.* Consistent with our philosophy of tying pay to performance, our executives receive a relatively small percentage of their overall compensation in the form of base pay. In order to effectively attract and retain talented executives, we provide a fixed base salary to our executive officers based on their level of responsibility, expertise, skills, knowledge and experience and on competitive peer company data.

*Annual Cash Incentive Awards.* We provide cash incentive awards to our executive officers that vary in amount depending upon performance against predetermined goals and objectives for the fiscal year, to encourage the achievement of annual financial and operating goals.

*Long-Term Equity Incentive Awards.* We provide equity incentive awards to our executive officers, consisting of stock options and performance share awards, which are intended to motivate them to stay with us and build stockholder value through their future performance. We believe that stock options motivate our executives to build stockholder value because they may realize value only if SAIC's stock appreciates over the



option term. Beginning with options granted in fiscal 2012, option awards will have a term of seven years (compared to a five-year term for previously granted options) to encourage a longer term perspective. Under our performance share award program, shares may be earned based upon the achievement of specific financial performance objectives over a three-year period. We believe this program plays an important role in further aligning the compensation of executives with key financial metrics that drive stockholder value over the long-term. Because these equity awards are intended to help motivate our executive officers to stay with us and to continue to build *future* stockholder value, the Committee generally does not consider an executive officer's current stock or option holdings in making additional awards.

*Other Benefits.* We also provide our executive officers with benefits generally available to other employees, such as participation in our health, benefit and retirement programs. Our executive officers are also entitled to certain benefits if their employment is terminated following a change in control.

### **Considerations in Determining Direct Compensation**

In determining the amounts of direct compensation (salary, annual and long-term incentives) to be awarded to our executive officers, the Committee considers the company's overall performance, the performance of operating units under the executive officer's management, individual performance as measured against performance goals and criteria, and comparative market data for our compensation peer group. The Committee reviews and approves the amounts of direct compensation to be provided to our executive officers for each fiscal year. At the beginning of each fiscal year, the Committee reviews and approves:

the amount of base salary to be provided for the upcoming year;

the payout range for the cash incentive awards that may be earned for the year and the performance goals and criteria upon which the amounts of the awards will be determined;

the payout range for performance share awards that may be earned for the three-year performance period beginning in that fiscal year and the performance goals and criteria upon which the amounts of the awards will be determined; and

the mix and amount of equity incentive awards to be granted to our executive officers.

In approving payout ranges, the Committee determines a threshold level of performance that must be achieved in order to receive a minimum payout and also establishes a maximum payout amount. Upon completion of each fiscal year, the Committee approves the payment of cash incentive awards that are based upon the achievement of the predetermined performance goals and criteria for the year just completed.

### *Company and Operational Group Performance*

Our overall performance (or a combination of company and group performance for executive officers with operational responsibilities) determines 80% of the amount of any cash incentive awards to be paid upon completion of the fiscal year. Amounts are principally determined based upon the company's or group's achievement of financial and operating objectives set at the beginning of the fiscal year, but the Committee retains the discretion to reduce the payouts when it considers a reduction appropriate.

### *Individual Performance*

Individual performance is a key factor in setting base salaries, and individual contributions to the achievement of our enterprise goals determine 20% of the amount of any cash incentive awards to be paid upon completion of the fiscal year. For the CEO and Group Presidents, one-half of their individual performance objectives were tied to employee retention. In determining base salaries, the Committee reviews a performance assessment for each of our executive officers, as well as compensation recommendations provided by the CEO and the Executive Vice President for Human Resources. The Committee also considers market data and recommendations provided by its independent compensation consultant. Executive officers do not propose their



own compensation. In addition, the Committee considers whether the executive officer has achieved predetermined objectives applicable to his or her organization, his or her individual contributions to us and other leadership accomplishments. The individual performance goals consist of objectives relating to matters such as success in retaining and obtaining new customers, building capability through training and retaining workforce and certain other financial and operating goals.

If, during the recently completed fiscal year, any executive officer has demonstrated exceptional performance that the Committee determines is not fully recognized through the predetermined incentive award criteria, such exceptional contributions may be rewarded in the form of discretionary cash bonuses but generally not through increases in base salary. Additional awards of restricted stock may be issued in limited circumstances to address a specific retention concern or a significant mid-year change in role. No such discretionary cash bonuses or retention awards were paid or issued to our named executive officers in fiscal 2011. If an executive officer's performance does not meet expectations, the executive will receive a lower or no incentive award payout for the individual performance component of our cash incentive program.

#### *Assessing CEO Performance*

In determining compensation for our CEO, the Committee meets in executive session and evaluates his performance based on his achievement of performance objectives that were established and agreed upon at the beginning of the fiscal year. Formal input is received from the independent directors and senior management and through the CEO's self-assessment. The Committee also considers the CEO's leadership contributions towards the company's performance, including financial and operating results, development and achievement of strategic objectives, progress in building capability among the senior management team and corporate governance leadership, as well as market data and recommendations provided by the Committee's independent compensation consultant. The Committee determines the CEO's compensation and then reviews his evaluation and compensation with the Board's independent directors. The Chair of the Board and the Chair of the Committee then present the Committee's evaluation and compensation determination to the CEO, who subsequently discusses his evaluation with the Board of Directors. The CEO does not propose his own compensation.

#### **Comparable Market Compensation**

The Committee compares the amount of direct compensation we provide to that provided by companies with whom we compete for executive talent with similar roles and responsibilities. To assist with this effort, the Committee asks its independent compensation consulting firm, Frederic W. Cook & Co., to review and benchmark each element of direct compensation (including salary and cash and equity incentives) we provide to our executive officers.

For fiscal 2011, Frederic W. Cook & Co. compared each element of direct compensation we provide to our CEO, CFO and certain other members of senior management against that provided by other publicly-traded engineering, information technology, consulting and defense companies, which we refer to as our compensation peer group. The compensation peer group for fiscal 2011 consisted of the following companies:

Accenture, Ltd.	Fiserv, Inc.	Rockwell Collins, Inc.
Automatic Data Processing, Inc.	General Dynamics Corporation	Synnex Corporation
Computer Sciences Corporation	L-3 Communications Holdings, Inc.	Unisys Corporation
CGI Group, Inc.	Raytheon Company	URS Corporation

This compensation peer group is periodically reviewed and updated. It consists of companies that we believe have similar revenues and industry focus to ours, as well as companies against which we compete for talent and stockholder investment. In order to help provide better comparative data and analysis, the compensation peer group is structured so that no company within the survey has annual revenues greater than three times or less than approximately one-third of ours. We eliminated Affiliated Computer Services, Inc. from our compensation peer group in fiscal 2011 because it was acquired by another company that does not satisfy

these parameters. For comparison purposes for fiscal 2011, our annual revenues were at approximately the 57<sup>th</sup> percentile of the revenues of the compensation peer group. In addition to the compensation peer group, Frederic W. Cook & Co. also reviewed multiple broad-based third-party surveys and compiled information for the Committee's consideration regarding compensation that other comparably-sized companies provide to their chief executive officer, chief financial officer and other members of senior management. For our Group Presidents, we compare the compensation we provide against compensation received by managers of operating units or subsidiaries of similar size to our groups.

The Committee considers this survey data and analysis when evaluating appropriate levels of direct compensation. To be competitive in the market for our executive-level talent, we generally will:

target overall compensation for our executive officers at the market median, although the actual cash incentive awards paid will vary based on operating performance and may therefore generate compensation that is higher or lower than the market median; and

award higher levels of compensation, when appropriate, in recognition of the importance or uniqueness of the role of an executive officer.

### **Compensation Decisions for Fiscal 2011**

#### *Compensation Mix*

The charts below depict each principal element of targeted compensation as a percentage of total targeted compensation for our CEO and for our other named executive officers as a group for fiscal 2011.

As indicated above, base salary represents a small portion of overall compensation compared to performance-based cash and equity incentive awards. The allocation of a meaningful portion of overall compensation to cash incentive awards demonstrates the Committee's belief that a substantial portion of total compensation should reflect the actual achievement of predetermined individual and company goals. The allocation of a majority of compensation in the form of stock option and performance share awards reflects the principle that a substantial portion of total compensation should be delivered in the form of equity awards in order to align the interests of our executive officers with those of our stockholders. We believe that an approximately equal allocation between performance share awards and stock options provides an appropriate balance of medium and long-term incentives. The various amounts of compensation provided to our named executive officers for fiscal 2011 are set forth in more detail in the tables in this prospectus under the caption Executive Compensation. The allocation of performance share awards and stock options in the charts above are based on the grant date fair value as disclosed in the Grants of Plan-Based Awards table. The actual value of these awards will be based on future financial performance and our stock price.

*Base Salary*

In approving the fiscal 2011 base salaries for our named executive officers and other executive officers, the Committee considered its independent consultant's analysis of pay levels among the compensation peer group and survey data which indicated that base salaries for our executive officers were, on average, at approximately competitive median levels, although each executive officer may have a base salary above or below the median of the market. Actual individual salary amounts also reflect the Committee's judgment with respect to each executive officer's responsibility, performance, experience and other factors, including internal equity considerations, the individual's historical compensation and any retention concerns. The Committee reviews executive officers' base salaries annually or at the time of promotion or a substantial change in responsibilities based on the criteria described above.

We believe that our CEO is better positioned than any other executive officer to set the strategic direction of the company and impact overall company performance. Accordingly, the Committee has not increased CEO base salary since 2005 and has instead provided opportunities through variable, performance-based compensation. Following this approach, our CEO, Mr. Havenstein, did not receive an increase in base salary for fiscal 2011. Our other named executive officers received increases in base salary of approximately 3% over the prior year.

*Annual Cash Incentive Awards*

We provided cash incentive awards to our executive officers in fiscal 2011, the amounts of which depended upon the achievement of specific financial, operating and individual performance goals approved by the Committee. In the first quarter of fiscal 2011, the Committee approved the threshold, target and maximum bonus amounts for the cash incentive awards and the performance goals and criteria upon which the amounts of the awards would be determined. Following the end of fiscal 2011, the Committee approved the payment of cash incentive awards based upon performance against the predetermined goals and criteria.

*Target and Maximum Cash Incentive Awards.* For fiscal 2011, the Committee set the target amount of the cash incentive award at 125% of base salary for the CEO and approximately 100% of base salary for each other named executive officer.

The actual amount of the cash incentive award paid was based upon the extent to which performance under each of the criteria met, exceeded or was below target. Award levels were structured to range from 0% to 150% of the target amount for all performance criteria. However, to the extent that performance was less than 80% as measured against our performance goals, no bonus amount would be paid with respect to such performance criteria (other than voluntary turnover, as described below).

For our named executive officers, the target and maximum bonus amounts for the fiscal 2011 cash incentive awards and the amounts of the awards actually earned by the officers, were as follows:

	<b>Target Award</b>	<b>Maximum Award</b>	<b>Actual Award</b>	<b>Actual Award as a % of Target</b>
Walter P. Havenstein, <i>CEO</i>	\$ 1,250,000	\$ 1,875,000	\$ 1,077,750	86%
Mark W. Sopp, <i>CFO</i>	570,000	855,000	520,000	91%
Deborah H. Alderson, <i>Group President</i>	490,000	735,000	445,000	91%
K. Stuart Shea, <i>Group President</i>	480,000	720,000	428,000	89%
Joseph W. Craver, III, <i>Group President</i>	470,000	705,000	405,000	86%
Vincent A. Maffeo, <i>General Counsel</i>	550,000	825,000	500,000	91%

The actual cash incentive awards paid to the named executive officers for fiscal 2011 were below the targeted award amounts because we did not fully achieve the targeted level of performance for all of the goals established by the Committee at the beginning of the year. The targeted achievement levels and actual performance for each of the key measures are described below.

*Performance Goals for Cash Incentive Awards.* The actual amount of the cash incentive award to be paid upon completion of fiscal 2011 was determined based upon the achievement of financial and other corporate and individual performance goals set at the beginning of the fiscal year. The performance goals and their relative weightings for fiscal 2011 were:

**Financial Goals 80%**<sup>(1)</sup>

Revenue (30%)

Operating Income (45%)

*For Group Presidents, a portion of this weighting is based on Group-level profit before taxes.*

Average Days Working Capital (DWC) (25)%

*Determined by dividing (a) total working capital at quarter-end by (b) average daily sales during the quarter. Goals and payouts are based on the average of quarter-end DWC for the four fiscal quarters.*

**Other Performance Goals 20%**

Individual Contributions to Enterprise Goals, including

*employee engagement and development*

*customer satisfaction and retention*

*new business development in key strategic areas*

*financial and operating goals*

Employee Retention<sup>(2)</sup>

*voluntary employee turnover percentage*

- (1) Award amounts for the CEO, CFO and other corporate-level executives based on achievement of financial goals are determined by reference to our consolidated financial information. Award amounts for Group Presidents based on achievement of financial goals are determined by reference to both the financial results of their respective Groups and our consolidated financial information, weighted equally, to encourage a balanced focus on group and company-wide goals.
- (2) For fiscal 2011, the employee retention goal was only applicable to senior managers whose operational roles placed them in a position to have a direct impact on retention, including Mr. Havenstein, Ms. Alderson, Mr. Shea and Mr. Craver. For these executives, employee retention and individual contributions to enterprise goals each comprised 10% of these executives' annual cash incentive opportunity. The employee retention goal did not apply to Mr. Sopp and Mr. Maffeo for fiscal 2011. However, the retention goal will apply to all executive officers in fiscal 2012, comprising 10% of the total incentive opportunity for each executive under our annual cash incentive program. Revenue and operating income were used as financial goals because they most directly align with our growth strategy and we believe they generally are strongly correlated with potential stockholder value. We use average days working capital to measure how efficiently we use our working capital relative to the size of our business and operating units. We believe that individual contributions to our other enterprise goals contribute to the achievement of our financial goals over time and that a 20% weighting for these goals is appropriate to encourage individual efforts in an array of areas that should ultimately lead to improved financial performance for the company. Because the financial goals are considered the most important factors and annual performance is objectively measurable, we weigh these goals more heavily at 80%.

For fiscal 2011, the targeted achievement levels and actual performance for each of the key corporate measures were as follows:

	Target	Actual <sup>(1)</sup>	Achievement Level
Revenue	\$ 11.8 billion	\$ 11.1 billion	94.2%
Operating Income	\$ 965 million	\$ 958 million	99.3%

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Average Days Working Capital	45.9 days	46.2 days	99.3%
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- (1) Amounts shown are derived from our audited financial statements included in SAIC's annual report on Form 10-K filed with the SEC on March 25, 2011, which the Committee used as a basis for determining performance-based compensation for fiscal 2011. Subsequently, in the second quarter of fiscal 2012, we sold certain components of our business primarily focused on providing information technology services to international oil and gas companies. In the section entitled "Management's Discussion and Analysis of

Financial Condition and Results of Operations and the financial statements included in this prospectus, we have classified the operating results of these business components as discontinued operations for all periods presented.

For employee turnover, our targeted voluntary employee turnover rate was set slightly above the prior year's actual rate in expectation of increasing external employment opportunities, particularly in the government sector. The potential award levels ranged from 0% to 150% based on the variance from the target rate, with each 1% increase from the target rate resulting in a 25% decrease in the award level and vice versa. For example, a turnover rate 2% lower (better) than target would result in a maximum payout at the 150% level, a turnover rate 2% higher than target would result in a payout at the 50% level and a turnover rate 4% higher than target would result in no payout for the retention element of the program. Based on this scale, our actual retention performance in fiscal 2011 was 55% of targeted performance because our actual voluntary turnover rate was higher than the targeted rate.

*Determination of Cash Incentive Award Amounts.* Following the end of fiscal 2011, the Committee reviewed financial and individual performance during the year and approved the cash incentive award payments to be made to each of our executive officers, including the named executive officers. In evaluating fiscal 2011 financial performance, the Committee reviewed actual performance compared to targeted performance levels and determined that, while threshold performance levels were achieved, actual performance was below targeted performance. In analyzing individual performance, the Committee reviewed the individual's level of achievement and also considered input from the CEO with respect to the degree of success and the difficulty of achieving the individual performance goals. Ultimately, weighted average scores for such financial and other corporate and individual objectives were determined and applied against the target bonus applicable to such objectives to determine a formula-based bonus amount. The Committee then exercised its discretion to reduce these amounts for each named executive officer, which resulted in non-equity incentive awards between 86% and 91% of targeted levels as indicated in the table on page 78 and reported in the Summary Compensation Table. In addition, in accordance with our compensation recoupment policy, actual cash incentive awards paid to the named executive officers for fiscal 2011 were further reduced by an average of \$4,861 to offset inadvertent overpayments made in fiscal 2010 due to a calculation error.

#### **Long-Term Incentive Awards**

The amounts of these awards are determined based on market data and vary based upon an executive officer's position and responsibilities.

*Stock Options.* Approximately 50% of the targeted total value of equity awards granted to our named executive officers in fiscal 2011 was comprised of options to purchase SAIC stock. These options vest as follows: 20% of the shares at the end of each of the first three years and 40% of the shares at the end of the fourth year and expire at the end of the fifth year. The objective of these awards is to link rewards to the creation of stockholder value over a longer term and aid in employee retention with a vesting schedule weighted toward the end of the option term.

*Performance Share Awards.* Approximately 50% of the targeted total value of equity awards granted to our named executive officers in fiscal 2011 was in the form of performance share awards that may result in SAIC shares being issued depending on the company's achievement of specific financial performance goals over the three-year performance period covering fiscal year 2011 through fiscal year 2013. The number of shares that will ultimately be issued can range from 0% to 150% of the target number of shares. If cumulative performance over the three-year period is below the threshold level of performance, no shares will be issued. The objective of these awards is to reward targeted financial performance over a three-year period.

*Target and Maximum Performance Share Awards.* In the first quarter of fiscal 2011, the Committee approved the threshold, target and maximum performance share award amounts, which are set forth in the Grants of Plan-Based Awards table on page 86, and approved the performance goals and criteria upon which

the actual payout amounts of the awards would be determined. The value of the target number of shares at the date of grant for the performance share awards awarded to the named executive officers were between 90% and 110% of base salary, except for Mr. Havenstein, for whom the target value was 169% of base salary. The target value for Mr. Havenstein was higher as a percentage of base salary to reflect market data and practice based on the CEO's higher level of responsibility and impact on company performance. As a result, it is appropriate for a greater percentage of his total compensation to be contingent on company performance. The threshold amounts represented 50% of the value of the target number of shares and the maximum amounts represented 150% of the value of the target number of shares. The actual value of any awards received will depend on the value of SAIC common shares at the time they are earned and issued to participants.

*Performance Goals for Performance Share Awards.* Performance for the three-year performance period covering fiscal year 2011 through fiscal year 2013 will be measured against two metrics:

three-year growth in diluted earnings per share from continuing operations, expressed in dollars; and

three-year operating margin growth, expressed in basis points.

The number of shares to be issued will be based on performance against separate targets for each measure, and each performance measure is equally weighted. The payout for each performance measure will be determined by the performance level achieved for each measure at the end of the three-year period.

We use diluted earnings per share as a performance metric for our performance share awards because it is a key measure of profitability followed by our stockholders and market analysts and it also reflects share dilution management and non-recurring items. As a below-the-line measure, it encourages control of tax expense and includes the dilutive or accretive effect of acquisitions. We use operating margin growth because it encourages profitable growth without regard to diluted shares outstanding and non-recurring items. We believe that an equal weighting provides an appropriate balance between these measures.

#### **Other Benefits Provided in Fiscal 2011**

In addition to the elements of direct compensation described above, we also provide our executive officers with the following benefits:

##### *Health and Welfare Benefits*

Our executive officers are entitled to participate in all health and welfare plans that we generally offer to all of our eligible employees, which provide medical, dental, health, group term life insurance and disability benefits. We believe that these health and welfare benefits are reasonable in scope and amount and are of the kind typically offered by other companies against which we compete for executive talent.

##### *Retirement Benefits*

Our executive officers are entitled to participate in the same retirement plan that is generally available to all of our eligible employees. We make matching contributions to eligible participants' retirement plan accounts equal to 100% of each participant's own contributions up to 6% of their eligible compensation under applicable rules. The average amount of contributions we made to the retirement plan accounts of our named executive officers in fiscal 2011 was \$9,825. The Committee believes that this retirement program permits our executives to save for their retirement in a tax-effective manner.

##### *Deferred Compensation Plans*

To provide another tax-deferred means to save for retirement, we maintain deferred compensation plans that allow eligible participants to elect to defer all or a portion of any cash or certain equity incentive awards granted to them under our cash incentive or stock plans. We make no contributions to participants' accounts under these

plans. Vested deferred balances under the plans will generally be paid upon retirement or termination. These plans are described in more detail under *Nonqualified Deferred Compensation* on page 88.

#### *Perquisites and Personal Benefits*

We generally do not provide perquisites and personal benefits to our executive officers that are not otherwise available to other employees. In fiscal 2011, in connection with our hiring of Vincent A. Maffeo as our General Counsel, the Committee approved relocation benefits, not to exceed \$625,000, to cover costs incurred by Mr. Maffeo to relocate closer to our corporate headquarters. These benefits include closing costs and commissions relating to the sale and purchase of a home, moving and storage of household goods, temporary living expenses and a gross-up for any additional tax liability in connection with such relocation benefits. Mr. Maffeo used \$60,368 of his relocation allowance in fiscal 2011 and we expect additional relocation costs to be incurred during fiscal 2012.

#### **Other Policies and Considerations**

##### *Assessment of Risks in our Compensation Programs*

In fiscal 2011, the Committee directed management to undertake a risk assessment of our compensation programs and asked Frederic W. Cook & Co., the Committee's independent compensation consultant, to review the assessment. In conducting the assessment, we reviewed our pay practices and incentive programs to identify any potential risks inherent in our compensation programs. We also reviewed the risks facing the company and evaluated whether our compensation practices and programs could be expected to increase or help mitigate these risks. The finding of the assessment, with which the Committee concurred, was that our compensation programs are effectively designed to help mitigate excessive risk-taking that could harm our value or reward poor judgment by our executives. The factors considered in reac