

SCIENCE APPLICATIONS INTERNATIONAL CORP

Form 425

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**SAIC Capital Restructuring & Initial Public Offering (IPO)**

**SAIC Capital Restructuring & IPO**

**Supplemental Questions & Answers**

The following questions and answers are provided for your convenience and briefly address some commonly asked questions about our proposed merger, initial public offering and special dividend. In this Supplemental Q&A, 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, 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.

**Updated September 14, 2006**

On May 8, 2006, we provided amended and restated Supplemental Q&A that updated and superseded the prior Q&As previously posted. On July 25, 2006, August 2, 2006 and August 29, 2006, we provided revised and new Supplemental Q&A.

The Fourth Supplement to the amended and restated Supplement Q&A filed September 14, 2006 amends 33 of the questions and answers we provided in our previous supplemental Q&A and adds 17 new questions and answers that were included in the September 7, 2006 Proxy Supplement.

Additional Supplemental Q&A (Questions 163 - 179) are now available.

Questions 7, 17, 21, 25, 35, 45, 50, 54, 55, 56, 60, 61, 63, 64, 65, 66, 68, 69, 72, 74, 75, 76, 89, 97, 113, 114, 115, 137, 139, 145, 146, 147 and 161 have been revised and supersede the same numbered questions and answers in the Supplemental Q&A filed with the SEC on July 25, 2006, August 2, 2006 and August 29, 2006.

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Q94. How does dividend distribution in cash vs. reinvestment in company stock affect our capital structure objectives?

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Updated 25 July 2006

Q122. If the 2006 ESPP is approved, when would it go into effect? How would this impact the 2004 ESPP?

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Q132. Can I make a section 83(b) election now to minimize taxes on dividends paid on unvested stock?

Q133. Will the proposed IPO impact how gains upon exercise of stock options are taxed?

### **Financial Hardship Q&A**

Q134. Can I still request loans, hardship withdrawals or distributions from the SAIC Retirement Plan (formerly the 401(k) plan and ESRP) before the merger and the IPO? What about during the transfer restriction periods?

Q135. Will the transfer restrictions on the new class A preferred stock prevent SAIC from continuing its Financial Hardship Policy on directly held shares after the merger and IPO?

### **Range of the Special Dividend**

- Q136. What is the new range of the special dividend? Added 25 July 2006
- Q137. Why was the range of the special dividend changed? Updated 14 September 2006
- Q138. Will the increase in the size of the dividend impact our ability to have enough capital to meet our strategic needs? Added 25 July 2006

### **Special Stockholders Meeting and Related Matters**

- Q139. When and where will the special stockholders meeting be held? Updated 14 September 2006
- Q140. If I'm not in McLean, can I still watch the meeting live? Added 2 August 2006
- Q141. What is the purpose of the special stockholders meeting? Added 2 August 2006
- Q142. Who is entitled to vote at the special meeting? Added 2 August 2006
- Q143. Who can attend the special meeting? Added 2 August 2006
- Q144. How does the board recommend that I vote? Added 2 August 2006
- Q145. Does the proxy or voting instructions that I submitted for the special meeting originally scheduled for December 16, 2005 still count? Updated 14 September 2006
- Q146. How do I vote my proxy? Updated 14 September 2006
- Q147. Can I revoke my proxy or voting instructions and change my vote? Updated 14 September 2006
- Q148. How are the shares held by the SAIC Retirement Plans voted? Added 2 August 2006
- Q149. How are the shares held by the SAIC Stock Deferral Plans voted? Added 2 August 2006
- Q150. What votes are required to approve the proposals? Added 2 August 2006
- Q151. What makes up a quorum that is necessary to conduct business at the special meeting? How are abstentions counted? Added 2 August 2006
- Q152. Is my vote confidential? Added 2 August 2006
- Q153. If the merger is approved, when will it be effective? Added 2 August 2006
- Q154. If the 2006 Equity Incentive Plan is approved, when would it go into effect? Added 2 August 2006
- Q155. If the 2006 ESPP is approved, when would it go into effect? How would this impact the 2004 ESPP? Added 2 August 2006

### **Reconvened Special Stockholders Meeting scheduled for September 27, 2006**

- Q156. Why has the special stockholders meeting scheduled for August 29, 2006 been delayed? Added 29 August 2006
- Q157. When do we expect to reconvene the stockholders meeting? Added 29 August 2006
- Q158. Do the proxy or voting instructions that I submitted for the special meeting scheduled for August 29, 2006 still count? Added 29 August 2006
- Q159. I already submitted my proxy for the special stockholders meeting scheduled for August 29, 2006. Can I revoke or change my proxy or voting instructions? Added 29 August 2006
- Q160. I did not submit my proxy or voting instructions for the August 29, 2006 meeting. Can I vote for the reconvened September 27, 2006 meeting? Added 29 August 2006
- Q161. Will I get new proxy materials? Updated 14 September 2006
- Q162. How do I vote my shares? Added 29 August 2006

### **Pension Protection Act of 2006**

Q163. What is the Pension Protection Act? Added 14 September 2006

Q164. Why did this new legislation suddenly impact the timing of our special meeting of stockholders and our IPO? Added 14 September 2006

Q165. What particular provisions of the Pension Protection Act may impact our merger and IPO? Added 14 September 2006

Q166. Why are we implementing transfer restrictions on the new class A preferred stock? Added 14 September 2006

Q167. What steps are we taking to address the effects of the Pension Protection Act on the merger and IPO? Added 14 September 2006

Q168. How do I know if I am entitled to diversification rights under the Pension Protection Act? Added 14 September 2006

Q169. How will the diversification rights under the Pension Protection Act be specifically applied to the exchangeable and non-exchangeable stock held in our retirement plans? Added 14 September 2006

Q170. Will the Company be holding future retirement plan trades? Added 14 September 2006

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### **Initial Public Offering**

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Q173. How will the IPO price be determined? Added 14 September 2006

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Q175. Do the proxy or voting instructions that I submitted for the special meeting scheduled for August 29, 2006 still count? Added 14 September 2006

Q176. I already submitted my proxy for the special stockholders meeting scheduled for August 29, 2006. Can I revoke or change my proxy or voting instructions? Added 14 September 2006

Q177. I did not submit my proxy or voting instructions for the August 29, 2006 meeting. Can I vote for the reconvened September 27, 2006 meeting? Added 14 September 2006

Q178. How do I vote my shares? Added 14 September 2006

### **Appraisal Rights**

Q179. Can I still exercise my appraisal rights for my class B common stock? Added 14 September 2006

### **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

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#### **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 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.

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**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.



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**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.

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**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.

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**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.

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**Q7. How will the IPO affect our employee ownership culture? Updated 14 September 2006**

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. Depending upon the final IPO price, the size of the special dividend and whether the underwriters exercise their over-allotment option to purchase additional shares after the IPO, the number of shares of new common stock issued in the IPO may slightly exceed 20% of our outstanding capital stock. Immediately after the IPO, New SAIC will remain predominantly owned by the existing stockholders. 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.

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**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.

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**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.

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**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.

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**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. 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.

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**Q12. What will I be entitled to receive in the merger? Updated 25 July 2006**

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, 46, 47, 48 and 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

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.

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**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 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.

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**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 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.

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**Q15. What are the U.S. tax consequences of the merger? Updated 25 July 2006**

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.

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**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.

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**Q17. If I submitted my proxy or voting instructions for the special meeting originally scheduled for August 29, 2006, do I need to submit a new proxy or voting instructions for the reconvened special meeting on September 27, 2006? Updated 14 September 2006**

A. No. The proxies or voting instructions received by Old SAIC for the August 29, 2006 meeting, unless changed or revoked as provided below, will be voted at the reconvened special meeting on September 27, 2006. You do not have to submit a new proxy or voting instructions in order for your vote to be counted. (Please see [Question 158](#) of the Supplemental Q&A.)

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**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.

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**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.

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**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.

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**Q21. How and when will we complete our IPO? Updated 14 September 2006**

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 three to six 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.

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**Q22. What impact will the Greek Olympic contract have on the timing for completion of the IPO? Updated 25 July 2006**

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 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 in New SAIC's Registration Statement on Form S-4 filed with the SEC.

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.

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**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.

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**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.

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**Q25. How much stock are we selling to the public? Updated 14 September 2006**

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. Depending upon the final IPO price, the size of the special dividend and whether the underwriters exercise their over-allotment option to purchase additional shares after the IPO, the number of shares of new common stock issued in the IPO may slightly exceed 20% of our outstanding capital stock. As a result, voting control of New SAIC will remain in the hands of current stockholders immediately after we complete the merger and the IPO.

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**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.

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**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 the Risk Factors section of New SAIC's Registration Statement on Form S-4 filed with the SEC.

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**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.

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**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.

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**Q30. What will we do with the proceeds from the IPO? Updated 25 July 2006**

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.

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**The Special Dividend**

**Q31. What is a dividend?**

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

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**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.

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**Q33. What is the amount of the special dividend? Updated 25 July 2006**

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.

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**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.

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**Q35. What will be the record date for purposes of determining stockholders entitled to receive the special dividend? Updated 14 September 2006**

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 three to six weeks after stockholder approval of the merger at the special meeting.

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**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.

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**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 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 [Questions 129, 130, and 131](#) of the Supplemental Q&A.

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**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.



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#### **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.

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#### **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.

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**Q41. What must I do to get my new class A preferred stock? Updated 25 July 2006**

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 and receive your new class A preferred stock. All the shares to which you are entitled will be converted to book entry form, but your entire account (including any shares you may hold in book entry form) will be blocked by our transfer agent until your certificates are surrendered.

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

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

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**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.

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**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.

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**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.

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**Transfer Restrictions**

**Q45. Will I be able to sell or transfer my new class A preferred stock immediately? Updated 14 September 2006**

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.

As a result of the recent enactment of the Pension Protection Act of 2006, certain shares of the new class A preferred stock held in our retirement plans may be converted into common stock and sold at the direction of plan participants effective January 1, 2007 prior to the expiration of the applicable restriction periods. (Please see **Questions 163 to 171** of the Supplemental Q&A.)

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**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

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**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.

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**Q48. Will any additional transfer restrictions apply to our directors and executive officers?  
Updated 25 July 2006**

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 and Bear, Stearns & Co. Inc.

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**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.

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**Stock Transactions**

**Q50. Can I buy or sell shares in the limited market before the IPO? Updated 14 September 2006**

A. The last limited market trade prior to the proposed IPO occurred on June 30, 2006. We anticipate completing the IPO in the Fall of 2006. If, however, there is a significant delay in completing the IPO this Fall, we intend to conduct limited market and retirement plan trades generally on a quarterly basis until the IPO process recommences.

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**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.

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**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.

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**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.

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**IPO related Q&A**

**Q54. What are some of the significant changes to the proposed merger, IPO and related transactions since SAIC announced in December 2005 that the special stockholders meeting and planned IPO would be postponed? Updated 14 September 2006**

A. There following changes have been made:

The allocation among the series of new class A preferred stock has been changed to from 10% to 20% for new series A-1 preferred and from 30% to 20% for new series A-2 preferred. The allocation among the series of new class A preferred stock remains 30% for new series A-3 preferred and 30% for new series A-4 preferred. (Please see **Question 12** of the Supplemental Q&A.)

The sale and transfer restriction periods for the series A-1 preferred has been changed to 90 days after the IPO. The sale and transfer restriction periods for the series A-2 preferred, series A-3 preferred and series A-4 preferred remains at 180 days, 270 days and 360 days after the IPO, respectively. (Please see **Question 45** of the Supplemental Q&A.)

The range of the dividend has been changed from approximately \$8 to \$10 per share of Old SAIC class A common stock to approximately \$10 to \$15 per share of Old SAIC class A common stock and from approximately \$160 to \$200 per share of Old SAIC class B common stock to approximately \$200 to \$300 per share of Old SAIC class B common stock. (Please see Questions **136**, **137** and **138** of the Supplemental Q&A.)

The Pension Protection Act of 2006, which was signed into law on August 17, 2006, mandates that companies provide diversification rights to certain retirement plan participants. As a result of the Pension Protection Act and the manner in which we intend to comply with its requirements, if we complete the IPO on our planned schedule, certain shares of the new class A preferred stock held in our retirement plans may be converted into common stock and sold at the direction of plan participants effective January 1, 2007. (Please see **Questions 163 to 171** of the Supplemental Q&A.)]

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**Q55. What are some of the important events associated with the IPO? When do we expect them to be completed? Updated 14 September 2006**

A. A few important events and milestones associated with the merger, the IPO and related transactions are described below in the approximate order in which they are scheduled to occur:

Reconvened Special Stockholders Meeting to approve the merger and related proposals (September 27, 2006)

Offering pricing, fix record date for the special dividend and close IPO (estimated to occur in the Fall 2006 within three to six weeks following the approval of the merger at the Special Stockholders Meeting). (Please see **Question 21** of the Supplemental Q&A.)

The precise timing of the merger and IPO is subject to general market and economic conditions, the SEC's review and comment process, and several other factors which we cannot control. Therefore, it is not possible to determine with certainty when we will complete the merger, the IPO and related transactions.

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**Q56. How will stockholders be informed of the new date for the special stockholders meeting to approve the IPO related proposals? Updated 14 September 2006**

A. At the time the August 29, 2006 special stockholders meeting was adjourned, it was announced that the reconvened special meeting of stockholders will be held on September 27, 2006 at the SAIC Conference Center, 1710 SAIC Drive, McLean, Virginia, at 1:00 p.m. Eastern time. In addition, a supplement dated September 7, 2006 to the August 1, 2006 proxy statement/prospectus has been distributed to stockholders. The supplement to the proxy provides details concerning the date, time, location and procedures for voting at the reconvened special meeting.

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**Q57. If the merger is approved, when will it be effective?**

A. The merger will become effective only if approved by the stockholders and the board or the executive committee of Old SAIC determines that the IPO will be successfully completed promptly after completion of the merger. If approved, we will effect the merger shortly before the closing of the IPO. We currently expect that this will occur in the Fall of 2006.

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**Q58. Do the quiet period restrictions prevent me from discussing the proposed merger and IPO with my financial advisor?**

A. No. The quiet period places legal restrictions on the communications that we can make to prospective investors. During the quiet period, any discussion by us of the IPO and related matters is limited to information contained in documents that we have filed with the SEC. The SEC also regulates the communications we make to our stockholders regarding the merger and the other proposals to be considered at our special meeting of stockholders. You are free to discuss any information that is contained within our public filings with your advisors as you deem necessary. Nonetheless, you should not discuss with anyone information that we have not publicly disclosed regarding our proposed merger and IPO.

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**Q59. As our existing stockholders sell their shares in the public market following the merger and the IPO, won't employee ownership of New SAIC decrease?**

A. Yes. We expect employee ownership of New SAIC will decrease as our existing stockholders sell shares following the merger and the IPO and as additional shares of our common stock are issued, including issuances to our employee benefit plans and upon exercise of options granted under the 2006 Equity Incentive Plan. However, the two class stock structure of New SAIC will allow our existing stockholders to maintain substantial voting control over New SAIC immediately after the merger and the IPO. In the merger, our existing stockholders will receive shares of new class A preferred stock, with 10 votes per share. In contrast, purchasers of stock in the IPO will receive shares of new common stock, with one vote per share. In addition, when our existing stockholders sell or otherwise transfer their new class A preferred stock following the merger and the IPO to anyone other than permitted transferees, the purchaser or transferee will receive new common stock, with one vote per share. We also intend to issue additional shares of new class A preferred stock to our employees after the merger and the IPO where feasible under our employee benefit plans. As a result of the greater voting power of the new class A preferred stock over the new common stock, our existing stockholders will maintain substantial voting control over New SAIC, even as they sell their shares following the merger and the IPO. For example, if 50% of our outstanding shares are eventually held by new public investors and the other 50% by our current stockholders (and assuming our qualified retirement plans hold class A preferred stock after the merger), the new public investors will hold new common stock representing approximately 9% of all voting rights, while our current stockholders will retain new class A preferred stock representing approximately 91% of all voting rights. Similarly, if 90% of our outstanding shares are eventually held by new public investors and the remaining 10% by our current stockholders (and assuming our qualified retirement plans hold class A preferred stock after the merger), the new public investors will hold new common stock representing approximately 47.5% of all voting rights, while our existing stockholders will retain new class A preferred stock representing approximately 52.5% of all voting rights.

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#### Employee Benefits Q&A

**Q60. Where can I find a summary of how the merger and the IPO impact some important employee benefits and stockholder rights? Updated 14 September 2006**

A. See the [Pre-IPO and Post-IPO Comparison of Stockholder Rights and Employee Benefits](#).

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**Q61. Given the superior voting rights of new class A preferred stock, will we contribute new class A preferred stock to our benefit plans and qualified retirement plans, such as the proposed 2006 Equity Incentive Plan and the SAIC Retirement Plan? Updated 14 September 2006**

A. Whenever practical, we intend to endeavor to make new class A preferred stock available under the company's benefit plans and qualified retirement plans.

#### Proposed 2006 Equity Incentive Plan

We originally intended to grant options for new class A preferred stock under the 2006 Equity Incentive Plan. However, as discussed in [Question 118](#) of the Supplemental Q&A, the IRS recently issued proposed regulations which, if adopted in their current form, would impose adverse tax consequences on option holders if, after we are a public company, we grant options to purchase any class of stock other than our publicly traded stock. To avoid those adverse tax consequences to our employees, we intend to grant options under the 2006 Equity Incentive Plan for publicly traded stock (i.e., the new common stock). We also intend to revisit this decision if the IRS adopts less restrictive regulations that do not impose adverse tax consequences on option holders if we grant options to purchase our new class A preferred stock. (Please see [Questions 117](#), [118](#), [119](#) and [120](#) of the Supplemental Q&A.)

**SAIC Retirement Plan**

After the IPO, future employee deferrals, rollovers and company matching contributions that are in the form of company stock will be new common stock. In addition, any in-kind distributions of company stock from the SAIC Retirement Plan will be in the form of new common stock. As a publicly traded stock, the value of new common stock will be determined on a daily basis by the public trading market. To issue new class A preferred stock, which will not be publicly traded, for these types of transactions within the SAIC Retirement Plan, would require the company to continue obtaining outside independent appraisals. Utilizing new common stock for the SAIC Retirement Plan will eliminate the need for expensive and burdensome stock appraisals to establish future stock prices. Using common stock with the SAIC Retirement Plan will also allow transactions to occur on a more frequent basis. For example, participant deferrals into company stock will occur on a bi-weekly basis in conjunction with payroll deductions, rather than bi-weekly contributions into a stock purchase fund which is converted into company stock on a quarterly basis in conjunction with the quarterly stock trade. However, the valuation process is not required with respect to the company's discretionary ESOP contributions. Therefore, we expect that the annual ESOP contribution will be contributed in new class A preferred stock. However, we may change the form of contributions as a result of the Pension Protection Act of 2006.

**Proposed 2006 Employee Stock Purchase Plan (2006 ESPP)**

Shares purchased under the proposed 2006 ESPP may be either new common or new class A preferred stock, as determined by the compensation committee of the board of directors. We currently expect that the compensation committee to designate new class A preferred stock to be issued under the 2006 ESPP.

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## Retirement Plans Q&A

### **Q62. How do I determine the number of shares I hold through my accounts in the SAIC retirement plans?**

A. You can calculate an approximate number of shares by summing the total dollar values of your units in the SAIC Exchangeable Stock Fund and the SAIC Non-Exchangeable Stock Fund (but not the SAIC Stock Purchase Fund) in your retirement plan accounts and dividing by the current SAIC stock price.

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### **Q63. After the merger and the IPO, will the new class A preferred stock held in the SAIC Retirement Plan and the AMSEC 401(k) Plan be subject to transfer restrictions? If so, will these transfer restrictions prohibit me from reallocating investments in my plan account after the merger and the IPO? Updated 14 September 2006**

A. Under the terms of our proposed merger and IPO, the shares of new class A preferred stock to be issued to our stockholders, including our retirement plans, will be subject to certain restrictions on transfer and conversion that lapse over a 360-day period following the IPO. The diversification rights provided by the Pension Protection Act of 2006, however, effectively override these restrictions with respect to the shares of new class A preferred stock held by our retirement plans and permit qualifying retirement plan participants to direct the retirement plan to convert and sell certain shares of company stock as early as the first business day of January 2007 and in advance of the lapse of the restrictions. To address this conflict between the diversification rights provided by the Pension Protection Act and the restrictions and in order to comply with the Act, we intend to provide an exception to the restrictions that permits qualifying retirement plan participants to direct the retirement plans to convert certain of their shares of new class A preferred stock held through our retirement plans into publicly traded common stock - without regard to these restrictions.

Prior to the enactment of the Pension Protection Act, we had intended, following completion of our IPO, to conduct four quarterly trades for our retirement plans in which participants could offer to sell shares in accordance with the terms of the plans. A trade for our retirement plans has been scheduled for October 27, 2006 and will be held on such date if the IPO is completed sufficiently far in advance of that trade date. As a result of the Pension Protection Act and the manner in which we intend to comply with its requirements, if we complete the IPO this Fall, all shares in our retirement plans that are designated as exchangeable, as well as a portion of the shares designated as non-exchangeable, may be converted at the direction of qualifying plan participants into publicly traded common stock after January 1, 2007 and the proceeds from that sale reinvested in other plan alternatives. Given the substantially greater ability for retirement plan participants to diversify company stock held in our retirement plans under the Pension Protection Act beginning January 2007, we do not intend to conduct additional quarterly retirement plan trades after the October 27, 2006 trade, provided that we complete the IPO this Fall. If there is a significant delay in completing the IPO this Fall, we intend to conduct limited market and retirement plan trades generally on a quarterly basis until the IPO process recommences. (Please see [Questions 163 to 171](#) of the Supplemental Q&A.)

[Top of Page](#)**Q64. What are the scheduled dates for private transactions between SAIC and our retirement plans during 2006? Updated 14 September 2006**

A. We held private retirement plan trades in May and June, 2006 and anticipate holding a retirement plan trade on October 27, 2006 if the IPO is completed sufficiently far in advance of that trade date. The deadlines for the October 27, 2006 trade date are as follows:

Transaction Date	Deadline for exchanges	Deadline for distributions submitted to Vanguard	Deadline for submitting
	submitted to Vanguard		rollovers to company stock
October 27, 2006	October 24, 2006	October 13, 2006	October 20, 2006

After the particular deadline for an exchange (Tuesday, October 24<sup>th</sup>), a distribution (Friday, October 13<sup>th</sup>) or a rollover (Friday, October 20<sup>th</sup>), a submitted order for such a transaction cannot be changed after its submittal deadline, even though the transaction will be completed days later on October 27<sup>th</sup>. As explained below, this means that the price that will be used in the transaction may be substantially lower or higher than the market price of SAIC shares on the applicable deadline. All transactions (exchanges, distributions and rollovers) will be completed using the closing sales price on the New York Stock Exchange of the new common stock on October 27<sup>th</sup>. So, it is expected that there will be several days of trading of new common stock on the New York Stock Exchange after the submittal deadline for an exchange (Tuesday, October 24<sup>th</sup>), a distribution (Friday, October 13<sup>th</sup>) or a rollover (Friday, October 20<sup>th</sup>), and before the price will be established for these transactions. As a result, participants will not know the price at which their transactions will be completed when they submit their order for exchanges, distributions or rollovers in the October retirement plans trade. The price of new common stock at which retirement plan transactions will be completed in the October 2007 trade may be substantially higher or lower than the price prevailing on the date the order was submitted. In addition, it is possible that we may complete the IPO after the applicable deadline for distributions and rollovers, but sufficiently before October 27<sup>th</sup> for us to hold the October 27<sup>th</sup> trade date. If that occurs, there will not have been any public market trading of the new common stock before the applicable deadline, and therefore, participants deciding whether to elect a distribution or rollover under these circumstances will not be able to take public market trading prices of the new common stock into account. On and after the first business day of January 2007, participants in our retirement plans will have significant opportunities to complete exchanges, distributions and rollovers based at the market prices of new common stock prevailing approximately on the same day as a transaction is submitted. (Please see **Questions 163 to 171** of the Supplemental Q&A.)

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**Q65. How will the value of SAIC stock be determined for purposes of conducting the private retirement plan trade currently scheduled for October 27, 2006? Updated 14 September 2006**

A. We expect that the next retirement plan trade will take place after the IPO has been completed and the price of the new class A preferred stock to be equal the public price for the new common stock. After the diversification provisions of the Pension Protection Act of 2006 become applicable to our retirement plans, we expect our qualified retirement plans to conduct transactions in the public market utilizing common stock, the value of which will be determined by the public market. (Please see **Questions 163 to 171** of the Supplemental Q&A.)

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**Q66. Can I request an in-kind distribution from the SAIC Retirement Plan before the dividend record date and IPO? Updated 14 September 2006**

A. In-kind distributions are currently processed only in conjunction with the private transactions between our qualified retirement plans and the company. The most recent private retirement plan trade was held on June 30, 2006. We expect the June 30 trade to be the last private retirement plan trade before the IPO; however, there is no assurance when or if the IPO will be completed. Requests for in-kind distributions received will be held and not processed until the next retirement plans trade currently scheduled for October 27, 2006 (which may occur after completion of the IPO, if the IPO remains on its current schedule for completion in the Fall 2006).

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**Q67. In December, SAIC provided Q&As regarding in-kind distributions from its qualified plans and associated put rights. Were these in-kind distribution and put rights developed in connection with the proposed IPO and merger?**

A. No. In-kind distributions and put rights have been available in the SAIC Employee Stock Retirement Plan (ESRP) for many years and were not developed in connection with the proposed IPO, merger or special dividend. In addition, rules regarding these distributions are largely mandated by federal law and regulations that apply to certain qualified retirement plans distributing shares of privately traded stock. It became apparent from inquiries to our retirement plans department that not all eligible participants knew of or understood their rights with respect to in-kind distributions and put rights. Therefore, we determined that additional communication was appropriate so that all eligible participants would have an opportunity to know of and understand their rights. The company does not endorse or recommend that eligible plan participants take any particular course of action, including exercising rights to receive an in-kind distribution or to exercise put rights. As stated in the prior Q&As, if you are a plan participant eligible for an in-kind distribution, there are risks and uncertainties in connection with these matters, and we encourage you to speak to your tax or financial advisor to determine if an in-kind distribution offers you any advantages based on your particular situation.

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**Q68. Will we continue to make annual contributions to the SAIC Retirement Plan after the merger and the IPO? Updated 14 September 2006**

A. At this time, we intend to continue our current practice of making matching, profit sharing and ESOP contributions to the SAIC Retirement Plan after the merger and the IPO. 50% of our matching contributions will be invested in a Company Stock Fund and 50% invested according to your deferral elections. All of the profit sharing contributions will be invested according to your deferral elections while 100% of the ESOP contributions will be invested in a Company Stock Fund. However, under the terms of the Plan, we have the right to change the form of contribution at any time, and may do so as a result of the Pension Protection Act of 2006.

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**Q69. Will AMSEC continue matching contributions to the AMSEC 401(k) plan after the merger and the IPO? Updated 14 September 2006**

A. At this time, it is expected that AMSEC will continue its current practice of matching contributions after the merger and the IPO. However, under the terms of the Plan, AMSEC has the right to change the form of contribution at any time, and may do so as a result of the Pension Protection Act of 2006.

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**Q70. Can I still request loans, hardship withdrawals or distributions from the SAIC Retirement Plan or the AMSEC 401(k) Plan before the merger and the IPO? What about during the transfer restriction periods?**

A. Yes. You will be able to manage your accounts in the same manner as you do now based on the SAIC Retirement Plan's and the AMSEC 401(k) Plan's provisions for loans, withdrawals and distributions.

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**Stock Bonus and Option Q&A**

**Q71. Will the merger or the IPO impact the vesting schedule of my outstanding vesting stock or options?**

A. No. Neither the merger nor the IPO will have any impact on the vesting schedule of any outstanding vesting stock or stock options.

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**Q72. Will the merger or the IPO affect when I may exercise my outstanding stock options? Will I lose them if I don't exercise them before the merger or the IPO? Updated 14 September 2006**

A. Other than the administrative freeze discussed below, neither the merger nor the IPO will have any impact on when you can exercise your vested options. As in the past, the terms of the stock option agreement under which your stock options were granted govern when you can exercise. Generally, at any time during the five-year term of the stock option agreement under which your stock options were granted, you may exercise as many stock options as are vested at that time. There is no requirement that you exercise your vested stock options before the merger or the IPO.

In connection with completing the merger and IPO, the transfer agent for our stock, Mellon Investor Services, will need to invoke an administrative freeze in order to finalize pending option exercises and other stock transactions prior to completion of the IPO. The freeze, which is expected to start several days before the first day of public trading of the new common stock and last approximately three to five weeks, would be necessary to implement the reorganization merger, including the conversion of Old SAIC class A and class B common stock into new class A preferred stock. During the freeze, no stock transactions of any kind may take place, including the exercise of stock options. Given the length of time to successfully complete a stock transaction and the uncertainty of the exact timing of the freeze, it is recommended that individuals desiring to do stock transactions - such as exercising options, transferring stock, or other transactions - prior to the special dividend record date and prior to the implementation of the freeze complete the stock transaction process as soon as possible and no later than the first week of October 2006. It is important to note that all forms, required payments and actions must be completed and recognized as being completed by Mellon no later than the first week of October 2006. Transactions initiated later than this may not be successfully completed before the start of the administrative freeze.

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**Q73. What will happen to my unexercised stock options if my employment or affiliation terminates after the merger and IPO?**

A. The terms and provisions of your existing stock option agreements will continue to apply, including your rights upon termination of employment or affiliation.

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**Q74. How will my outstanding stock options be affected by the special dividend? Updated 14 September 2006**

A. If options are exercised on or before the record date established for the special dividend, then the shares issued upon exercise of options will receive the special dividend. However, the special dividend will not be paid on options. Instead, our stock option plans provide that unexercised stock options will

be adjusted to preserve their pre-special dividend value.<sup>1</sup> As a result,

If you exercise your options on or before the record date for the special dividend, the shares of class A common stock you acquire will be entitled to receive the special dividend.

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<sup>1</sup> Note that the number of adjusted options resulting from the option adjustment formula will be rounded down to the nearest whole share. See the example.

If you do not exercise your options on or before the record date for the special dividend, the exercise price of your options will be adjusted downward, and the number of options will be adjusted upward, to assure that the underlying value of your options is not reduced by payment of the special dividend. Your adjusted options will be vested and unvested in the same proportion as the pre-adjusted options, and will continue to vest under the original terms of the agreement.

### **Adjustment Formula**

Stock options, from an economic perspective, derive their value based upon the current price of the stock, the exercise price of the option, expiration date, the volatility of the underlying stock, interest rates, and other factors. We will adjust your options to reflect the special dividend using a widely-accepted approach.

### **Example**

An example of this formula appears below. In this example, the following assumptions are made: (1) the pre-adjustment, pre-split option exercise price is \$32.95; (2) each outstanding share of class A common stock of Old SAIC will be split and converted into two shares of class A preferred stock of New SAIC pursuant to an exchange ratio in the merger; (3) the post-split IPO stock price will be the price offered to the public initially as set forth in the underwriting agreement between New SAIC and the underwriters (the IPO Stock Price) and is \$15.00 for purposes of this example; (4) the employee holds options to purchase 100 shares of class A common stock pre-split and pre-adjustment; and (5) the amount of the dividend is \$12.50 per share of class A common stock of Old SAIC pre-split. There are two ways to view the value of these options. Under a widely-recognized financial model, and using estimates for the model's required input parameters, the options in this example have an economic value of \$1,086. Another way of looking at your options is that they are \$955 in-the-money, the value you would receive if you exercise your options today. In either event, if adjustments were not made, the special dividend would reduce that value because the stock price would be expected to decline following the special dividend.

Consequently, the company is reducing the exercise price and increasing the number of options to provide option holders approximately the same value before and after special dividend.

In the example below, after the stock split and the adjustment to reflect the special dividend, the employee will have options to purchase 283 shares of new class A preferred stock in New SAIC, at an exercise price of \$11.6294 per share, resulting in the same potential value to the employee (aside from a small reduction due to rounding down to the nearest whole option share) as before the one-time special dividend payment.

### **Stock Option Adjustment Method:**

1. Adjust the options for the stock split by doubling the number of options and halving the exercise price

2. Determine the adjustment ratio of the pre-dividend to post-dividend stock values. The post-dividend stock value is equal to the IPO Stock Price. The pre-dividend stock value is obtained by adding to the IPO price one-half of the special dividend payment.
  
3. For each class of options, adjust the option exercise price of the option by dividing the old exercise price by the adjustment ratio.
  
4. Divide the in the money value of the options (prior to the adjustment and split) by the difference between the offering price and the new (adjusted) exercise price to obtain the new number of options.
  
5. Round the number of options down to the nearest whole number.

Footnotes for the Example

<sup>1</sup> This example uses a hypothetical stock price for illustrative purposes. The actual IPO price is unknown, and could be higher or lower than the IPO price used in this example.

<sup>2</sup> As previously announced, the Board of Directors is considering a dividend in the range of \$10 to \$15 per share. This example uses an assumed dividend of \$12.50 per share, and the actual dividend could be higher or lower than the dividend used in this example.

<sup>3</sup> This example uses 100 options and a hypothetical exercise price for illustrative purposes.

<sup>4</sup> The economic value is calculated using the Black-Scholes method for option pricing, a widely-accepted method for valuing options, assuming six months to expiration and 34% volatility.

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**Q75. How will my outstanding stock options be affected by the proposed merger? Updated 14 September 2006**

A. As described above in the answer to Q74, the outstanding shares of class A common stock of Old SAIC will be split and converted into two shares of class A preferred stock of New SAIC pursuant to an exchange ratio in the merger as follows:

- the number of shares issuable upon the exercise of options will double
- the price at which the options may be exercised will be halved
- the shares issuable upon exercise of options will be converted from class A common stock of Old SAIC into class A preferred stock of New SAIC

The answer to Q74 illustrates the impact of the merger to account for the stock split as well as the adjustment to the option exercise price on account of the dividend to be paid on outstanding shares.

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**Q76. Will the merger or the IPO affect the process I use to exercise stock options? Updated 14 September 2006**

A. Neither the merger nor the IPO will significantly change the process for exercising your options. However, we outsourced administration of our stock option plans to Mellon Investor Services in early 2006, which resulted in some administrative changes to the exercise process. In connection with completing the merger and IPO, Mellon will need to invoke an administrative freeze in order to finalize pending option exercises and other stock transactions prior to completion of the IPO. (Please see [Question 72](#) of the Supplemental Q&A.)

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**Q77. What class of stock will I receive if I exercise my stock options after the merger?**

A. You will acquire shares of new class A preferred stock if, after the merger, you exercise stock options that were granted prior to the merger under the 1999 Stock Incentive Plan. The shares you acquire will be allocated among four series of new class A preferred stock (20% to series A-1 preferred stock, 20% to series A-2 preferred stock, 30% to series A-3 preferred stock and 30% to series A-4 preferred stock). However, we currently anticipate that options granted after the merger under the 2006 Equity Incentive Plan will be for the purchase of new common stock. (Please see [Question 118](#) of the Supplemental Q&A.)

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**Q78. What transfer restrictions will apply to the new class A preferred stock I acquire if I exercise my existing stock options after the merger and the IPO?**

A. The transfer restrictions that apply to your new class A preferred stock will depend on when you exercise your options. All shares you acquire when you exercise your existing options will be allocated among four series of new class A preferred stock (20% to Series A-1 preferred stock, 20% to Series A-2 preferred stock, 30% to Series A-3 preferred stock and 30% to Series A-4 preferred stock). These shares will be subject to transfer restrictions that 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

For example, if you exercise your options 200 days after the IPO, the series A-1 and A-2 preferred stock you receive will be unrestricted, but sale of the series A-3 and A-4 preferred stock you receive will be restricted until the applicable restriction periods expire (i.e., 270 and 360 days after the IPO, respectively). If you exercise your options more than 360 days after the IPO, none of the shares of new class A preferred stock you receive will be subject to transfer restrictions.

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**Q79. After the merger and the IPO, can I use stock to pay the exercise price and tax withholding when I exercise stock options? Will the transfer restrictions on the new class A preferred stock limit my ability to use this stock to exercise my stock options and to pay withholding taxes on any gains?**

A. Consistent with our customary practices and procedures, you may exchange vested SAIC shares that you own instead of cash to pay the exercise price. You may use shares acquired through a previous direct purchase, vested stock bonus shares, Employee Stock Purchase Plan (ESPP) shares distributed to you, or shares acquired through a previous stock option. However, shares acquired through the exercise of a stock option must have been owned for at least six months before they may be used to help pay for another stock option exercise (unless you own other shares for at least six months in sufficient quantity to exercise the option, then these shares can be deemed to be used for the option exercise). Because the company is a permitted transferee, the transfer restrictions will not prevent you from using your new class A preferred stock. In addition, you may direct us to withhold some of your newly acquired shares to satisfy the tax withholding requirement on the gain that you recognize from exercising your option.

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**Q80. Will the merger or the IPO impact the six-month holding period for stock acquired upon exercise of stock options and used to pay the exercise price for other stock options?**

A. No. Shares acquired through the exercise of a stock option must be owned for at least six months before those shares may be used to pay for another stock option exercise (unless you own other shares for at least six months in sufficient quantity to exercise the option, then these shares can be deemed to be used for the option exercise). Neither the merger nor the IPO will impact this requirement; however, the holding period for shares of new class A preferred stock you receive in the merger will include the time you owned the class A common stock or class B common stock of Old SAIC you surrendered in exchange for the new class A preferred stock issued in the merger. If approved by our stockhol