

SAIC, Inc.  
Form POS AM  
July 25, 2006  
Table of Contents

As filed with the Securities and Exchange Commission on July 25, 2006

Registration No. 333-128022

---

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

Washington, D.C. 20549

---

**POST-EFFECTIVE**  
**AMENDMENT NO. 3**

**TO**  
**FORM S-4**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**SAIC, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**7373**  
(Primary Standard Industrial  
Classification Code Number)

**20-3562868**  
(I.R.S. Employer  
Identification No.)

**10260 Campus Point Drive**

**San Diego, California 92121**

**Telephone: (858) 826-6000**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Edgar Filing: SAIC, Inc. - Form POS AM

Douglas E. Scott, Esq.

Senior Vice President, General Counsel and Secretary

SAIC, Inc.

10260 Campus Point Drive

San Diego, California 92121

Telephone: (858) 826-6000

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

*Copies to:*

Neal H. Brockmeyer

Ryan A. Murr

Sarah A. Solomon

Heller Ehrman LLP

4350 La Jolla Village Drive

San Diego, California 92122

Phone: (858) 450-8400

Fax: (858) 450-8499

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

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

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

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

**Table of Contents**

**The information in this proxy statement/prospectus is not complete and may be changed. We may not sell these securities until the post-effective amendment to the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities nor a solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to completion, dated July 25, 2006**

**Science Applications International Corporation**

To our stockholders:

A special meeting of stockholders of Science Applications International Corporation, or Old SAIC, will be held at \_\_\_\_\_, on \_\_\_\_\_, 2006, at \_\_\_\_\_ (local time). For the convenience of our stockholders, the meeting will be videocast to \_\_\_\_\_ and at other locations, and will be webcast on our website ([www.saic.com](http://www.saic.com)) and on our internal website, ISSAIC. The enclosed proxy statement/prospectus updates and replaces the proxy statement/prospectus dated November 17, 2005 that was distributed to stockholders of Old SAIC for a special meeting of stockholders scheduled to be held on December 16, 2005.

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

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

The board of directors of Old SAIC also will declare a special cash dividend payable to all holders of record of Old SAIC common stock, including Old SAIC's directors and executive officers, prior to the merger. The special dividend is expected to range from approximately \$10 to \$15 per share of Old SAIC class A common stock and approximately \$200 to \$300 per share of Old SAIC class B common stock, which is the equivalent of a range from approximately \$5 to \$7.50 per share of new class A preferred stock. Payment will be conditioned upon completion of the IPO.

We are pursuing the IPO because, after a thorough review of several options, we have determined that it will best address our long-term objectives. The principal purpose of the IPO is to better enable us to use our cash and cash flows generated from operations to fund internal growth and growth through acquisitions as well as provide us with publicly traded stock that can be used for future acquisitions. Creating a public market for our common stock will eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market.

## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

*You should carefully consider the risk factors relating to the transactions, our stock and our business, which are described beginning on page 31 of the enclosed proxy statement/prospectus.*

Sincerely,

K. C. Dahlberg

*Chairman of the Board and Chief Executive Officer*

, 2006

**Table of Contents**

**Science Applications International Corporation**

**10260 Campus Point Drive**

**San Diego, California 92121**

---

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held on \_\_\_\_\_, 2006**

---

A special meeting of stockholders of Science Applications International Corporation, or Old SAIC, a Delaware corporation, will be held at the \_\_\_\_\_, on \_\_\_\_\_, 2006, at \_\_\_\_\_ (local time). For the convenience of our stockholders, the meeting will be videocast to \_\_\_\_\_ and at other locations, and will be webcast on our website (www.saic.com) and on our internal website, ISSAIC. The meeting is being held for the purpose of voting on the following:

1. A proposal to approve and adopt an Agreement and Plan of Merger, as amended and restated as of July 24, 2006, among Old SAIC, SAIC, Inc., and SAIC Merger Sub, Inc., pursuant to which Old SAIC will become a wholly-owned subsidiary of a newly-formed parent company, SAIC, Inc., or New SAIC, and holders of Old SAIC stock will be entitled to receive shares of class A preferred stock of New SAIC for their common stock of Old SAIC.
2. A proposal to approve and adopt the 2006 Equity Incentive Plan.
3. A proposal to approve and adopt the 2006 Employee Stock Purchase Plan.
4. Any other business as may properly come before the special meeting, or any adjournments, postponements or continuations thereof.

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

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

Only stockholders of record at the close of business on July 7, 2006, are entitled to notice of and to vote at the special meeting and at any and all adjournments, postponements or continuations thereof. None of the proxies or voting instructions received by Old SAIC that accompanied the original proxy statement/prospectus, or received by the Internet or telephone pursuant to instructions in the original proxy statement/prospectus, for the December 16, 2005 meeting can be voted at the upcoming special meeting. In order for your vote to be counted at the upcoming special meeting, you must submit a new proxy or voting instructions by the Internet, telephone or mail, or vote in person at the meeting.

Edgar Filing: SAIC, Inc. - Form POS AM

This proxy statement/prospectus is being first mailed to stockholders on or about \_\_\_\_\_, 2006.

By Order of the Board of Directors

D. E. SCOTT

*Senior Vice President,*

*General Counsel and Secretary*

San Diego, California

, 2006

**YOUR VOTE IS IMPORTANT**

**Even if you expect to attend the special meeting, to ensure that your shares are represented at the meeting, please submit your proxy or voting instructions (1) by the Internet, (2) by telephone or (3) by mail. For specific instructions, please refer to the section titled *The Special Meeting, Voting and Proxies* beginning on page 46 of this proxy statement/prospectus or the instructions on the enclosed proxy and voting instruction card. Submitting a proxy or voting instructions will not prevent you from attending the special meeting and voting in person, if you so desire.**

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>QUESTIONS AND ANSWERS</u>	1
<u>SUMMARY</u>	14
<u>RISK FACTORS</u>	31
<u>FORWARD-LOOKING STATEMENTS</u>	45
<u>THE SPECIAL MEETING, VOTING AND PROXIES</u>	46
<u>PROPOSAL I THE MERGER</u>	49
<u>Purposes of the Merger</u>	49
<u>How the Merger is Structured</u>	50
<u>What You Will Be Entitled to Receive Pursuant to the Merger</u>	50
<u>The Public Offering</u>	51
<u>The Special Dividend</u>	52
<u>How We Will Effect the Merger and the Special Dividend</u>	52
<u>New SAIC's Restated Certificate of Incorporation</u>	52
<u>Voting Rights</u>	53
<u>Transfer Restrictions on Shares of New Class A Preferred Stock</u>	53
<u>Interests of Our Directors and Executive Officers in the Merger</u>	54
<u>Appraisal Rights</u>	56
<u>Listing</u>	58
<u>Conditions to the Merger</u>	58
<u>Material Federal Income Tax Consequences to Stockholders</u>	59
<u>Accounting Treatment</u>	62
<u>PROPOSAL II 2006 EQUITY INCENTIVE PLAN</u>	63
<u>General</u>	65
<u>Stock Options</u>	67
<u>Stock Awards</u>	67
<u>Cash Awards</u>	68
<u>Federal Income Tax Consequences of Awards</u>	68
<u>Accounting Treatment</u>	70
<u>PROPOSAL III 2006 EMPLOYEE STOCK PURCHASE PLAN</u>	71
<u>Administration</u>	71
<u>Eligibility</u>	71
<u>Participation</u>	72
<u>Plan Characterization</u>	72
<u>Nonassignability of Options</u>	72
<u>New Plan Benefits</u>	72
<u>Offering Periods</u>	72
<u>Purchase Price</u>	72
<u>Payment of Purchase Price; Payroll Deductions</u>	72

**Table of Contents**

	<u>Page</u>
<u>Purchase of Stock; Exercise of Option</u>	73
<u>Holding Period</u>	74
<u>Withdrawal</u>	74
<u>Termination of Employment</u>	74
<u>Amendment and Termination</u>	74
<u>Adjustments upon Changes in Capitalization, Change of Control or Dissolution</u>	74
<u>Federal Income Tax Consequences</u>	75
<u>Accounting Treatment</u>	76
<u>TRANSACTION OF OTHER BUSINESS</u>	76
<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	77
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	79
<u>BUSINESS</u>	116
<u>MANAGEMENT</u>	137
<u>EXECUTIVE COMPENSATION</u>	144
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	157
<u>PRINCIPAL STOCKHOLDERS</u>	159
<u>DESCRIPTION OF CAPITAL STOCK, CERTIFICATE OF INCORPORATION AND BYLAWS</u>	160
<u>MARKET FOR OLD SAIC STOCK AND RELATED STOCKHOLDER MATTERS</u>	168
<u>STOCKHOLDER PROPOSALS</u>	175
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	176
<u>LEGAL MATTERS</u>	176
<u>EXPERTS</u>	176
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1
<u>ANNEX A AGREEMENT AND PLAN OF MERGER</u>	A-1
<u>ANNEX B FORM OF RESTATED CERTIFICATE OF INCORPORATION OF SAIC, INC.</u>	B-1
<u>ANNEX C FORM OF 2006 EQUITY INCENTIVE PLAN</u>	C-1
<u>ANNEX D FORM OF 2006 EMPLOYEE STOCK PURCHASE PLAN</u>	D-1
<u>ANNEX E SECTION 262 OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE</u>	E-1



---

**Table of Contents**

**QUESTIONS AND ANSWERS**

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

*In this proxy statement/prospectus, we use the terms SAIC, we, us and our to refer to Science Applications International Corporation or SAIC, Inc. when the distinction between the two companies is not important. When the distinction is important to the discussion, we use the term Old SAIC to refer to Science Applications International Corporation and New SAIC to refer to SAIC, Inc. In addition, we sometimes refer to the common stock of Science Applications International Corporation as Old SAIC common stock, and when the distinction is important, as class A common stock and class B common stock. We also sometimes refer to the class A preferred stock of SAIC, Inc. as new class A preferred stock and to the common stock of SAIC, Inc. as new common stock.*

***Overview of the Transactions***

**Q1. What transactions do we intend to complete?**

A. We intend to complete the following transactions:

a merger pursuant to which Old SAIC will become a wholly-owned subsidiary of New SAIC, and each share of outstanding class A common stock will be converted into the right to receive two shares of class A preferred stock of New SAIC and each share of outstanding class B common stock will be converted into the right to receive 40 shares of class A preferred stock of New SAIC

an initial public offering, or IPO, of new common stock of New SAIC through which we will raise cash from new investors

a special dividend which we will pay to the current stockholders of Old SAIC

**Q2. Why are we pursuing these transactions?**

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

Enable us to use our cash and cash flows generated from operations to fund internal growth and growth through acquisitions. Although we had no legal obligation to do so, over the five fiscal years ended January 31, 2006 we used more than \$2.4 billion of cash to provide liquidity to our stockholders by purchasing shares in our limited secondary market and in other transactions. We have maintained excess cash to address this ongoing imbalance in our stock system caused by more shares sold by selling stockholders than the number of shares purchased by buyers other than us. In referring to our stock system, we include the issuance, purchase or sale of our common stock in the limited market, as well as the various benefit program and retirement plan

transactions. We expect that this significant stock system imbalance, and the related need to maintain excess cash, would

## **Table of Contents**

continue for the foreseeable future without the IPO. Creating a public market for our common stock will eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market or in other transactions.

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

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

### **Q3. Why are we pursuing these transactions now?**

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

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

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

### **Q5. How will the merger and the IPO affect our corporate structure?**

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

### **Q6. Will our new corporate structure affect the way we conduct business?**

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

### **Q7. How will the IPO affect our employee ownership culture?**

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

employee benefit plans.

---

**Table of Contents**

**Q8. Will our relationships with customers, suppliers and employees change?**

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

**Q9. Will our executive officers or the members of our board of directors change as a result of these transactions?**

A. No. We do not anticipate any changes to our executive officers or board of directors as a result of these transactions.

**Q10. Does management still think employee ownership is important?**

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

*The Merger*

**Q11. What does the merger entail and why are we merging with one of our subsidiaries?**

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

**Q12. What will I be entitled to receive in the merger?**

A. In the merger, each share of outstanding class A common stock will be converted into the right to receive two shares of new class A preferred stock and each share of outstanding class B common stock will be converted into the right to receive 40 shares of new class A preferred stock. However, we have changed the percentage of shares of series A-1 and series A-2 of new class A preferred stock that you will receive upon exchange of your shares of Old SAIC common stock from the percentages proposed in the original proxy statement/prospectus for the December 16, 2005 special stockholders' meeting. Under the current proposal, you will receive 20 percent in series A-1 preferred stock, 20 percent in series A-2 preferred stock, 30 percent in series A-3 preferred stock and 30 percent in series A-4 preferred stock (as compared to the allocation proposed in the proxy statement/prospectus for the December 16, 2005 special stockholders' meeting of 10 percent in series A-1 preferred stock, 30 percent in series A-2 preferred stock, 30 percent in series A-3 preferred stock and 30 percent in series A-4 preferred stock). Also, the transfer restriction period for series A-1 preferred stock has been changed in the current proposal to 90 days from completion of our IPO (as compared to the fixed date of April 1, 2006 proposed for series A-1 preferred stock in the proxy statement/prospectus for the December 16, 2005 special stockholders' meeting). See Questions 45-49 for a description of the transfer restrictions applicable to each series (A-1, A-2, A-3 and A-4) of new class A preferred stock. Under this new proposal, of the shares of new class A preferred stock you receive in the merger:

20 percent will be designated series A-1 preferred stock with transfer restrictions expiring 90 days after our IPO

20 percent will be designated series A-2 preferred stock with transfer restrictions expiring 180 days after our IPO

30 percent will be designated series A-3 preferred stock with transfer restrictions expiring 270 days after our IPO

30 percent will be designated series A-4 preferred stock with transfer restrictions expiring 360 days after our IPO

**Table of Contents**

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

400 shares of series A-1 preferred stock

400 shares of series A-2 preferred stock

600 shares of series A-3 preferred stock

600 shares of series A-4 preferred stock

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

8,000 shares of series A-1 preferred stock

8,000 shares of series A-2 preferred stock

12,000 shares of series A-3 preferred stock

12,000 shares of series A-4 preferred stock

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

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

**Q13. Why will I receive two shares of new class A preferred stock (rather than just one share) for every one share of class A common stock that I own? Why will I receive 40 shares of new class A preferred stock (rather than just 20 shares) for every one share of class B common stock that I own?**

A. We established an exchange ratio in the merger that has the effect of implementing a stock split. The purpose is to increase the number of shares of our capital stock outstanding prior to the IPO, which will decrease the per share value of our capital stock. The aggregate value of your shares will not be affected by the merger, although the value will fluctuate after the IPO. We believe that offering more

## Edgar Filing: SAIC, Inc. - Form POS AM

shares of new common stock at a lower per share price will allow for an initial offering price of the new common stock within a range that is customary in today's IPO marketplace and therefore will enhance the underwriters' ability to market the shares to public investors.

**Q14. Why do the holders of class B common stock receive more shares than the holders of class A common stock?**

- A. Holders of class B common stock are entitled to receive 20 times the number of shares to be received by the holders of class A common stock because, while the class A common stock was split 5 for 1 in 1987

---

**Table of Contents**

and split again 4 for 1 in 1999, resulting in an overall 20 for 1 split, the class B common stock has never split. If the class B common stock had split in 1987 and 1999 along with the class A common stock, there would be no difference in the number of shares the holders of each class would receive. Furthermore, Old SAIC's certificate of incorporation provides that each share of class B common stock is convertible at any time into 20 shares of class A common stock.

**Q15. What are the U.S. tax consequences of the merger?**

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

**Q16. Do I have appraisal rights?**

- A. Appraisal rights entitle, under certain circumstances, stockholders of Delaware corporations to receive a cash payment equal to the fair value of their shares as determined by the Delaware Court of Chancery. Record holders of Old SAIC class A common stock do not have appraisal rights in connection with the merger. Record holders of class B common stock who do not vote in favor of the merger proposal but otherwise comply with the requirements and procedures of Section 262 of the General Corporation Law of the State of Delaware, or DGCL, have appraisal rights. A detailed description of the appraisal rights and procedures available to record holders of Old SAIC class B common stock is included in Proposal I The Merger Appraisal Rights beginning on page 56. The full text of Section 262 of the DGCL is included as Annex E to this proxy statement/prospectus.

**Q17. If I submitted my proxy or voting instructions for the special meeting originally scheduled for December 16, 2005, do I need to submit a new proxy or voting instructions for the upcoming special meeting?**

- A. Yes. None of the proxies or voting instructions received by Old SAIC that accompanied the original proxy statement/prospectus, or received by the Internet or telephone pursuant to instructions in the original proxy statement/prospectus, for the December 16, 2005 meeting can be voted at the upcoming special meeting. In order for your vote to be counted at the upcoming special meeting, you must submit a new proxy or voting instructions by the Internet, telephone or mail, or vote in person at the meeting.



**Table of Contents**

**Q18. What happens if the stockholders do not adopt the merger agreement?**

- A. If stockholder approval for the merger is not obtained, the merger and the IPO will not occur, and the special dividend will not be paid. If we are unable to complete the IPO, we will reassess how to satisfy the needs of our stock system and yet achieve our long-term strategic objectives. We may not be able, or desire, to balance the stock system indefinitely.

**Q19. Can our board of directors abandon the merger and other transactions even if stockholder approval is obtained?**

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

*The Initial Public Offering*

**Q20. What is an IPO?**

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

**Q21. How and when will we complete our IPO?**

- A. Before shares of new common stock can be offered to public investors, the stockholders of Old SAIC must approve the merger and related proposals at the special meeting of stockholders. If the merger is approved by stockholders, our senior management will meet with prospective public investors, including institutional investors, mutual fund managers and other potential investors, to present information about the company and its prospects. Thereafter, we expect to negotiate the price of the new common stock with the lead underwriters, Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. At the same time, we would request that the SEC declare the IPO related registration statement effective to permit the sale of shares of new common stock to public investors. If the price negotiated with the lead underwriters is acceptable to our board of directors (or a designated board committee), we anticipate that we would agree to sell a certain number of shares of new common stock to the underwriters at that price, less a customary underwriting discount, upon satisfactory completion of various closing conditions. Shares of new common stock would then begin to trade on the New York Stock Exchange in anticipation of the closing. Just prior to closing the IPO, we would expect to complete the merger and, thereafter, the sale of new common stock to the underwriters who would distribute the shares to the public investors.

The precise timing of the merger and the IPO is subject to general market and economic conditions, the SEC's review process, and several other factors that we do not control. Although it is not possible to determine with certainty when we will complete the merger, the IPO and related transactions, we anticipate that it will be in the Fall of 2006 and within about six to eight weeks following the approval of the merger by the Old SAIC stockholders. If the merger is not approved by stockholders, the IPO will not occur and we will not pay the special dividend, which will be specifically conditioned upon completion of the IPO.

**Q22. What impact will the Greek Olympic contract have on the timing for completion of the IPO?**

- A. We initially scheduled a special meeting of our stockholders for December 16, 2005 to consider and vote on the merger and IPO related proposals. Our board of directors and senior management decided to not

---

**Table of Contents**

hold that stockholders' meeting due to developments relating to a firm-fixed-price contract (Greek contract) with the Hellenic Republic of Greece (the Greek government). These developments included:

the delivery of a letter by us to representatives of the Greek government advising them that, unless agreement on a contract modification was reached, we would invoke arbitration under the provisions of the Greek contract

the initiation of an independent review by a special committee of independent directors with the assistance of an outside law firm to, among other things, identify the causes of the poor financial performance and continuing challenges of the Greek contract

On April 21, 2006, we instituted binding arbitration proceedings, in parallel with our continuing negotiations toward a contract modification, to pursue a final resolution of our rights and remedies under the Greek contract. The outcome of the arbitration is uncertain due to the complex nature of the legal and factual issues involved and the uncertainty of arbitration in general. However, by instituting arbitration, we believe we have established a process to obtain final resolution of the Greek contract issues even if an appropriate contract modification is not obtained.

In addition, the review by a special committee of independent directors was completed in April 2006, and the results of the review have been reported to our board of directors. Following completion of this independent review, our Chief Executive Officer has initiated an analysis of the observations and conclusions resulting from the review and begun the implementation of a number of improvements in our operational policies, processes and procedures with the goal of preventing the recurrence of problems experienced in the Greek contract in the future. The Greek contract status, contingencies and arbitration proceedings are described under Management's Discussion and Analysis of Financial Condition and Results of Operations - Commitments and Contingencies - Firm Fixed-Price Contract with the Greek Government.

Given the institution of binding arbitration to obtain final resolution of the Greek contract issues (if an appropriate contract modification is not obtained) and the completion of the independent review, we now expect to complete the IPO in the Fall of 2006.

**Q23. How will the IPO price be determined?**

- A. The price of the new common stock in the IPO will be negotiated with the lead underwriters. Among the factors considered in determining the IPO price will be our future prospects and those of our industry in general, our sales, earnings and other financial operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to ours. Thereafter, our stock price may fluctuate based on market forces influenced by these and other factors. The underwriters and public investors who trade in the new common stock may give different weight to factors or valuation methodologies or consider new factors or valuation methodologies which differ from those relied upon in determining the historical price of Old SAIC common stock. Therefore, the price negotiated with the representatives of the underwriters and the market price at which our new common stock will trade following the IPO may be higher or lower than the historical prices of Old SAIC common stock.

**Q24. Where will the new common stock be traded?**

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

## **Table of Contents**

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

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

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

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

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

### **Q26. How was the size of the IPO determined?**

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

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

- A. The price of our new common stock will be subject to the fluctuations in the stock market. Initially, there also will be restrictions on your ability to sell or transfer your new class A preferred stock that you are entitled to receive in the merger. In addition, your investment will continue to be subject to many of the same risks to which it is currently subject. Some of the risk factors that we currently face, including those associated with an IPO, are described in **Risk Factors** beginning on page 31.

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

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

### **Q29. Will our employees, officers or directors be given an opportunity to buy stock in the IPO?**

- A. No. We will not be offering a **friends and family** directed share or other program whereby employees, officers or directors are allowed to purchase stock in the IPO. Unlike most companies that complete initial public offerings, we already provide numerous opportunities for our employees, officers and directors to buy our stock through the limited market, our employee stock purchase plan and deferrals and rollovers in the SAIC Retirement Plan. We want to discourage speculation or **flipping** our stock and desire that our stockholders, especially our employees, officers and directors, hold our stock for long-term investment. In addition, there also are logistical and administrative difficulties in offering a **friends and family** program that is fair to all employees when we have over 40,000 employees in our company. As a result, we will not be offering a **friends and family** program.

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

## Edgar Filing: SAIC, Inc. - Form POS AM

- A. The proceeds of the IPO will be held by New SAIC and will be included in our consolidated cash balances, which are used for general corporate purposes, including working capital, capital spending and possible investments and acquisitions. However, the board of directors of Old SAIC intends to declare a special dividend that will be paid from cash held by Old SAIC to stockholders who will be holders of Old SAIC common stock as of the dividend record date to be set by the board of directors. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not exercise their over-allotment option, by up to approximately \$1 billion.

**Table of Contents**

*The Special Dividend*

**Q31. What is a dividend?**

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

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

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

**Q33. What is the amount of the special dividend?**

A. The dividend is expected to range from approximately \$10 to \$15 per share of Old SAIC class A common stock and from approximately \$200 to \$300 per share of Old SAIC class B common stock.

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

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

**Q35. What will be the record date for purposes of determining stockholders entitled to receive the special dividend?**

A. The board of directors will set the record date as of which all stockholders will be entitled to receive the special dividend. We expect that the record date will be a few days before the new common stock begins to trade on the New York Stock Exchange, which we expect will be six to eight weeks after stockholder approval of the merger at the special meeting.

**Q36. When will the special dividend be paid?**

A. The board of directors of Old SAIC intends to declare a special dividend that will be paid from cash held by Old SAIC to stockholders who will be holders of Old SAIC common stock as of the dividend record date to be set by the board of directors. Payment will be conditioned upon completion of the IPO and, if you have Old SAIC common stock certificates, upon surrender of your certificates. Old SAIC expects to pay the special dividend within 25 days after the IPO.

**Q37. What are the U.S. tax consequences of the special dividend?**

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

## Edgar Filing: SAIC, Inc. - Form POS AM

dividend will vary depending on a number of factors. For further information about the tax consequences of the special dividend and the tax rates that may be applicable to you, see Proposal I The Merger Material Federal Income Tax Consequences to Stockholders The Special Dividend.

**Table of Contents**

**Q38. What will our dividend policy be after the IPO?**

- A. Old SAIC has never declared or paid any cash dividends on its capital stock other than the special dividend. New SAIC does not expect to pay any dividends on our capital stock in the foreseeable future, and we currently intend to retain any future earnings to finance our operations and growth. The exact amount of the special dividend and any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on available cash, estimated cash needs, earnings, financial condition, operating results, capital requirements, applicable contractual restrictions and other factors our board of directors deems relevant.

*The New Class A Preferred Stock*

**Q39. What are the differences between the new class A preferred stock and the new common stock?**

- A. The terms of the new class A preferred stock and the new common stock will be the same except as follows:

the new class A preferred stock will be subject to certain transfer restrictions set forth below while the new common stock will be freely tradable

the new class A preferred stock will have 10 votes per share while the new common stock will have one vote per share

the new class A preferred stock will be convertible into new common stock after the expiration of the restriction periods

The new class A preferred stock has no other preferences.

**Q40. Why do the public investors receive a different class of stock than our existing stockholders?**

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

**Q41. What must I do to get my new class A preferred stock?**

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

If you hold your shares directly in a book-entry account, they will be converted automatically and you will receive a statement for the shares of new class A preferred stock you own following the merger. You can confirm that your account is in book-entry form by reviewing the first page of a recent Stock Summary Statement previously mailed to you by Old SAIC.

If you hold your shares directly and they are represented by certificates at the effective time of the merger, we will send you a letter shortly after the merger explaining how you can surrender your certificates. All the shares to which you are entitled will be converted to book entry form, but your account will be blocked by our transfer agent until your certificates are surrendered.

Edgar Filing: SAIC, Inc. - Form POS AM

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



---

**Table of Contents**

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

**Q42. What will happen to our right of first refusal and right to repurchase your stock?**

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

**Q43. What will happen to the new class A preferred stock that I will own if my affiliation terminates or I retire?**

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

**Q44. What if I am no longer affiliated with SAIC and hold shares subject to a special arrangement (e.g., the alumni program, former employee program or other agreement extending Old SAIC's right of repurchase)?**

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

***Transfer Restrictions***

**Q45. Will I be able to sell or transfer my new class A preferred stock immediately?**

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

90 days after our IPO for series A-1 preferred stock

180 days after our IPO for series A-2 preferred stock

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

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

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



**Table of Contents**

**Q46. Who is a permitted transferee ?**

A. Permitted transferees generally include:

members of your immediate family

trusts for the sole benefit of you or members of your immediate family

your estate

a financial institution to which you pledge your shares as collateral

New SAIC or any of its subsidiaries

You should read **Proposal I The Merger Transfer Restrictions on Shares of New Class A Preferred Stock** on page 53 for important details and conditions of transfers to permitted transferees.

**Q47. Why will the sale of my stock be restricted?**

A. The transfer restrictions will permit some period of trading of the new common stock to take place in the market without the potential introduction of a significant number of additional shares, which could negatively affect the price. These restrictions are intended to promote an orderly trading market for our new common stock for a period following the commencement of trading. We have staggered the expiration of the transfer restrictions so that all existing shares do not become freely tradable at the same time.

**Q48. Will any additional transfer restrictions apply to our directors and executive officers?**

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

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

made pursuant to an effective registration statement under the Securities Act

otherwise exempt from registration under the Securities Act

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

Edgar Filing: SAIC, Inc. - Form POS AM

and Bear, Stearns & Co. Inc.

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

**Table of Contents**

**Q49. Will I be permitted to enter into a hedging transaction to avoid the risk of my new class A preferred stock?**

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

*Stock Transactions*

**Q50. Can I buy or sell shares in the limited market before the IPO?**

- A. The last limited market trade prior to the proposed IPO occurred on June 30, 2006. If, however, the IPO is postponed, we intend to conduct a limited market trade at the same time as the retirement plans trades until the IPO process recommences. A retirement plans trade has been scheduled for October 27, 2006 and at least three additional retirement plans trade dates will be announced, at which time limited market trades also may be held if the IPO is postponed.

**Q51. Will Bull, Inc. continue to maintain a limited market after the IPO?**

- A. No. Bull, Inc. was established specifically to administer our limited market trades. Old SAIC's stock transfer and stock plan administration have been outsourced to Mellon Investor Services LLC. After the IPO, subject to the restriction periods set forth above, you will be able to sell shares in the public market.

**Q52. After the IPO, how can I sell my shares of new class A preferred stock? What will be the price?**

- A. If you wish to sell your shares of new class A preferred stock after the restriction periods expire, they will be converted into new common stock when you sell them in the public market. When you sell, you will receive the prevailing market price for your shares.

**Q53. Will I be able to buy more shares in the public market?**

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

**Table of Contents**

**SUMMARY**

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

*Unless otherwise noted, references to years are to fiscal years ended January 31, not calendar years. For example, we refer to the fiscal year ended January 31, 2006 as fiscal 2006. We are currently in fiscal 2007. References to government fiscal years are to fiscal years ended September 30.*

**Overview**

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

From fiscal 2002 to fiscal 2006, our consolidated revenues increased at a compound annual growth rate of 15.6% to a company record of \$7.8 billion, inclusive of acquisitions and exclusive of Telcordia Technologies, Inc., our commercial telecommunications subsidiary, which we divested in March 2005. As of April 30, 2006, we had a portfolio of approximately 9,000 active contracts. Our total consolidated negotiated backlog as of April 30, 2006 was approximately \$15.8 billion, which included funded backlog of approximately \$3.9 billion, compared to approximately \$15.1 billion and \$3.9 billion, respectively, as of January 31, 2006. In May 2006, Washington Technology, a leading industry publication, ranked us number three in its list of Top Federal Prime Contractors in the United States based on information technology (IT), telecommunications and systems integration revenues.

The U.S. Government is our largest customer, in the aggregate representing 89% of our total consolidated revenues in fiscal 2006. According to Congressional Budget Office estimates, U.S. Government total discretionary outlays in government fiscal 2006 will be approximately \$1,035 billion, and we estimate that more than \$200 billion of this amount will be spent in areas in which we compete. We believe that U.S. Government spending in these areas will continue to grow as a result of homeland security and intelligence needs arising from the global war on terror, the ongoing transformation of the U.S. military and the increased reliance on outsourcing by the U.S. Government.

**Competitive Strengths**

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

Skilled personnel and experienced management

Employee ownership and core values

## **Table of Contents**

Knowledge of customers' needs

Technical expertise

Trusted services and solutions provider

Proven marketing and business development organization

Ability to complete and integrate acquisitions

## ***Growth Strategy***

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

## ***Our Services and Solutions***

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

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

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

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

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

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



## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

## **Table of Contents**

We are headquartered in San Diego, California. Our address is 10260 Campus Point Drive, San Diego, California 92121, and our telephone number is (858) 826-6000.

### *New SAIC*

We formed New SAIC as a Delaware corporation on August 12, 2005. To date, it has not conducted any activities other than those incident to its formation, and the preparation of the merger agreement, this proxy statement/prospectus, and the registration statement on Form S-1 with respect to the IPO. Upon completion of the merger, Old SAIC will be a wholly-owned subsidiary of New SAIC.

## **PROPOSAL I THE MERGER**

The first proposal is to approve and adopt an Agreement and Plan of Merger, as amended and restated as of July 24, 2006, among Old SAIC, New SAIC and SAIC Merger Sub, Inc., pursuant to which Old SAIC will become a wholly-owned subsidiary of New SAIC, and the Old SAIC common stock will be converted into the right to receive new class A preferred stock. **Our board of directors unanimously determined that the merger agreement and the merger are advisable and in the best interests of SAIC and its stockholders, and recommends that the stockholders vote FOR the approval and adoption of the merger agreement.**

### *Purposes of the Merger* (see page 49)

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

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

### *How the Merger is Structured* (see page 50)

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

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

## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

**Table of Contents**

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

**Table of Contents**

***What You Will Be Entitled to Receive Pursuant to the Merger*** (see page 50)

When the merger occurs:

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

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

***The Public Offering*** (see page 51)

Soon after the merger is approved, subject to market conditions, we plan to conduct an IPO of new common stock.

After the IPO:

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

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

## **Table of Contents**

### ***The Special Dividend*** (see page 52)

The board of directors of Old SAIC intends to declare a special dividend that will be paid from cash held by Old SAIC to stockholders who will be holders of Old SAIC common stock as of the dividend record date to be set by the board of directors. Payment will be conditioned upon completion of the IPO, and Old SAIC expects to pay the special dividend within 25 days after the IPO. The special dividend is expected to range from approximately \$10 to \$15 per share of Old SAIC class A common stock and from approximately \$200 to \$300 per share of Old SAIC class B common stock, which is the equivalent of a range from approximately \$5 to \$7.50 per share of new class A preferred stock. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not exercise their over-allotment option, by up to approximately \$1 billion.

### ***How We Will Effect the Merger and the Special Dividend*** (see page 52)

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

### ***New SAIC's Restated Certificate of Incorporation*** (see page 52)

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

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

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

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

eliminate our right to repurchase your shares on termination of affiliation

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

### ***Voting Rights*** (see page 53)

## Edgar Filing: SAIC, Inc. - Form POS AM

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

*Listing* (see page 58)

The new class A preferred stock will not be listed on a national securities exchange or traded in the organized over-the-counter market. We have been approved for listing of the new common stock on the New York Stock Exchange under the symbol SAI.

**Table of Contents**

***Conditions to the Merger*** (see page 58)

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

***Material Federal Income Tax Consequences to Stockholders The Merger*** (see page 60)

In the opinion of our outside legal counsel, Heller Ehrman LLP, the exchange of your class A and class B common stock for new class A preferred stock pursuant to the merger will not be a taxable transaction for you for federal income tax purposes.

***Material Federal Income Tax Consequences to Stockholders The Special Dividend*** (see page 60)

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

***Accounting Treatment*** (see page 62)

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

**PROPOSAL II 2006 EQUITY INCENTIVE PLAN**

The second proposal is to approve and adopt the 2006 Equity Incentive Plan. The 2006 Equity Incentive Plan provides for the grant of stock options (including incentive stock options, as defined in section 422 of the Internal Revenue Code, and nonstatutory stock options), restricted stock, restricted stock units, deferred stock, stock appreciation rights, performance shares and other similar types of stock awards, as well as cash awards. **Our board of directors unanimously determined that the 2006 Equity Incentive Plan is in the best interests of SAIC and its stockholders, and recommends that the stockholders vote FOR the approval and adoption of the 2006 Equity Incentive Plan.**

***General*** (see page 65)



## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

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

## **Table of Contents**

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

The 2006 Equity Incentive Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance under the 2006 Equity Incentive Plan without further stockholder approval beginning February 1, 2007 and on each February 1 for nine years thereafter. The number of shares that may be added each year will equal the least of 5% of New SAIC's outstanding common stock as of the preceding January 31 (measured on an as-converted basis with respect to the outstanding shares of new class A preferred stock), 30,000,000 shares or a number of shares determined by our board of directors or the committee of our board of directors administering the 2006 Equity Incentive Plan.

*Administration* (see page 65)

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

*Eligibility* (see page 65)

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

*Federal Income Tax Consequences of Awards* (see page 68)

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

*Accounting Treatment* (see page 70)

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

## **PROPOSAL III 2006 EMPLOYEE STOCK PURCHASE PLAN**

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

## **Table of Contents**

### ***General*** (see page 71)

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

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

The 2006 Employee Stock Purchase Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance without further stockholder approval beginning February 1, 2007 and on each February 1 thereafter for nine more years. The number of shares that may be added each year will equal the least of 9,000,000 shares, 2% of New SAIC's outstanding common stock on the last day of the immediately preceding fiscal year (measured on an as-converted basis with respect to the outstanding shares of new class A preferred stock) or a number of shares established by the compensation committee of our board of directors.

### ***Administration*** (see page 71)

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

### ***Eligibility*** (see page 71)

Generally, any person who is employed by New SAIC, Old SAIC or any of New SAIC's majority-owned subsidiaries designated by our board of directors is eligible to participate, provided that the employee is employed on the first day of an offering period and subject to certain limitations imposed by Section 423(b) of the Internal Revenue Code.

### ***Participation*** (see page 72)

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

*Offering Periods* (see page 72)

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

## **Table of Contents**

### ***Purchase Price*** (see page 72)

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

### ***Payment of Purchase Price; Payroll Deductions*** (see page 72)

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

### ***Holding Period*** (see page 74)

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

### ***Withdrawal*** (see page 74)

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

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

### ***Federal Income Tax Consequences*** (see page 75)

## Edgar Filing: SAIC, Inc. - Form POS AM

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

*Accounting Treatment* (see page 76)

Based on Statement of Financial Accounting Standards No. 123(R), which was adopted on February 1, 2006, New SAIC will recognize compensation expense in connection with the 2006 Employee Stock Purchase Plan. So long as New SAIC continues issuing shares under the 2006 Employee Stock Purchase Plan with a purchase price at a discount to the fair market value of its stock, New SAIC will recognize compensation expense which will be determined by the level of participation in the 2006 Employee Stock Purchase Plan. However, in

**Table of Contents**

certain cases where the purchase price is greater than 95% of the fair market value of the stock subject to the 2006 Employee Stock Purchase Plan, there would be no compensation expense under Statement of Financial Accounting Standards No. 123(R).



---

**Table of Contents**

**THE SPECIAL MEETING**

Date and Time \_\_\_\_\_, 2006, at \_\_\_\_\_

Location \_\_\_\_\_

Meeting Videocast and Webcast For the convenience of our stockholders, the meeting will be videocast to \_\_\_\_\_ and at other locations, and will be webcast on our website (www.saic.com) and on ISSAIC.

Record Date July 7, 2006.

Shares Entitled to Vote Only stockholders of record as of the close of business on the record date will be entitled to vote at the special meeting.

Quorum The presence at the meeting, either in person or by proxy, of the holders of a majority of the total voting power of the shares of Old SAIC common stock outstanding on the record date is necessary to constitute a quorum and to conduct business at the special meeting.

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

Voting Proxies or voting instructions to trustees of retirement plans may be submitted by the Internet, by telephone or by mail in the manner indicated on the proxy and voting instruction card. Proxies and voting instructions may be changed or revoked by:

submitting another proxy or voting instructions with a later date, or

sending a written notice of revocation to our Secretary at our principal executive offices.

Proxies or notices of revocation of proxies must be submitted no later than 11:59 p.m. Eastern time on \_\_\_\_\_, 2006 and voting instructions or notices of revocation of voting instructions must be submitted no later than 11:59 p.m. Eastern time on \_\_\_\_\_, 2006.

If a record holder attends the special meeting and votes by ballot, any proxy that such record holder submitted previously to vote the same shares will be revoked automatically and only the vote at the special meeting will be counted. You must attend the special meeting at \_\_\_\_\_ in order to be entitled to vote in person.

## Edgar Filing: SAIC, Inc. - Form POS AM

None of the proxies or voting instructions received by Old SAIC that accompanied the original proxy statement/prospectus, or received by the Internet or telephone pursuant to instructions in the original proxy

**Table of Contents**

statement/prospectus, for the December 16, 2005 meeting can be voted at the upcoming special meeting. In order for your vote to be counted at the upcoming special meeting, you must submit a new proxy or voting instructions by the Internet, telephone or mail, or vote in person at the meeting.

Confidentiality of Voting

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

Recommendation of the Board of Directors

The board of directors of Old SAIC unanimously recommends that stockholders vote **FOR** approval and adoption of the merger agreement, **FOR** approval and adoption of the 2006 Equity Incentive Plan and **FOR** approval and adoption of the 2006 Employee Stock Purchase Plan.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL DATA**

You should read the summary consolidated financial data presented below in conjunction with *Selected Consolidated Financial Data* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our audited consolidated financial statements, unaudited condensed consolidated financial statements and the related notes included elsewhere in this proxy statement/prospectus. The summary consolidated financial data presented below under *Consolidated Statement of Income Data* for the years ended January 31, 2006, 2005 and 2004 have been derived from our audited consolidated financial statements included elsewhere in this proxy statement/prospectus. The summary consolidated financial data presented below under *Consolidated Statement of Income Data* for the three months ended April 30, 2006 and 2005 and *Consolidated Balance Sheet Data* as of April 30, 2006 have been derived from our unaudited condensed consolidated financial statements that are included elsewhere in this proxy statement/prospectus and have been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

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

	Year Ended January 31			Three Months Ended April 30	
	2006	2005	2004	2006	2005
(in millions, except per share data)					
<b>Consolidated Statement of Income Data:</b>					
Revenues	\$ 7,792	\$ 7,187	\$ 5,833	\$ 1,958	\$ 1,846
Cost of revenues	6,801	6,283	5,053	1,686	1,614
Selling, general and administrative expenses	494	418	378	129	120
Goodwill impairment			7		
Gain on sale of business units, net		(2)			
Operating income	497	488	395	143	112
Net (loss) gain on marketable securities and other investments, including impairment losses	(15)	(16)	5		
Interest income	97	45	49	29	19
Interest expense	(89)	(88)	(80)	(23)	(22)
Other income (expense), net	7	(12)	5	2	(1)
Minority interest in income of consolidated subsidiaries	(13)	(14)	(10)	(3)	(3)
Income from continuing operations before income taxes	484	403	364	148	105
Provision for income taxes	139	131	140	54	50
Income from continuing operations	345	272	224	94	55
Income from discontinued operations, net of tax	582	137	127	12	530

Edgar Filing: SAIC, Inc. - Form POS AM

Net income	\$ 927	\$ 409	\$ 351	\$ 106	\$ 585
------------	--------	--------	--------	--------	--------

**Table of Contents**

	Year Ended January 31			Three Months Ended April 30	
	2006	2005	2004	2006	2005
(in millions, except per share data)					
<b>Earnings per share:</b>					
<b>Basic:</b>					
Income from continuing operations	\$ 1.98	\$ 1.49	\$ 1.22	\$ .56	\$ .31
Income from discontinued operations	3.35	.74	.68	.07	2.96
	<u>\$ 5.33</u>	<u>\$ 2.23</u>	<u>\$ 1.90</u>	<u>\$ .63</u>	<u>\$ 3.27</u>
<b>Diluted:</b>					
Income from continuing operations	\$ 1.92	\$ 1.45	\$ 1.19	\$ .54	\$ .30
Income from discontinued operations	3.23	.73	.67	.07	2.88
	<u>\$ 5.15</u>	<u>\$ 2.18</u>	<u>\$ 1.86</u>	<u>\$ .61</u>	<u>\$ 3.18</u>
<b>Common equivalent shares:</b>					
<b>Basic</b>					
	<u>174</u>	<u>183</u>	<u>185</u>	<u>168</u>	<u>179</u>
<b>Diluted</b>					
	<u>180</u>	<u>188</u>	<u>189</u>	<u>174</u>	<u>184</u>
<b>Pro forma earnings per share:</b>					
<b>Basic: (1)</b>					
Income from continuing operations	\$ .99	\$ .75	\$ .61	\$ .28	\$ .15
Income from discontinued operations	1.67	\$ .37	\$ .34	.04	1.48
	<u>\$ 2.66</u>	<u>\$ 1.12</u>	<u>\$ .95</u>	<u>\$ .32</u>	<u>\$ 1.63</u>
<b>Diluted: (1)(2)</b>					
Income from continuing operations	\$ .96	\$ .73	\$ .59	\$ .27	\$ .15
Income from discontinued operations	1.62	\$ .36	\$ .34	.04	1.44
	<u>\$ 2.58</u>	<u>\$ 1.09</u>	<u>\$ .93</u>	<u>\$ .31</u>	<u>\$ 1.59</u>
<b>Pro forma preferred equivalent shares:</b>					
<b>Basic (1)</b>					
	<u>348</u>	<u>365</u>	<u>370</u>	<u>336</u>	<u>358</u>
<b>Diluted (1)(2)</b>					
	<u>359</u>	<u>375</u>	<u>377</u>	<u>347</u>	<u>367</u>
As of					
<u>April 30, 2006</u>					
(in millions)					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents					\$ 2,717
Working capital					3,051
Total assets					5,686

Long-term debt, net of current portion	1,192
Stockholders' equity	2,962

**Table of Contents**

	Year Ended January 31			Three Months Ended April 30	
	2006	2005	2004	2006	2005
	(dollars in millions)				
<b>Other Data:</b>					
EBITDA (3)	\$ 1,421	\$ 687	\$ 622	\$ 157	\$ 989
Adjusted EBITDA (4)	563	519	438	157	127
Number of contracts generating more than \$10 million in annual revenues (5)	106	91	66	N/A	N/A
	As of January 31			As of April 30	
	2006	2005	2004	2006	
	(dollars in millions)				
Total consolidated negotiated backlog (6)	\$ 15,062	\$ 13,416	\$ 10,901	\$ 15,764	
Total consolidated funded backlog (6)	3,888	3,646	3,355	3,932	
Total number of employees (7)	43,600	42,400	39,300	43,300	

- (1) For the periods noted, the pro forma basic and diluted earnings per share and pro forma basic and diluted preferred equivalent shares reflect the conversion of each share of class A common stock outstanding into two shares of new class A preferred stock and each share of class B common stock outstanding into 40 shares of new class A preferred stock. The pro forma basic and diluted earnings per share and pro forma preferred equivalent shares do not reflect the dilutive effect of the payment of the special dividend as the final dividend has not been declared and the offering price of the new common stock has not been determined.
- (2) The pro forma diluted earnings per share and pro forma diluted preferred equivalent shares include the effect of converting the dilutive securities on the same basis as the class A common stock. The pro forma dilutive preferred equivalent shares are comprised of preferred stock options and other preferred stock awards granted to employees under stock-based compensation plans that were outstanding during the periods noted.
- (3) EBITDA is defined as net income plus income tax expense, net interest expense, and depreciation and amortization expense. EBITDA is considered a non-GAAP financial measure. We believe that EBITDA is an important measure of our performance and is a useful supplement to net income and other income statement data. We believe EBITDA is useful to management and investors in comparing our performance to that of other companies in our industry, since it removes the impact of (a) differences in capital structure, including the effects of interest income and expense, (b) differences among the tax regimes to which we and comparable companies are subject and (c) differences in the age, method of acquisition and approach to depreciation and amortization of productive assets. However, because other companies may calculate EBITDA differently than we do, it may be of limited usefulness as a comparative measure. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments, (b) EBITDA does not reflect changes in, or cash requirements for, our working capital needs, (c) EBITDA does not reflect the interest expense, or the cash requirements necessary to service our principal payments, on our debt, (d) EBITDA does not reflect income taxes or the cash requirements for any tax payments, and (e) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

The following is a reconciliation of EBITDA to net income.

	Year Ended January 31			Three Months Ended April 30	
	2006	2005	2004	2006	2005
	(dollars in millions)				



Edgar Filing: SAIC, Inc. - Form POS AM

					(in millions)
Net income	\$ 927	\$ 409	\$ 351	\$ 106	\$ 585
Interest income	(97)	(45)	(49)	(29)	(19)
Interest expense	89	88	80	23	22
Provision for income taxes	432	149	159	42	385
Depreciation and amortization	70	86	81	15	16
EBITDA	\$ 1,421	\$ 687	\$ 622	\$ 157	\$ 989

- (4) Adjusted EBITDA equals EBITDA minus income from discontinued operations before income taxes and gain on sale of business units and subsidiary common stock, plus goodwill impairment, net gain or (loss) on marketable securities and other investments including impairment losses and investment activities by our venture capital subsidiary. We utilize and present Adjusted EBITDA as a further

**Table of Contents**

supplemental measure of our performance. We prepare Adjusted EBITDA to eliminate the impact of items we do not consider indicative of ongoing operating performance. You are encouraged to evaluate each adjustment and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA.

The following is a reconciliation of Adjusted EBITDA to EBITDA.

	Year Ended January 31			Three Months Ended April 30	
	2006	2005	2004	2006	2005
	(in millions)				
EBITDA	\$ 1,421	\$ 687	\$ 622	\$ 157	\$ 989
Income from discontinued operations, net of tax	(582)	(137)	(127)	(12)	(530)
Depreciation and amortization of discontinued operations		(30)	(44)		
Provision for income taxes of discontinued operations	(293)	(18)	(19)	12	(335)
Gain on sale of business units and subsidiary common stock		(2)			
Goodwill impairment			7		
Net loss (gain) on marketable securities and other investments, including impairment losses	15	16	(5)		2
Investment activities by venture capital subsidiary	2	3	4		1
Adjusted EBITDA	\$ 563	\$ 519	\$ 438	\$ 157	\$ 127

- (5) Number of contracts from which we recognized more than \$10 million in annual revenues in the period presented.
- (6) Total consolidated negotiated backlog consists of funded backlog and negotiated unfunded backlog. Funded backlog represents the portion of backlog for which funding currently is appropriated or otherwise authorized and is payable to us upon completion of a specified portion of work, less revenues previously recognized. Our funded backlog does not include the full potential value of our contracts because the U.S. Government and our other customers often appropriate or authorize funds for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a number of years. Negotiated unfunded backlog represents (a) firm orders for which funding has not been appropriated or otherwise authorized and (b) unexercised contract options. When a definitive contract or contract amendment is executed and funding has been appropriated or otherwise authorized, funded backlog is increased by the difference between the funded dollar value of the contract or contract amendment and the revenues recognized to date. Negotiated unfunded backlog does not include any estimate of future potential task orders that might be awarded under (a) indefinite delivery / indefinite quantity contract vehicles, (b) government-wide acquisition contract vehicles or (c) U.S. General Services Administration Schedule contract vehicles. See Risk Factors Risks Relating to Our Business We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our future revenues and growth prospects, Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Metrics Sources of Revenues Backlog and Business Contracts Backlog.
- (7) Includes full-time and part-time employees and excludes employees of our former Telcordia Technologies, Inc. subsidiary.

**Table of Contents**

**RISK FACTORS**

*You should carefully consider the risks and uncertainties described below in your evaluation of the transactions, our business and us. If any of these risks or uncertainties actually occur, our business, financial condition or operating results could be materially harmed and the price of our stock could decline.*

**Risks Relating to the Transactions and Our Stock**

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

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

series A-1 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until 90 days after our IPO

series A-2 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until 180 days after our IPO

series A-3 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until 270 days after our IPO

series A-4 preferred stock may not be transferred to anyone other than a permitted transferee or converted into new common stock until 360 days after our IPO

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

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

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

## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

actual or anticipated variations in quarterly operating results

**Table of Contents**

changes in financial estimates by us, by investors or by any financial analysts who might cover our stock

our ability to meet the performance expectations of financial analysts or investors

negative publicity regarding us, including relating to poor performance on a particular contract, employee misconduct or information security breaches

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

changes in market valuations of other companies in our industry

the expiration of the applicable restriction periods to which the class A preferred stock is subject, which could result in additional shares of our common stock being sold in the market

general market and economic conditions

announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures

additions or departures of key personnel

sales of our common stock, including sales by our directors and officers or our principal stockholders

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

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

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

Before the merger, the board of directors of Old SAIC intends to declare a special dividend that will be paid from cash held by Old SAIC to stockholders who will be holders of Old SAIC common stock as of the dividend record date to be set by the board of directors. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not exercise their over-allotment option, by up to approximately \$1 billion. As a result of the payment of the special dividend, we will have less cash available for working capital, capital spending and possible investments and acquisitions.

## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal controls over financial reporting in accordance with an established internal control framework and to

## **Table of Contents**

report on our conclusion as to the effectiveness of our internal controls. It also requires our independent registered public accounting firm to test our internal controls over financial reporting and report on the effectiveness of such controls as of January 31, 2008. Our independent registered public accounting firm is also required to test, evaluate and report on management's assessment of internal control.

In the second quarter of fiscal 2005, we reported the existence of a material weakness in our internal controls relating to income tax accounting. During a review and reconciliation of our worldwide income tax liabilities, we identified an overstatement of income tax expense of \$13 million related to fiscal 2003 (which was corrected in an amendment to our Annual Report on Form 10-K for fiscal 2004). Although we believe we have remediated this weakness, similar or other weaknesses may be identified. If we conclude that our controls are not effective or if our independent registered public accounting firm concludes that either our controls are not effective or that we did not appropriately document and test our controls, investors could lose confidence in, or otherwise be unable to rely on, our reported financial information, which could adversely affect the trading price of our new common stock.

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

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

The number of shares of new common stock to be sold in the IPO has not been determined, but it is expected to range from 10% to 20% of the total outstanding capital stock of New SAIC after the IPO. These shares will be freely transferable without restriction or further registration under the Securities Act. In addition, based on the number of shares of class A and class B common stock of Old SAIC outstanding as of the record date, approximately 326,216,092 shares of new class A preferred stock are expected to be outstanding as a result of the merger. The holders of our new class A preferred stock have owned their shares for many years and have not had access to a public market in which to sell their shares. After the restriction periods expire, shares of new class A preferred stock will be convertible on a one-for-one basis into shares of new common stock. A significant number of holders of our new class A preferred stock may convert their shares to take advantage of the public market in new common stock. Subject to certain limitations, those shares of new common stock will be freely tradable without restriction following the expiration of the transfer restriction periods. In addition to outstanding shares eligible for sale, additional shares of our new class A preferred stock will be issuable upon completion of the IPO under currently outstanding stock options. Substantial sales of these shares could adversely affect the market value of the new common stock.

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

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

Our restated certificate of incorporation provides for new class A preferred stock, which initially will give our founders, executive officers, employees and directors and their respective affiliates voting





## **Table of Contents**

control over all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as a merger or other sale of our company or its assets. This concentrated control could discourage others from initiating any potential merger, takeover or other business combination that other stockholders may view as beneficial.

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

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

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

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

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

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

## **Risks Relating to Our Business**

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

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



## **Table of Contents**

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

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

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

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

As of April 30, 2006, our total consolidated negotiated backlog was \$15.8 billion, which included \$3.9 billion in funded backlog (for information regarding our historical backlog levels, see Business Contracts Backlog ). The U.S. Government's ability not to exercise contract options or to modify, curtail or terminate our major programs or contracts makes the calculation of backlog subject to numerous uncertainties. Due to the uncertain nature of our contracts with the U.S. Government and the rights of our customers in our Commercial segment to cancel contracts and purchase orders in certain circumstances, we may never realize revenues from some of the engagements that are included in our backlog. Our unfunded backlog, in particular, contains amounts that we may never realize as revenues because the maximum contract value specified under a U.S. Government contract or task order awarded to us is not necessarily indicative of the revenues that we will realize under that contract. If we fail to realize as revenues amounts included in our backlog, our future revenue and growth prospects may be adversely affected.

*The U.S. Government has increasingly relied on certain types of contracts that are subject to a competitive bidding process. Due to this competitive pressure, we may be unable to sustain our revenue growth and profitability.*

The U.S. Government has increasingly been using contract vehicles, such as indefinite delivery/indefinite quantity (IDIQ), government-wide acquisition contracts (GWACs) and General Services Administration (GSA) Schedule contract vehicles, to obtain commitments from contractors to provide various products or services on pre-established terms and conditions. Under these contracts, the U.S. Government issues task orders for specific services or products it needs and the contractor supplies these products or services in accordance with the previously agreed terms. These contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling but not committing the U.S. Government to purchase substantial amounts of products and services from one or more contractors. These contracts are typically subject to a competitive bidding process that results in greater competition and increased pricing pressure. Accordingly, we may not be able to realize revenues and/or

---

**Table of Contents**

maintain our historical profit margins under these contracts. The competitive bidding process also presents a number of more general risks, including the risk of unforeseen technological difficulties and cost overruns that may result from our bidding on programs before completion of their design and the risk that we may encounter expense, delay or modifications to previously awarded contracts as a result of our competitors protesting or challenging contracts awarded to us in competitive bidding. Our failure to compete effectively in this procurement environment would adversely affect our revenues and/or profitability.

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

Our revenues are generated from either the efforts of our technical staff, which we refer to as labor-related revenues, or the receipt of payments for the costs of materials and subcontracts used in a project, which we refer to as material and subcontract (M&S) revenues. Generally, our M&S revenues have lower profit margins than our labor-related revenues. Our labor-related revenues increased by 6% from fiscal 2005 to 2006, by 16% from fiscal 2004 to 2005 and by 16% from fiscal 2003 to 2004, while our M&S revenues increased by 13% from fiscal 2005 to 2006, by 39% from fiscal 2004 to 2005 and by 32% from fiscal 2003 to 2004. M&S revenues accounted for 37%, 36% and 32% of our total consolidated revenues for fiscal 2006, 2005 and 2004, respectively, and labor-related revenues accounted for 63%, 64% and 68% of our total consolidated revenues for fiscal 2006, 2005 and 2004, respectively. If M&S revenues continue to grow at a faster rate than labor-related revenues, our overall profit margins on our contracts may decrease and our profitability could be adversely affected.

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

Revenues under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented 69% of our total consolidated revenues in fiscal 2006. Changes in the budgetary priorities of the U.S. Government or the DoD could directly affect our operating results. For example, the U.S. defense budget declined in the late 1980s and the early 1990s, resulting in a slowing of new program starts, program delays and program cancellations. These reductions caused most defense-related government contractors to experience declining revenues, increased pressure on operating margins and, in some cases, net losses. While spending authorizations for defense-related programs by the U.S. Government have increased in recent years, and in particular after the September 11, 2001 terrorist attacks, these spending levels may not be sustainable, and future levels of spending and authorizations for these programs may decrease, remain constant or shift to programs in areas where we do not currently provide services. Such changes in spending authorizations and budgetary priorities could occur due to the significant relief and recovery costs associated with natural disasters, the rapid growth of the federal budget deficit, increasing political pressure to reduce overall levels of government spending, or other factors. The U.S. Government conducted a strategic review of the U.S. defense budget in government fiscal 2005 and 2006, known as the Quadrennial Defense Review (QDR), and the results of this strategic review may result in shifts in DoD budgetary priorities or reductions in overall U.S. Government spending for defense-related programs, including with respect to programs from which we expect to derive a significant portion of our revenues. A significant decline in overall U.S. Government spending, including in the areas of national security, defense transformation, intelligence and homeland security, or a significant shift in its spending priorities, or the substantial reduction or elimination of particular defense-related programs, would adversely affect our future revenues and limit our growth prospects.

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

In years when the U.S. Government does not complete its budget process before the end of its fiscal year on September 30, government operations are typically funded pursuant to a continuing resolution that



## **Table of Contents**

authorizes agencies of the U.S. Government to continue to operate, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of our services and solutions. We have from time to time experienced a decline in revenues in our quarter ending January 31 as a result of this annual budget cycle, and we could experience similar declines in revenues if the budget process is delayed significantly in future periods. For example, the delay in the approval of a supplemental spending bill in 2006 resulted in procurement delays by the U.S. Government. Similar delays could have an adverse effect on our future revenues.

### ***Our financial results may vary significantly from period-to-period.***

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

a reduction of government funding or delay in the completion of the U.S. Government's budget process

decisions by the U.S. Government not to exercise contract options or to modify, curtail or terminate our major programs or contracts

the potential decline in our overall profit margins if our material and subcontract revenues grow at a faster rate than labor-related revenues

failure to accurately estimate or control costs under firm fixed price (FFP) contracts

adverse judgments or settlements in legal disputes

expenses related to acquisitions, mergers or joint ventures

other one-time financial charges

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

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

## Edgar Filing: SAIC, Inc. - Form POS AM

\$234 million have been issued. Under the terms of these bonding arrangements, the Greek government could call these standby letters of credit at any time by submitting a written statement to the guaranteeing bank that we have not fulfilled our obligations under the contract. If this occurs, the banks issuing the letters of credit supporting these bonding arrangements will be entitled to immediate payment from us for the amount obtained from the guaranteeing banks by the Greek government, reducing our cash balances. Although we believe that any amounts obtained by the Greek government through the calling of these letters of credit may be retained by the Greek government only as security against any actual damages it proves in arbitration, if the

---

**Table of Contents**

Greek government does call these letters of credit, we can make no assurances as to whether we will be successful in arbitration or able to recover amounts owed from the Greek government.

Although we have been in discussions with the Greek government and our principal subcontractor to attempt to resolve these issues, we may not be able to reach mutually acceptable agreements, and we cannot predict the financial impact on us of the resolution of these issues. On April 21, 2006, we instituted arbitration proceedings before the International Chamber of Commerce to pursue our rights and remedies related to this contract. Under the terms of the contract, disputes are subject to ultimate resolution by binding arbitration before a panel of three Greek arbitrators in Greece. We have received \$147 million of payments from the Greek government under the contract and recognized as revenues only \$119 million of the total system price of \$199 million. Even though the Greek government requested an extension of time in which to submit its answer to our arbitration complaint and we have continued efforts to attempt to negotiate a contract modification, the Greek government may file a counterclaim against us in the arbitration for damages, which could include reprocurement costs, repayment of amounts paid under the contract and penalties for delayed delivery and other types of damages. Due to the early stage of the arbitration, the amount of any claims that the Greek government may assert against us in the arbitration is not known. As of April 30, 2006, we have recorded \$121 million of losses on this contract and unfavorable resolution of this matter could further adversely affect our profitability and cash balances. See Management's Discussion and Analysis of Financial Condition and Results of Operations Commitments and Contingencies Firm Fixed-Price Contract with the Greek Government and Note 19 of the notes to consolidated financial statements for fiscal 2006.

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

Revenues from our contracts are primarily recognized using the percentage-of-completion method based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimates of total costs at completion. Estimating costs at completion on our long-term contracts, particularly due to the technical nature of the services being performed, is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimate is recognized as events become known. Should updated estimates indicate that we will experience a loss on the contract, we recognize the estimated loss at the time it is determined. Additional information may subsequently indicate that the loss is more or less than initially recognized, which requires further adjustments in our consolidated financial statements, as was the case with the Greek contract. Due to the size of many of our contracts, changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect future financial results.

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

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



## **Table of Contents**

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

The availability of highly trained and skilled technical, professional and management personnel is critical to our future growth and profitability. Competition for scientists, engineers, technicians and professional and management personnel is intense and competitors aggressively recruit key employees. Because of our growth and increased competition for experienced personnel, particularly in highly specialized areas, it has become more difficult to meet all of our needs for these employees in a timely manner and this may affect our growth in the current fiscal year. Although we intend to continue to devote significant resources to recruit, train and retain qualified employees, we may not be able to attract and retain these employees. Any failure to do so would have an adverse effect on our ability to execute our strategy.

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

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

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

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

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

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

## Edgar Filing: SAIC, Inc. - Form POS AM

We must comply with laws and regulations relating to the formation, administration and performance of U.S. Government contracts, which affect how we do business with our customers. Such laws and regulations may

## **Table of Contents**

potentially impose added costs on our business and our failure to comply with them may lead to penalties and the termination of our U.S. Government contracts. Some significant regulations that affect us include:

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

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

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

The U.S. Government may revise its procurement practices or adopt new contract rules and regulations, such as cost accounting standards, at any time. In addition, the U.S. Government may face restrictions or pressure from government employees and their unions regarding the amount of services the U.S. Government may obtain from private contractors. Any of these changes could impair our ability to obtain new contracts or contracts under which we currently perform when those contracts are put up for recompetition bids. Any new contracting methods could be costly or administratively difficult for us to implement and could adversely affect our future revenues.

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

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

U.S. Government agencies routinely audit and review their contractors' performance on contracts, cost structure, pricing practices and compliance with applicable laws, regulations and standards. They also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Such audits may result in adjustments to our contract costs, and any costs found to be improperly allocated will not be reimbursed. To date, none of our audits have resulted in material adjustments and all of our indirect contract costs have been agreed upon through fiscal 2003 and are not subject to further adjustment. We have recorded contract revenues in fiscal 2006, 2005 and 2004 based upon costs we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments and, if future audit adjustments exceed our estimates, our profitability could be adversely affected.

***If we are unable to accurately estimate the costs, time and resources, or to effectively manage and control costs, associated with various contractual commitments, our profitability may be adversely affected.***

## Edgar Filing: SAIC, Inc. - Form POS AM

Over the last three fiscal years, an average of 18% of our total consolidated revenues were derived from FFP and target cost and fee with risk sharing contracts, in which we bear risk that our actual costs may exceed the

---

**Table of Contents**

estimated costs on which the prices are negotiated. Under FFP contracts, we agree to fulfill our obligations at a set price. Under target cost and fee with risk sharing contracts, customers reimburse our costs plus a specified or target fee or profit, if our actual costs equal a negotiated target cost. Under such contracts, if our actual costs exceed the target costs, our target fee and cost reimbursement are reduced by a portion of the cost overrun. When making proposals for engagements on these types of contracts, we rely heavily on our estimates of costs and timing for completing the associated projects, as well as assumptions regarding technical issues. In each case, our failure to accurately estimate costs or the resources and technology needed to perform our contracts or to effectively manage and control our costs during the performance of our work could result, and in some instances, including the Greek contract, has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in connection with the performance of these contracts, including costs and delays caused by contractual disputes or other factors outside of our control, could make these contracts less profitable or unprofitable. We have recorded losses on FFP contracts from time to time, including the Greek contract. Future losses could have a material adverse effect on our profitability.

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

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

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

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

we may not be able to compete successfully for available acquisition candidates, complete future acquisitions and investments or accurately estimate the financial effect of acquisitions and investments on our business

future acquisitions, investments and joint ventures may require us to issue capital stock or spend significant cash or may result in a decrease in our operating income or operating margins and we may be unable to recover investments made in any such acquisitions

we may have trouble integrating acquired businesses or retaining their personnel or customers

acquisitions, investments or joint ventures may disrupt our business and distract our management from other responsibilities

## **Table of Contents**

we may not be able to effectively influence the operations of our joint ventures, which could adversely affect our operations

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

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

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

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

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

We are subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, intruders or hackers, computer viruses, natural disasters, power shortages or terrorist attacks. Through fiscal 2008, we will be making significant changes to our internal financial systems, which could also subject us to systems failures. Any such failures could cause loss of data and interruptions or delays in our or our customers' businesses and could damage our reputation. In addition, the failure or disruption of our communications or utilities could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our future results could be adversely affected.

## **Table of Contents**

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

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

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

*We face risks associated with our international business.*

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

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

the imposition of tariffs

hyperinflation or economic or political instability in foreign countries

imposition of limitations on or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures

conducting business in places where laws, business practices and customs are unfamiliar or unknown

the imposition of restrictive trade policies

the imposition of inconsistent laws or regulations

## Edgar Filing: SAIC, Inc. - Form POS AM

the imposition or increase of investment and other restrictions or requirements by foreign governments

uncertainties relating to foreign laws and legal and arbitration proceedings

compliance with a variety of U.S. laws, including the Foreign Corrupt Practices Act

compliance with U.S. export control regulations and policies that restrict our ability to communicate with non-U.S. employees and supply foreign affiliates and customers

compliance with licensing requirements

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



**Table of Contents**

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

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

Our business is highly competitive in both the Government and Commercial segments. We compete with larger companies that have greater name recognition, financial resources and larger technical staffs. We also compete with smaller, more specialized entities that are able to concentrate their resources on particular areas. In the Government segment, we also compete with the U.S. Government's own capabilities and federal non-profit contract research centers. To remain competitive, we must provide superior service and performance on a cost-effective basis to our customers.

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

As of April 30, 2006, we had approximately \$1.2 billion in notes payable and long-term debt. The terms of the credit facilities place certain limitations on our ability to undertake extraordinary corporate transactions, such as a sale of significant assets. As a result, it may be more difficult for us to take these actions and the interests of our creditors in such transactions may be different from the interests of our stockholders. Additionally, the existence of this debt may make it more difficult for us to borrow additional amounts at favorable rates. For additional information regarding our existing indebtedness, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Outstanding Indebtedness.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus, including the sections entitled Questions and Answers, Summary, Risk Factors, Forward-Looking Statements, Proposal I The Merger, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Business, contains forward-looking statements that are based on our management's belief and assumptions about the future in light of information currently available to our management. These statements relate to the proposed merger, IPO and special dividend, as well as to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to:

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

changes in U.S. Government procurement rules and regulations

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

the outcome of U.S. Government audits of our company

our ability to win contracts with the U.S. Government and others

our ability to attract, train and retain skilled employees

our ability to maintain relationships with prime contractors, subcontractors and joint venture partners

our ability to obtain required security clearances for our employees

our ability to accurately estimate costs associated with our firm fixed price and other contracts

resolution of legal and other disputes with our customers and others, including our ability to resolve issues related to the Greek contract

our ability to acquire businesses and make investments

our ability to manage risks associated with our international business

our ability to compete with others in the markets in which we operate

## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

**Table of Contents**

**THE SPECIAL MEETING, VOTING AND PROXIES**

**Date, Time and Place**

The special meeting will be held at \_\_\_\_\_, on \_\_\_\_\_, 2006, at \_\_\_\_\_ (local time). For the convenience of our stockholders, the meeting will be videocast to \_\_\_\_\_ and at other locations, and will be webcast on our website (www.saic.com) and on ISSAIC.

**Purpose of the Special Meeting**

At the special meeting, the stockholders of Old SAIC are being asked to consider and vote upon: (1) an Agreement and Plan of Merger, as amended and restated as of July 24, 2006, among Old SAIC, New SAIC and SAIC Merger Sub, Inc., pursuant to which Old SAIC will become a wholly-owned subsidiary of New SAIC, and each outstanding share of class A common stock will be converted into the right to receive two shares of new class A preferred stock and each outstanding share of class B common stock will be, subject to the exercise of appraisal rights, converted into the right to receive 40 shares of new class A preferred stock; (2) the 2006 Equity Incentive Plan; and (3) the 2006 Employee Stock Purchase Plan.

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

**Votes Required to Approve the Proposals**

A majority in voting power of all issued and outstanding shares of Old SAIC common stock entitled to vote is required for adoption of the merger agreement, and a majority in voting power of the issued and outstanding shares of Old SAIC common stock present in person or by proxy at the special meeting and entitled to vote thereon is required for approval of the 2006 Equity Incentive Plan and the 2006 Employee Stock Purchase Plan.

**Record Date and Shares Outstanding**

Stockholders of record of class A common stock and class B common stock as of the close of business on July 7, 2006, the record date, are entitled to notice of, and to vote at, the special meeting.

As of the record date, Old SAIC had 159,073,906 shares of class A common stock and 201,707 shares of class B common stock outstanding. Old SAIC has no other class of capital stock outstanding. The Old SAIC class A common stock and the class B common stock vote together as a

single class on all proposals.

**Quorum and Abstentions**

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

## **Table of Contents**

### **Votes Per Share**

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

### **Methods for Voting**

To ensure that your vote is recorded promptly, please submit your proxy or voting instructions as soon as possible, even if you plan to attend the special meeting in person. Most stockholders have three options for submitting their proxy or voting instructions: (1) by the Internet by following the instructions at [www.proxyvote.com](http://www.proxyvote.com), (2) by telephone by calling 1-800-690-6903 and following the instructions or (3) by mail by signing and returning the proxy and voting instruction card in the enclosed postage-paid envelope. Proxies must be submitted no later than 11:59 p.m. Eastern time on \_\_\_\_\_, 2006, and voting instructions to trustees of retirement plans must be submitted no later than 11:59 p.m. Eastern time on \_\_\_\_\_, 2006. If you have Internet access, we encourage you to record your proxy or voting instructions on the Internet. It is convenient, and it saves us significant postage and processing costs.

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

None of the proxies or voting instructions received by Old SAIC that accompanied the original proxy statement/prospectus, or received by the Internet or telephone pursuant to instructions in the original proxy statement/prospectus, for the December 16, 2005 meeting can be voted at the upcoming special meeting. In order for your vote to be counted at the upcoming special meeting, you must submit a new proxy or voting instructions by the Internet, telephone or mail, or vote in person at the meeting.

### **Revocation of Proxies or Voting Instructions and Voting in Person**

You may revoke or change your proxy or voting instructions by submitting another proxy or voting instructions with a later date, or by sending a written notice of revocation to our Secretary at our principal executive offices. Revocations or changes in proxies must be submitted no later than 11:59 p.m. Eastern time on \_\_\_\_\_, 2006, and revocations or changes in voting instructions must be submitted no later than 11:59 p.m. Eastern time on \_\_\_\_\_, 2006. If you attend the special meeting and vote by ballot, any proxy that you submitted previously to vote the same shares will be revoked automatically and only your vote at the special meeting will be counted. You must attend the special meeting at \_\_\_\_\_ in order to be entitled to vote in person.

### **Voting of Shares Held by the SAIC Retirement Plans**

## Edgar Filing: SAIC, Inc. - Form POS AM

Each participant in the SAIC Retirement Plan, the Telcordia Technologies 401(k) Savings Plan of Telcordia Technologies, Inc., a wholly-owned subsidiary of SAIC until its sale on March 15, 2005, and the AMSEC Employees 401(k) Profit Sharing Plan of AMSEC LLC, a joint venture in which SAIC owns 55%, has the right to instruct Vanguard Fiduciary Trust Company, as trustee, on a confidential basis how to vote his or her

## **Table of Contents**

proportionate interests in all allocated shares of common stock held in the plans. The trustee will vote all allocated shares held in the plans as to which no voting instructions are received, together with all unallocated shares held in the plans, in the same proportion, on a plan-by-plan basis, as the allocated shares for which voting instructions have been received. The trustee's duties with respect to voting the common stock in the plans are governed by the fiduciary provisions of the Employee Retirement Income Security Act of 1974, as amended.

### **Voting of Shares Held by the SAIC Stock Plans**

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

### **Confidentiality of Voting**

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

### **Solicitation**

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



**Table of Contents**

**PROPOSAL I THE MERGER**

**Purposes of the Merger**

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

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

Enable us to use our cash and cash flows generated from operations to fund internal growth and growth through acquisitions. Although we had no legal obligation to do so, over the five fiscal years ended January 31, 2006 we used more than \$2.4 billion of cash to provide liquidity to our stockholders by purchasing shares in our limited secondary market and in other transactions. We have maintained excess cash to address this ongoing imbalance in our stock system caused by more shares sold by selling stockholders than the number of shares purchased by buyers other than us. We expect that this significant stock system imbalance, and the related need to maintain excess cash, would continue for the foreseeable future without the IPO. Creating a public market for our common stock will eliminate our use of cash to provide liquidity to our stockholders by repurchasing their shares in the limited market or in other transactions.

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

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

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

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



## **Table of Contents**

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

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

## **How the Merger is Structured**

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

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

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

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

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

## **What You Will Be Entitled to Receive Pursuant to the Merger**

When the merger occurs:

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

## Edgar Filing: SAIC, Inc. - Form POS AM

All of the class A and class B common stock you currently own will be converted into and allocated among four series of new class A preferred stock on the following basis:

20 percent will be designated series A-1 preferred stock

20 percent will be designated series A-2 preferred stock

30 percent will be designated series A-3 preferred stock

30 percent will be designated series A-4 preferred stock

## **Table of Contents**

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

400 shares of series A-1 preferred stock

400 shares of series A-2 preferred stock

600 shares of series A-3 preferred stock

600 shares of series A-4 preferred stock

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

8,000 shares of series A-1 preferred stock

8,000 shares of series A-2 preferred stock

12,000 shares of series A-3 preferred stock

12,000 shares of series A-4 preferred stock

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

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

## **The Public Offering**

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

## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

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

## **Table of Contents**

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

the history of and prospects for our industry and for professional and technical services companies generally

an assessment of our management

our current operations

our historical results of operations

the trend of our revenues and earnings

our earnings prospects

## **The Special Dividend**

The board of directors of Old SAIC intends to declare a special dividend that will be paid from cash held by Old SAIC to stockholders who will be holders of Old SAIC common stock as of the dividend record date to be set by the board of directors. Payment will be conditioned upon completion of the IPO, and Old SAIC expects to pay the special dividend within 25 days after the IPO. The special dividend is expected to range from approximately \$10 to \$15 per share of Old SAIC class A common stock and from approximately \$200 to \$300 per share of Old SAIC class B common stock, which is the equivalent of a range from approximately \$5 to \$7.50 per share of new class A preferred stock. The special dividend could exceed the net proceeds from the IPO, assuming the underwriters do not exercise their over-allotment option, by up to approximately \$1 billion.

## **How We Will Effect the Merger and the Special Dividend**

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

Prior to the merger, the board of directors of Old SAIC intends to declare a special dividend on Old SAIC common stock. Payment will be conditioned upon completion of the IPO, and Old SAIC expects to pay the special dividend within 25 days after the IPO.

## **New SAIC's Restated Certificate of Incorporation**

New SAIC's restated certificate of incorporation will:

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

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



## **Table of Contents**

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

eliminate our right to repurchase your shares on termination of affiliation

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

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

## **Voting Rights**

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

## **Transfer Restrictions on Shares of New Class A Preferred Stock**

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

90 days after our IPO for shares of series A-1 preferred stock

180 days after our IPO for shares of series A-2 preferred stock

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

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

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

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

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

A permitted transferee includes:

an immediate family member of the transferor

**Table of Contents**

a trust for the sole benefit of the transferor or an immediate family member of the transferor, and the transferor or any immediate family member of the transferor who receives shares of new class A preferred stock from any such trust

an individual retirement account that receives shares of new class A preferred stock, provided that (1) the transferor is an employee benefit plan sponsored by New SAIC or any of its subsidiaries, (2) the transferor is a distributee of an employee benefit plan sponsored by New SAIC or any of its subsidiaries, or (3) the transferor is an individual retirement account for the benefit of a distributee of an employee benefit plan sponsored by New SAIC or any of its subsidiaries

the beneficial owner of an individual retirement account, provided that the transferor is such individual retirement account

the estate of a deceased holder of shares, provided that such transfer was pursuant to the deceased holder's will or the laws of distribution

the beneficiary of an estate of a deceased holder of shares, provided that the transferor is such estate and such beneficiary is the immediate family member of the deceased or a trust for the sole benefit of such immediate family member

an employee benefit plan sponsored by New SAIC or any of its subsidiaries

a lending institution in connection with a pledge of shares and such shares are pledged as bona fide collateral for a loan to the transferor

New SAIC or any of its subsidiaries

any distributee of an employee benefit plan sponsored by New SAIC or any of its subsidiaries pursuant to the terms of such plan, provided that the transferor is such employee benefit plan

an employee of New SAIC or any of its subsidiaries, provided that the transferor is New SAIC or any of its subsidiaries

**Interests of Our Directors and Executive Officers in the Merger**

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

*Directors and Executive Officers of New SAIC*

As a condition to the closing of the merger, the directors and executive officers of Old SAIC immediately before the merger will become the directors and executive officers of New SAIC. New SAIC has not paid its directors or executive officers for their service since its formation, and

## Edgar Filing: SAIC, Inc. - Form POS AM

has not entered into any employment, severance or other agreements with its executive officers. We anticipate, however, that New SAIC's compensation policies will be substantially similar to Old SAIC's compensation policies. See Management Director Compensation for information related to the compensation of the directors and Executive Compensation for information related to the compensation of, and agreements with, the executive officers of Old SAIC.

**Table of Contents***Stock, Options and Employee Benefits*

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

Assuming that the IPO is completed, we estimate that the following dollar amounts will be paid to the current directors and named executive officers of Old SAIC (defined on page 144) as part of the special dividend:

<u>Name</u>	<b>Estimated Range of Dividend(1)(2)</b>	
	<u>Minimum</u>	<u>Maximum</u>
K.C. Dahlberg	\$2,909,270	\$4,363,905
W.H. Demisch	1,314,040	1,971,060
J.A. Drummond	110,620	165,930
D.H. Foley	1,938,210	2,907,315
J.J. Hamre	23,900	35,850
A.K. Jones	662,240	993,360
H.M.J. Kraemer, Jr.	1,026,440	1,539,660
W.A. Roper, Jr.	3,521,800	5,282,700
E.J. Sanderson, Jr.	158,970	238,455
L.A. Simpson		
G.T. Singley	800,000	1,200,000
J.P. Walkush	2,557,070	3,835,605
J.H. Warner, Jr.	3,642,020	5,463,030
A.T. Young	849,990	1,274,985

- (1) The estimated range of dividend assumes that the board of directors of Old SAIC declares a special cash dividend payable to holders of record of Old SAIC common stock prior to the merger, and that the special dividend ranges from approximately \$10 to \$15 per share of Old SAIC class A common stock and approximately \$200 to \$300 per share of Old SAIC class B common stock.
- (2) The estimated dividend is based on beneficial ownership of Old SAIC common stock as of July 7, 2006 and assumes that shares subject to options exercisable within 60 days following July 7, 2006 will be exercised on or before the record date for the special dividend.

For more information, see [Principal Stockholders](#) concerning the beneficial ownership of shares of class A common stock as of July 7, 2006 by each of our current directors and named executive officers, and [Executive Compensation](#) concerning the compensation of, and arrangements with, our named executive officers.

The merger will not impact any unvested equity awards held by members of our board of directors and executive officers. In addition to their current stock and option holdings under the compensation plans of Old SAIC, our directors and executive officers will be entitled to participate in the 2006 Equity Incentive Plan and the 2006 Employee Stock Purchase Plan, if they are approved by our stockholders, and any other benefit and compensation plans of New SAIC.

*Indemnification and Insurance*

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

## Table of Contents

### Appraisal Rights

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

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

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

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

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

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

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

follow the procedures set forth in Section 262

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

A demand for appraisal in respect of shares of class B common stock issued and outstanding immediately prior to the effective time of the merger must be executed by or on behalf of the holder of record, fully and correctly, as his, her or its name appears on his, her or its stock certificates or in our stock records, and must state that such person intends thereby to demand appraisal of his, her or its shares of class B common stock issued and outstanding immediately prior to the effective time of the merger in connection with the merger. If the shares of class B common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the shares of class B common stock are owned of record by more than one person, as in a joint tenancy and tenancy

## Edgar Filing: SAIC, Inc. - Form POS AM

in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including two or more joint owners, may execute a demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is agent for such owner or



## **Table of Contents**

owners. A record holder who holds shares of class B common stock as nominee for several beneficial owners, may exercise appraisal rights with respect to the shares of class B common stock issued and outstanding immediately prior to the effective time of the merger held for one or more beneficial owners while not exercising such rights with respect to the shares of class B common stock held for other beneficial owners; in such case, however, the written demand should set forth the number of shares of class B common stock issued and outstanding immediately prior to the effective time of the merger as to which appraisal is sought and where no number of shares of class B common stock is expressly mentioned the demand will be presumed to cover all shares of class B common stock that are held in the name of the record owner.

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

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

Within 10 days after the effective date of the merger, Old SAIC must mail a notice to all stockholders who filed a written demand for appraisal in compliance with Section 262, and who have not voted in favor of the approval and adoption of the merger agreement, notifying those stockholders of the effective date of the merger. Within 120 days after the effective date of the merger, holders of dissenting shares may file a petition in the Delaware Court of Chancery for the appraisal of their shares, although they may at any time within 60 days after the effective date of the merger, or thereafter with the approval of Old SAIC, withdraw their demand for appraisal. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court. Within 120 days after the effective date of the merger, the holders of dissenting shares may also, upon written request, receive from Old SAIC a statement setting forth the aggregate number of shares not voted in favor of the merger and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such statement must be mailed within 10 days after a written notice therefor has been received by Old SAIC or within 10 days after the expiration of the period for delivery of demands for appraisal, whichever is later. If a petition for an appraisal is timely filed by a holder of shares of class B common stock and a copy thereof is served upon Old SAIC, Old SAIC will then be obligated within 20 days to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached. After notice to such stockholders as required by the Court, the Delaware Court of Chancery is empowered to conduct a hearing on such petition to determine those stockholders who have complied with Section 262 and who have become entitled to appraisal rights thereunder. The Delaware Court of Chancery may require the holders of shares of class B common stock who demanded payment for their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceeding; and if any stockholder fails to comply with such direction, the Court of Chancery may dismiss the proceedings as to such stockholder.

## **Table of Contents**

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

Dissenting shares lose their status as dissenting shares if:

the merger is abandoned

the stockholder fails to make a timely written demand for appraisal

neither Old SAIC nor the stockholder files a petition in the Delaware Court of Chancery demanding a determination of the value of the stock within 120 days after the effective date of the merger

the stockholder delivers to Old SAIC, within 60 days after the effective date of the merger, or thereafter with the approval of Old SAIC, a written withdrawal of the stockholder's demand for appraisal of the dissenting shares, although no appraisal proceeding in the Delaware Court of Chancery may be dismissed as to any stockholder without the approval of the court

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

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

## **Listing**

The new class A preferred stock will not be listed on a national securities exchange or traded in the organized over-the-counter market. We have been approved for listing of the new common stock on the New York Stock Exchange under the symbol SAI.

## **Conditions to the Merger**

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

## Edgar Filing: SAIC, Inc. - Form POS AM

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

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

the directors and executive officers of Old SAIC immediately before the merger shall be elected or appointed to serve as the directors and executive officers of New SAIC on or before the effective time of the merger

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

## **Table of Contents**

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

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

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

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

## **Material Federal Income Tax Consequences to Stockholders**

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

a financial institution or insurance company

a mutual fund

a tax-exempt organization

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

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

a dealer or broker in securities or foreign currencies

an Old SAIC stockholder who holds class A and/or class B common stock through individual retirement or other tax-deferred accounts

a trader in securities who elects to apply a mark-to-market method of accounting

## Edgar Filing: SAIC, Inc. - Form POS AM

an Old SAIC stockholder who holds class A and/or class B common stock as part of a hedge, appreciated financial position, straddle, constructive sale or conversion transaction

an Old SAIC stockholder who acquired class A and/or class B common stock pursuant to the exercise of employee stock options or otherwise as compensation

The following discussion is based on the Internal Revenue Code of 1986, as amended, or Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. It is not binding on the courts or the IRS. In addition, this discussion does not address any state, local or foreign tax

## **Table of Contents**

consequences of the merger or the special dividend. Old SAIC stockholders are strongly urged to consult their tax advisors as to the specific tax consequences to them of the merger and the special dividend in light of their particular circumstances including the applicability and effect of federal, state, local, foreign and other tax laws.

### *The Merger*

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

a holder of class A or class B common stock will not recognize gain or loss upon the exchange of such class A or class B common stock solely for new class A preferred stock pursuant to the merger

the tax basis of a holder of class A or class B common stock in such holder's new class A preferred stock received pursuant to the merger will equal the tax basis of the Old SAIC shares surrendered in the merger

the holding period of a holder of class A and class B common stock in the new class A preferred stock received pursuant to the merger will include the holding period for the class A and class B common stock surrendered in the merger

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

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

### *The Special Dividend*

## Edgar Filing: SAIC, Inc. - Form POS AM

The special dividend should constitute a taxable dividend to you to the extent it is treated as paid from Old SAIC's current or accumulated earnings and profits, as determined under federal income principles. However, if

## **Table of Contents**

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

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

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

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

Holders of Old SAIC common stock who are corporations will recognize ordinary dividend income with respect to such portion of the special dividend that constitutes dividend income to them. This dividend income may be eligible for a dividends received deduction. Dividend income and long-term capital gains of corporate taxpayers are not eligible for the special tax rates applicable to individual taxpayers as described above.

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

### *Backup Withholding*

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

fail to furnish your taxpayer identification number, which, for an individual, is ordinarily his or her social security number



furnish an incorrect taxpayer identification number

**Table of Contents**

are notified by the IRS that you have failed to properly report payments of interest or dividends

fail to certify, under penalties of perjury, that you have furnished a correct taxpayer identification number and that the IRS has not notified you that you are subject to backup withholding

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

**Accounting Treatment**

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

---

**Table of Contents**

**PROPOSAL II 2006 EQUITY INCENTIVE PLAN**

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

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

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

The 2006 Equity Incentive Plan provides that an aggregate of up to 75,000,000 shares of our stock will be available to be issued pursuant to awards granted under the 2006 Equity Incentive Plan, plus additional shares that may be added to the 2006 Equity Incentive Plan as described below. Shares that (1) are forfeited or repurchased by New SAIC at the original purchase price or less, (2) are restored by our board of directors or its committee pursuant to provisions under the 2006 Equity Incentive Plan that permit options to be settled in shares on a net appreciation basis, (3) are issuable upon exercise of awards that expire or become unexercisable for any reason without having been exercised in full or (4) are not delivered to a holder in consideration for applicable tax withholding will continue to be available for issuance under the 2006 Equity Incentive Plan.

In addition, the 2006 Equity Incentive Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance under the 2006 Equity Incentive Plan without further stockholder approval beginning February 1, 2007 and on each February 1 for nine years thereafter. The number of shares that may be added each year will equal the least of 30,000,000 shares, 5% of New SAIC's outstanding common stock as of the preceding January 31 (measured on an as-converted basis with respect to our outstanding shares of new class A preferred stock) or a number of shares established by our board of directors or the committee of our board of directors administering the 2006 Equity Incentive Plan.

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

**Table of Contents**

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

the types of awards that may be granted are stock options (including incentive stock options and nonstatutory stock options), restricted stock, restricted stock units, deferred stock, stock appreciation rights, performance shares and other similar types of awards (including other awards under which recipients are not required to pay any purchase or exercise price, such as phantom stock rights), as well as cash awards;

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

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

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

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

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

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

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

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

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

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

---

## **Table of Contents**

### **General**

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

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

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

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

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

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

*New Plan Benefits.* Because benefits under the 2006 Equity Incentive Plan will depend on the administrator's actions and, with respect to options and other stock awards, the fair market value of our stock at



## **Table of Contents**

various future dates, it is not possible to determine the benefits that employees, officers, directors and consultants will receive under awards if the 2006 Equity Incentive Plan is approved by the stockholders. No awards have been granted or promised to be granted under the 2006 Equity Incentive Plan.

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

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

*Adjustments on Changes in Capitalization, Change of Control or Dissolution.* In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination or reclassification, spin-off, extraordinary cash dividend or similar change to the capital structure of New SAIC (not including a fundamental transaction or change in control), our board of directors will make appropriate and equitable adjustments to (1) the number and type of shares subject to the 2006 Equity Incentive Plan (including the number of shares subject to the evergreen feature), (2) any limits on the number of shares that may be granted to a participant under the 2006 Equity Incentive Plan and (3) the exercise, purchase or repurchase price and number and class of shares under each outstanding award. The specific form of any such adjustments shall be determined by the board.

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

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

*Amendment and Termination.* The board may amend, suspend or terminate the 2006 Equity Incentive Plan. However, New SAIC will obtain stockholder approval for any amendment to the 2006 Equity Incentive Plan to the extent required to comply with applicable laws and New York Stock Exchange listing requirements.





## **Table of Contents**

Generally, no action by the board or stockholders may alter or impair any outstanding award under the 2006 Equity Incentive Plan without the written consent of the holder. Awards may be granted during the ten years from the latest date our stockholders approve the 2006 Equity Incentive Plan, subject to extension or termination earlier pursuant to its terms.

### **Stock Options**

Each option is evidenced by a stock option agreement between New SAIC and the optionee and is subject to the following additional terms and conditions. Options will be exercisable for either our new common stock or new class A preferred stock as determined by the committee of our board of directors administering the 2006 Equity Incentive Plan. The 2006 Equity Incentive Plan allows the administrator broad discretion to determine the terms of individual options. The committee of our board of directors administering the 2006 Equity Incentive Plan may substitute our new common stock for new class A preferred stock at the time of exercise of an option.

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

*Exercise of Option; Form of Consideration.* The administrator determines when options vest and become exercisable and in its discretion may accelerate the vesting and/or exercisability of any outstanding option. New SAIC's standard vesting schedule applicable to options granted to employees is 20% of the total number of shares subject to the option become vested and exercisable on each of the first, second and third anniversaries of the date of grant and an additional 40% of the total number of shares subject to the option become vested and exercisable on the fourth anniversary of the date of grant. The means of payment for shares issued upon exercise of an option are specified in each option agreement. The 2006 Equity Incentive Plan permits payment to be made by cash, check, wire transfer, cancellation of indebtedness, other shares of New SAIC stock (with some restrictions), broker assisted same-day sales, in certain circumstances a delivery of cash or stock for any net appreciation in the shares at the time of exercise over the exercise price or any other means of consideration permitted by applicable law and the administrator.

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

### **Stock Awards**

Stock awards may be restricted stock grants, restricted stock units, deferred stock, stock appreciation rights, performance shares or other similar stock awards (including awards having an exercise or purchase price that is less than the fair market value of our stock as of the date of grant of the award, such as phantom stock rights). Restricted stock grants are awards of a specific number of shares of our stock. Restricted stock units represent a



---

## **Table of Contents**

promise to deliver shares of our stock, or an amount of cash or property equal to the value of the underlying shares, at a future date. Deferred stock is a grant of shares of our stock that are distributed in the future upon vesting. Stock appreciation rights are rights to receive cash and/or shares of our stock based on the amount by which the fair market value of a specific number of shares on the exercise date exceeds the exercise price established by the administrator. Performance shares are rights to receive amounts, denominated in cash or shares of our stock, based upon New SAIC's or a participant's performance during the period between the date of grant and a pre-established future date.

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

### **Cash Awards**

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

### **Federal Income Tax Consequences of Awards**

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

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

---

**Table of Contents**

Upon a disposition of the shares acquired on exercise of an incentive stock option more than two years after grant of the option and one year after exercise of the option, the optionee will recognize long-term capital gain or loss equal to the difference between the sale price and the exercise price. If a disposition occurs before either of the holding periods are satisfied, referred to as a disqualifying disposition, then (1) if the sale price exceeds the exercise price, the optionee will recognize capital gain equal to the excess, if any, of the sale price over the fair market value of the shares on the date of exercise and will recognize ordinary income equal to the difference, if any, between the lesser of the sale price or the fair market value of the shares on the exercise date and the exercise price; or (2) if the sale price is less than the exercise price, the optionee will recognize a capital loss equal to the difference between the exercise price and the sale price. New SAIC is not entitled to a federal income tax deduction in connection with incentive stock options, except to the extent that the optionee has taxable ordinary income on a disqualifying disposition (unless limited by Section 162(m) of the Internal Revenue Code).

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

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

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

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

The employee may accelerate his or her recognition of ordinary income, if any, and begin his or her capital gains holding period by timely filing (i.e., within thirty days of the share issuance date) an election pursuant to

## **Table of Contents**

Section 83(b) of the Internal Revenue Code. In such event, the ordinary income recognized, if any, is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the date of such issuance, and the capital gain holding period commences on the date of issuance. The ordinary income recognized by an employee will be subject to tax withholding by New SAIC. Unless limited by Section 162(m), New SAIC is entitled to a deduction in the same amount as and at the time the employee recognizes ordinary income.

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

## **Accounting Treatment**

Based on Statement of Financial Accounting Standards No. 123(R), which was adopted on February 1, 2006, New SAIC will recognize compensation expense in an amount equal to the fair value on the date of grant of all stock options under the 2006 Equity Incentive Plan. The total compensation expense will be based on the number of option shares times the fair value of an option. New SAIC is using the Black-Scholes valuation model to measure fair value of option grants. In addition, New SAIC will recognize compensation expense for other awards under the 2006 Equity Incentive Plan. In general, the expense associated with each award will be recognized over the requisite employee service period, generally the vesting period.

**Table of Contents**

**PROPOSAL III 2006 EMPLOYEE STOCK PURCHASE PLAN**

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

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

The 2006 Employee Stock Purchase Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares available for issuance under the 2006 Employee Stock Purchase Plan without further stockholder approval beginning February 1, 2007 and on each February 1 thereafter for nine more years. The number of shares that may be added each year will equal the least of 9,000,000 shares, 2% of New SAIC's outstanding common stock on the last day of the immediately preceding fiscal year (measured on an as-converted basis with respect to our outstanding shares of new class A preferred stock) or a number of shares established by the compensation committee of our board of directors.

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

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

**Administration**

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

**Eligibility**

## Edgar Filing: SAIC, Inc. - Form POS AM

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

## **Table of Contents**

### **Participation**

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

### **Plan Characterization**

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

### **Nonassignability of Options**

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

### **New Plan Benefits**

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

### **Offering Periods**

Unless and until the compensation committee determines to implement longer periods and except for the first offering period, each offering period will have a duration of three months and will commence on April 1, July 1, October 1 or January 1 of each year and will have only one purchase period which will run simultaneously with the offering period. The first offering period to commence after the date of this proxy statement/prospectus will commence and end on dates determined by the compensation committee. The first business day of each offering period is referred to as the offering date. The last business day of each purchase period is referred to as the purchase date.

### **Purchase Price**



## Edgar Filing: SAIC, Inc. - Form POS AM

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

### **Payment of Purchase Price; Payroll Deductions**

The purchase price of the shares is paid with payroll deductions accumulated during the applicable offering period. The deductions are made as a percentage of the participant's compensation in 1% increments, not less than 1%, nor greater than 10%, or such lower limit set by the compensation committee. Eligible compensation is

---

**Table of Contents**

defined in the 2006 Employee Stock Purchase Plan to include base salary, wages, bonuses, incentive compensation, commissions, overtime, shift premiums and draws against commissions and to exclude long-term disability or workers' compensation payments, car allowances, relocation payments and expense reimbursements. If payroll deductions are not permitted in a jurisdiction, participants in that jurisdiction may contribute via check or pursuant to another method approved by the compensation committee. A participant may discontinue his or her participation in the 2006 Employee Stock Purchase Plan at any time during an offering period and may increase or decrease the rate of his or her payroll deductions once during an ongoing offering period by completing and filing a new authorization for payroll deductions. Payroll deductions will commence on the first payday following the offering date and will end on the last payday on or prior to the last purchase date of the offering period to which the subscription agreement is applicable, unless sooner terminated by the participant. No interest accrues on the payroll deductions of a participant in the 2006 Employee Stock Purchase Plan unless required by local law.

**Purchase of Stock; Exercise of Option**

By executing a subscription agreement to participate in the 2006 Employee Stock Purchase Plan, the participant accepts the grant of a 2006 Employee Stock Purchase Plan option to purchase shares during an offering period. Shares will be purchased at a discount of 15% (unless changed by the compensation committee) of the fair market value of the stock on the purchase date. The number of shares purchased by a participant will be determined by dividing the amount of the participant's total payroll deductions for the offering period accumulated prior to the purchase date by 85% (unless changed by the compensation committee) of the fair market value of the stock on the purchase date for the applicable purchase period. Unless the participant's participation is discontinued, each participant's option for the purchase of shares will be exercised automatically on each purchase date at the applicable price.

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

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

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

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

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

## **Table of Contents**

### **Holding Period**

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

### **Withdrawal**

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

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

### **Termination of Employment**

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

### **Amendment and Termination**

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

Our board may amend or terminate the 2006 Employee Stock Purchase Plan, but New SAIC will obtain stockholder approval for any amendment to the 2006 Employee Stock Purchase Plan to the extent required by applicable laws and New York Stock Exchange listing requirements. Unless approved by the stockholders of New SAIC, our board will not make any amendment that would increase the maximum number of shares that may be issued under the 2006 Employee Stock Purchase Plan or change the designation or class of persons eligible to participate under the 2006 Employee Stock Purchase Plan. In addition, no action by the board or the stockholders may impair any outstanding option without the written consent of the participant except as set forth below.

## Edgar Filing: SAIC, Inc. - Form POS AM

Our board may make amendments to the 2006 Employee Stock Purchase Plan as it determines to be advisable, including changes with respect to current offering periods or purchase periods, if the continuation of the 2006 Employee Stock Purchase Plan or any offering period would result in financial accounting treatment for the 2006 Employee Stock Purchase Plan that is different from the financial accounting treatment in effect on the date our board of directors adopted the 2006 Employee Stock Purchase Plan.

### **Adjustments upon Changes in Capitalization, Change of Control or Dissolution**

Subject to any required action by New SAIC's stockholders, (1) the number and type of shares covered by each outstanding option, (2) the price per share subject to each outstanding option and (3) the number and type of shares which have been authorized for issuance under the 2006 Employee Stock Purchase Plan (including the

## **Table of Contents**

maximum number in the evergreen feature) will each be proportionately adjusted for any increase or decrease in the number or kind of issued and outstanding shares resulting from a stock split, stock dividend or any other increase or decrease in the number of issued and outstanding shares of the class of New SAIC's stock subject to the 2006 Employee Stock Purchase Plan effected without receipt of consideration by New SAIC or other change in the corporate structure or capitalization affecting the class of New SAIC's stock subject to the 2006 Employee Stock Purchase Plan.

In the event of a change in control transaction of New SAIC, the 2006 Employee Stock Purchase Plan will continue with regard to offering periods that commenced prior to the closing of the proposed transaction and shares will be purchased based on the fair market value of the successor entity's stock on each purchase date, unless otherwise provided by the compensation committee. In addition, in the event that New SAIC effects a reorganization, recapitalization, rights offering or other increase or reduction of shares of its outstanding stock, or in the event of New SAIC's being consolidated with or merged into any other corporation, the compensation committee may, in its sole discretion, also make provision for adjusting the number and type of shares which have been authorized for issuance under the 2006 Employee Stock Purchase Plan, as well as the price per share of the stock covered by each outstanding option.

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

## **Federal Income Tax Consequences**

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

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

**Table of Contents**

**Accounting Treatment**

Based on Statement of Financial Accounting Standards No. 123(R), which was adopted on February 1, 2006, New SAIC will recognize compensation expense in connection with the 2006 Employee Stock Purchase Plan. So long as New SAIC continues issuing shares under the 2006 Employee Stock Purchase Plan with a purchase price at a discount to the fair market value of its stock, New SAIC will recognize compensation expense which will be determined by the level of participation in the 2006 Employee Stock Purchase Plan and the amount of the discount. However, in certain cases where the purchase price is greater than 95% of the fair market value of the stock subject to the 2006 Employee Stock Purchase Plan, there would be no compensation expense under Statement of Financial Accounting Standards No. 123(R).

**TRANSACTION OF OTHER BUSINESS**

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

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

You should read the selected consolidated financial data presented below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements, unaudited condensed consolidated financial statements and the related notes included elsewhere in this proxy statement/prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2006, 2005 and 2004 and the selected consolidated financial data presented below under Consolidated Balance Sheet Data as of January 31, 2006 and 2005 have been derived from our audited consolidated financial statements included elsewhere in this proxy statement/prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2003 and 2002 and under Consolidated Balance Sheet Data as of January 31, 2004, 2003 and 2002 have been derived from our audited consolidated financial statements not included in this proxy statement/prospectus. The selected consolidated financial data presented below under Consolidated Statement of Income Data for the three months ended April 30, 2006 and 2005 and Consolidated Balance Sheet Data as of April 30, 2006 have been derived from our unaudited condensed consolidated financial statements that are included elsewhere in this proxy statement/prospectus and have been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

	Year Ended January 31					Three Months Ended April 30	
	2006	2005	2004	2003	2002	2006	2005
(in millions, except per share data)							
<b>Consolidated Statement of Income Data:</b>							
Revenues	\$ 7,792	\$ 7,187	\$ 5,833	\$ 4,835	\$ 4,374	\$ 1,958	\$ 1,846
Cost of revenues	6,801	6,283	5,053	4,169	3,786	1,686	1,614
Selling, general and administrative expenses	494	418	378	347	352	129	120
Goodwill impairment			7	13			
Gain on sale of business units, net		(2)		(5)	(10)		
Operating income	497	488	395	311	246	143	112
Net (loss) gain on marketable securities and other investments, including impairment losses (1)	(15)	(16)	5	(134)	(456)		
Interest income	97	45	49	37	50	29	19
Interest expense	(89)	(88)	(80)	(45)	(14)	(23)	(22)
Other income (expense), net	7	(12)	5	6	10	2	1
Minority interest in income of consolidated subsidiaries	(13)	(14)	(10)	(7)	(5)	(3)	(3)
Income (loss) from continuing operations before income taxes	484	403	364	168	(169)	148	105
Provision (benefit) for income taxes	139	131	140	61	(80)	54	50
Income (loss) from continuing operations	345	272	224	107	(89)	94	55
Income from discontinued operations, net of tax	582	137	127	152	107	12	530
Net income	\$ 927	\$ 409	\$ 351	\$ 259	\$ 19	\$ 106	\$ 585
<b>Earnings per share: (2)</b>							
Basic:							
Income (loss) from continuing operations	\$ 1.98	\$ 1.49	\$ 1.22	\$ .55	\$ (.41)	\$ .56	\$ .31
Income from discontinued operations	3.35	.74	.68	.77	.50	.07	2.96

Edgar Filing: SAIC, Inc. - Form POS AM

	\$ 5.33	\$ 2.23	\$ 1.90	\$ 1.32	\$ .09	\$ .63	\$ 3.27
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Diluted:</b>							
Income (loss) from continuing operations	\$ 1.92	\$ 1.45	\$ 1.19	\$ .53	\$ (.41)	\$ .54	\$ .30
Income from discontinued operations	3.23	.73	.67	.75	.50	.07	2.88
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	\$ 5.15	\$ 2.18	\$ 1.86	\$ 1.28	\$ .09	\$ .61	\$ 3.18
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>