

SAIC, Inc.  
Form 10-K/A  
September 03, 2008

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

\_\_\_\_\_  
Form 10-K/A  
(Amendment No. 1)  
\_\_\_\_\_

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 31, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33072

\_\_\_\_\_  
SAIC, Inc.

(Exact name of Registrant as specified in its charter)

\_\_\_\_\_  
Delaware  
State or other jurisdiction of  
incorporation or organization

20-3562868  
I.R.S. Employer  
Identification No.

10260 Campus Point Drive, San Diego, California  
Address of principal executive offices

92121  
Zip Code

Registrant's telephone number, including area code:

(858) 826-6000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, Par Value \$.0001 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of class

Class A Preferred Stock, Par Value \$.0001 Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 31, 2007, the aggregate market value of the common stock (based upon the closing price of the stock on the New York Stock Exchange) held by non-affiliates of the registrant was \$2,030,266,611. The registrant's Class A preferred stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant's Class A preferred stock is convertible into one share of the registrant's common stock.

As of March 7, 2008, the registrant had 182,596,258 shares of common stock, \$.0001 par value per share, issued and outstanding, and 230,028,280 shares of Class A preferred stock, \$.0001 par value per share, issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of SAIC, Inc.'s definitive Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

---

## Explanatory Note

SAIC, Inc. (Company) is filing this Amendment No. 1 on Form 10-K/A to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2008 to reflect the restatement of its consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007 and 2006. Certain misstatements in the Company's previously issued consolidated financial statements resulted from a recently identified transcription error that was initially made in the determination of income taxes owed from the March 2005 sale of the Company's subsidiary, Telcordia Technologies, Inc. (Telcordia). These misstatements relate to accounting for the sale of Telcordia, which is presented as part of discontinued operations in the Company's consolidated financial statements for the year ended January 31, 2005 and for all subsequent quarterly and annual periods. The error that caused these misstatements was not identified by the Company's procedures and controls existing when the error was made in 2005. Additionally, certain business segment information has been restated to correct an error that resulted in certain Government segment business activity being reported in the Commercial segment. Refer to Note 2 of the notes to consolidated financial statements included in Item 8 for a complete description and quantification of the restatement.

This Amendment No. 1 on Form 10-K/A does not include any significant updates of previously filed information except as required to reflect the effects of the restatement. This amendment includes changes to Items 6, 7, 8, and 9A of Part II of the original filing to reflect the restatement. In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the original filing has been amended to contain the consent of the Company's independent registered public accounting firm and currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The consent of the Company's independent registered public accounting firm and the certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached to this Amendment No. 1 on Form 10-K/A as Exhibits 23.1, 31.1, 31.2, 32.1, and 32.2. Other than the foregoing items, no other items are amended or included in this Amendment No. 1 on Form 10-K/A. The foregoing items have not been updated to reflect other events occurring after the date of the original filing or to modify or update those disclosures affected by subsequent events. Therefore, this Amendment No. 1 on Form 10-K/A should be read in conjunction with the original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 previously filed on March 28, 2008 and with reports filed with the SEC subsequent to January 31, 2008.

Except for the foregoing amended information, this Amendment No. 1 on Form 10-K/A continues to speak as of the date of the original filing, and the Company has not updated the disclosure contained herein to reflect events that occurred at a later date. Other events occurring after the date of the original filing or other disclosures necessary to reflect subsequent events have been or will be addressed in reports filed with the SEC that address financial reporting periods subsequent to the fiscal year ended January 31, 2008.

With this filing, the Company is amending its Annual Report on Form 10-K for the fiscal year ended January 31, 2008 previously filed on March 28, 2008, to correct the previously undetected error made in the determination of income taxes owed from the March 2005 sale of Telcordia, which has been presented as part of discontinued operations in the Company's consolidated financial statements for the year ended January 31, 2005 and for all subsequent quarterly and annual periods. For this reason, the consolidated financial statements, report of independent registered public accounting firm and related financial information for the years ended January 31, 2008, 2007, 2006, and 2005 contained in any Form 10-K or for any interim period contained in any Form 10-Q reports filed on or prior to March 28, 2008 should no longer be relied upon. In addition, the Company is amending its Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2008 previously filed on June 4, 2008, to make corrections relating to the same error made in connection with the determination of income taxes owed from the March 2005 sale of Telcordia. Therefore, the condensed consolidated financial statements and related financial information contained in such Form 10-Q should no longer be relied upon.

The impact of the error principally affected the consolidated financial statements as of and for the year ended January 31, 2005. While this error was not detected until the quarterly period ended July 31, 2008, the material weakness that gave rise to this error was previously disclosed in Item 9A. Controls and Procedures in our Annual Report on Form 10-K for the year ended January 31, 2005. As previously disclosed, as of January 31, 2005, the Company was taking actions to address a material weakness caused by inadequate controls over accounting for income taxes, including an inadequate review and reconciliation process over the tax accounts.

Following January 31, 2005, the Company made a number of changes to strengthen its internal controls over financial reporting, including changes to its internal control processes and procedures over accounting for income taxes, in preparation for compliance with the Sarbanes Oxley Act of 2002. Management believes that these changes to the internal controls over financial reporting adequately addressed the material weakness that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2005. In connection with the restatement, the Company reevaluated its disclosure controls and procedures and internal control over financial reporting. Based on the Company's re-evaluation, the Company reconfirmed its previous conclusions that its disclosure controls and procedures and internal control over financial reporting were effective as of January 31, 2008.

---

SAIC, Inc.

Form 10-K/A

TABLE OF CONTENTS

---

	Page
<b><u>Part II</u></b>	
Item 6. <u>Selected Financial Data</u>	1
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	2
Item 8. <u>Financial Statements and Supplementary Data</u>	22
Item 9A. <u>Controls and Procedures</u>	22
<b><u>Part IV</u></b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	25
<u>Signature</u>	28
<u>Index to Consolidated Financial Statements</u>	F-1

## PART II

## Item 6. Selected Financial Data

The following selected consolidated financial data as of and for the years ended January 31, 2008, 2007, 2006 and 2005 has been restated. Information for all periods presented has been reclassified to conform to the year ended January 31, 2008 presentation of discontinued operations as described in Note 18 of the notes to consolidated financial statements. Refer to Note 2 of the notes to consolidated financial statements for a complete description and quantification of the restatement.

	2008	Year Ended January 31 As Restated			2004
		2007	2006	2005	
(in millions, except per share data)					
<b>Consolidated Statement of Income Data:</b>					
Revenues	\$ 8,935	\$ 8,061	\$ 7,518	\$ 6,910	\$ 5,573
Cost of revenues	7,698	6,974	6,568	6,044	4,828
Selling, general and administrative expenses	571	515	480	406	365
Goodwill impairment					7
Gain on sale of business units, net				2	
Operating income	666	572	470	462	373
Interest income <sup>(1)</sup>	56	116	96	44	49
Interest expense	(90)	(92)	(88)	(87)	(80)
Minority interest in income of consolidated subsidiaries	(3)	(5)	(3)	(3)	
Other income (expense), net	(3)	5	(7)	(28)	10
Income from continuing operations before income taxes	626	596	468	388	352
Provision for income taxes	240	231	133	125	135
Income from continuing operations	386	365	335	263	217
Income from discontinued operations, net of tax <sup>(2)</sup>	30	25	584	121	134
Net income	\$ 416	\$ 390	\$ 919	\$ 384	\$ 351
Earnings per share:					
Basic:					
Income from continuing operations	\$ .96	\$ 1.04	\$ .96	\$ .72	\$ .59
Income from discontinued operations	.07	.07	1.68	.33	.36
	\$ 1.03	\$ 1.11	\$ 2.64	\$ 1.05	\$ .95
Diluted:					
Income from continuing operations	\$ .93	\$ 1.00	\$ .93	\$ .70	\$ .58
Income from discontinued operations	.07	.07	1.63	.32	.35
	\$ 1.00	\$ 1.07	\$ 2.56	\$ 1.02	\$ .93
Weighted average shares outstanding:					
Basic	404	352	348	365	370
Diluted	417	364	359	375	377
	2008	January 31 As Restated		2005	2004
		2007	2006		
(in millions, except per share data)					
<b>Consolidated Balance Sheet Data:</b>					
Total assets <sup>(1)</sup>	\$ 4,981	\$ 4,559	\$ 5,655	\$ 5,985	\$ 5,540
Long-term debt	1,098	1,199	1,192	1,206	1,217
Other long-term liabilities	148	102	110	99	86
Stockholders' equity <sup>(4)</sup>	1,868	1,502	2,774	2,326	2,203

Cash dividends per share declared and paid <sup>(1)</sup>

15

<sup>(1)</sup> Prior to our October 2006 reorganization merger in which Science Applications International Corporation became a subsidiary of SAIC, Inc., Science Applications International Corporation declared a dividend of \$2.45 billion. SAIC, Inc. then completed an initial public offering of its common stock for net proceeds of \$1.24 billion. These transactions resulted in a decrease in total assets (cash and marketable securities) and stockholders' equity in fiscal 2007 and a decrease in interest income in fiscal 2008.

<sup>(2)</sup> In fiscal 2006, we completed the sale of Telcordia and recognized a gain on sale before income taxes of \$871 million. The results of operations prior to sale are reflected in income from discontinued operations for all periods presented.

[SAIC, Inc. Annual Report 1](#)

---

**PART II**

---

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes. In addition to historical consolidated financial information, the following discussion contains forward-looking statements, including statements regarding our intent, belief, or current expectations with respect to, among other things, trends affecting our financial condition or results of operations and the impact of competition. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those discussed in the forward-looking statements. See Item 1A. Risk Factors Forward-Looking Statement Risks in Part I of our original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 as filed on March 28, 2008. Factors that could cause or contribute to these differences include those discussed below and elsewhere in our original Annual Report on Form 10-K, particularly in Risk Factors. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.*

*Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ended January 31, 2008 as fiscal 2008.*

**Restatement**

We have restated our previously issued consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007 and 2006. Certain misstatements in our previously issued consolidated financial statements resulted from a recently identified transcription error that was initially made in the determination of income taxes owed from the March 2005 sale of our subsidiary, Telcordia Technologies, Inc. (Telcordia). These misstatements relate to accounting for the sale of Telcordia, which is presented as part of discontinued operations in our consolidated financial statements for the year ended January 31, 2005 and for all subsequent quarterly and annual periods. The error that caused these misstatements was not identified by our procedures and controls existing when the error was made in 2005. Additionally, certain business segment information has been restated to correct an error that resulted in certain Government segment business activity being reported in the Commercial segment. Refer to Note 2 of the notes to consolidated financial statements for a complete description and quantification of the restatement.

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) has not been updated except as required to reflect the results of the restatement. This MD&A continues to speak as of the date of the original filing and has not been updated to reflect other events occurring after the date of the original filing or to modify or update those disclosures affected by subsequent events. Other events occurring after the date of the original filing or other disclosures necessary to reflect subsequent events have been or will be addressed in reports filed with the SEC that address financial reporting periods subsequent to the fiscal year ended January 31, 2008.

**Overview**

Science Applications International Corporation was formed in 1969. In October 2006, in connection with becoming a publicly-traded company, Science Applications International Corporation completed a merger (reorganization merger) in which it became a 100%-owned subsidiary of SAIC, Inc., after which SAIC, Inc. completed an initial public offering of its common stock. We use the terms Company, we, us, and our to refer to SAIC, Inc. and its majority-owned and 100%-owned subsidiaries, including Science Applications International Corporation.

We are a 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, state and local government agencies, foreign governments and customers in selected commercial markets.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

Our business is focused on solving issues of national and global importance in the areas of Defense, Intelligence, Homeland Security, Logistics and Product Support, Systems Engineering and Integration and Research and Development. We are also focused on expanding our business in the areas of energy, health, environmental, cyber security, and space superiority. Our significant long-term management initiatives include:

achieving internal, or non-acquisition related, annual revenue growth through investments in business development, internal research and new product and technology development, and through increased focus on pursuing more large lead system integrator contract opportunities;

improving our operating income margin by increasing contract fees (by reducing the use of subcontractors, improving internal collaboration, increasing our growth in higher-margin business areas, and improving profitability on material and subcontractor deliverables) and improving our indirect cost structure (through better recovery of our indirect costs, streamlining our administrative infrastructure, and reducing unallowable and unbillable costs);

improving our information technology systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;

[2 SAIC, Inc. Annual Report](#)



**PART II**

---

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

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

Key financial highlights and events, including progress against these initiatives, during fiscal 2008 include:

Consolidated revenues increased 11% over the prior year, reflecting an internal growth rate of 7% compared to an internal growth rate of 4% in the prior year. We calculate internal revenue growth by comparing our reported revenue to the prior year revenue adjusted to include the revenue of acquired businesses for the comparable prior year before acquisition. Our internal revenue growth for fiscal 2008 was favorably impacted by increased activity on a number of new and continuing programs in our intelligence, defense and homeland security business areas.

Operating income as a percentage of revenues improved from 7.1% for fiscal 2007 to 7.5% for fiscal 2008, primarily due to increased profitability on many cost reimbursable contracts as a result of the recovery of a greater percentage of our indirect costs through our indirect pricing rates, continued reductions in costs associated with management infrastructure, improved fee rates on several large programs and increased sales of more profitable border, port and mobile security products.

Income from continuing operations increased \$21 million over the prior year primarily due to increased operating income of \$94 million, caused by increased revenues and improved operating margins, offset by a \$60 million decrease in interest income. Interest income decreased due to declines in average fiscal 2008 cash and marketable securities balances, mainly due to the payment of a \$2.45 billion special dividend in November 2006 offset by the \$1.24 billion raised through our October 2006 initial public offering.

Cash and cash equivalents decreased \$17 million during fiscal 2008, primarily reflecting cash provided by operations of \$345 million offset by cash used in support of investing activities of \$203 million, including the acquisition of two businesses for \$144 million (net of cash acquired of \$29 million and \$1 million of accrued acquisition payments), and cash used in support of financing activities of \$157 million, largely consisting of repurchases of our stock.

We completed two business acquisitions during fiscal 2008 for an aggregate purchase price of \$174 million. One acquired business is a consulting, engineering, and architectural design company with specific competencies in industrial manufacturing and facilities construction. The other acquired business is an India-based provider of onsite and offshore IT solutions and technology consulting in the science and engineering sector.

We completed a reorganization transaction resulting in the disposition of our 55% interest in our consolidated majority-owned subsidiary, AMSEC LLC, in exchange for our acquisition of certain divisions and subsidiaries of AMSEC LLC and recognized in discontinued operations a gain before income taxes of \$31 million.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

We commenced the first phase of our multi-year implementation of a new information technology system designed to bring the enterprise onto a single accounting, planning and operating platform. At the end of fiscal 2008, our corporate operations and two of our twenty operating business units (representing approximately 10% of total consolidated revenues on a full year basis) were operating on the new system, with the remainder to be implemented during fiscal 2009 and 2010.

### Reportable Segments

We have three reportable segments: Government, Commercial, and Corporate and Other. Except with respect to Other Income Statement Items Discontinued Operations and Net Income and Earnings per Share all amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations are presented for our continuing operations only.

*Government Segment.* Through our Government segment, we provide systems engineering, systems integration and advanced technical services and solutions primarily to U.S. federal, state and local government agencies and foreign governments. Revenues from our Government segment accounted for 94%, 94% and 93% of our total consolidated revenues for fiscal 2008, 2007 and 2006, respectively. Within the Government segment, a significant portion of our revenues are derived from contracts with the U.S. Government. The revenues from contracts with the U.S. Government include contracts where we serve as the prime or lead contractor, as well as contracts where we serve as a subcontractor to other parties who are engaged directly with various U.S. Government agencies as the prime contractor. Some revenues in the Government segment are derived from non-government customers for whom the work is performed by a Government segment business unit.

The U.S. Government's increased spending in recent years on homeland security, intelligence and defense-related programs has had a favorable impact on our business in fiscal 2008, 2007 and 2006. Our results have also been favorably impacted by the U.S. Government's increased spending on information technology (IT) outsourcing and other technical services. Future levels of spending and authorizations may decrease, remain constant or shift to areas where we do not currently provide services. Additionally, changes in spending authorizations and budgetary priorities could occur due to the rapid growth of the federal budget deficit, increasing political pressure to reduce overall levels of government spending or other factors.

SAIC, Inc. Annual Report 3

---

**PART II**

---

Competition for contracts with the U.S. Government is intense. The U.S. Government has increasingly used contracting processes that give it the ability to select multiple winners or pre-qualify certain contractors to provide various products or services at established general terms and conditions. Such processes include purchasing services and solutions using indefinite-delivery / indefinite-quantity (IDIQ) and U.S. General Services Administration (GSA) award contract vehicles. This trend has served to increase competition for U.S. Government contracts and increase pressure on the prices we charge for our products and services.

*Commercial Segment.* Through our Commercial segment, we primarily target commercial customers worldwide in select industry markets, which currently include oil and gas, utilities and life sciences. While the Commercial segment provides an array of IT systems integration and advanced technical services, the focused offerings include applications and IT infrastructure management, data lifecycle management, and business transformation services. Our Commercial segment customers often benefit from leveraging our broader governmental experiences, such as geographic information systems, security, and systems engineering. Revenues from our Commercial segment accounted for 6%, 6% and 7% of our total consolidated revenues in fiscal 2008, 2007 and 2006, respectively.

*Corporate and Other Segment.* Our Corporate and Other segment includes the operations of our internal real estate management subsidiary, various corporate activities, the elimination of intersegment revenues and costs and certain corporate expense items not allocable to our Government customers referred to as unallowable expenses. Our Corporate and Other segment does not contract with third parties for the purpose of generating revenues.

**Key Financial Metrics**

**Sources of Revenues**

We recognize revenues under our contracts primarily using the percentage-of-completion method. Under the percentage-of-completion method, revenues are recognized based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimating total costs at completion. The contracting process used for procurement, including IDIQ, GSA Schedule, and other master agreement contract vehicles, does not determine revenue recognition.

*Bookings and Backlog.* We recorded net bookings worth an estimated \$8.8 billion and \$8.9 billion during fiscal 2008 and 2007, respectively. Bookings generally represent the estimated amount of revenue to be earned in the future from receipt of funded and unfunded contract awards during the year, net of any adjustments to previously reported backlog amounts. We calculate bookings as the year ending backlog plus the year's revenues less prior year ending backlog and less backlog obtained in acquisitions.

Backlog represents the amount of work under negotiated contracts which has not yet been performed. We segregate our backlog into two categories as follows:

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

*Negotiated Unfunded Backlog.* Negotiated unfunded backlog represents estimated amounts of revenue to be earned in the future from (1) negotiated contracts for which funding has not been appropriated or otherwise authorized and (2) unexercised

## Edgar Filing: SAIC, Inc. - Form 10-K/A

priced contract options. Negotiated unfunded backlog does not include any estimate of future potential task orders expected to be awarded under IDIQ, GSA Schedule, or other master agreement contract vehicles.

[4 SAIC, Inc. Annual Report](#)

## PART II

The estimated value of our total consolidated backlog as of the end of the last two fiscal years was as follows:

	January 31	
	2008	2007
	As Restated (in millions)	
<b>Government segment:</b>		
Funded backlog	\$ 4,322	\$ 3,932
Negotiated unfunded backlog	9,719	10,186
Total backlog	\$ 14,041	\$ 14,118
<b>Commercial segment:</b>		
Funded backlog	\$ 740	\$ 693
Negotiated unfunded backlog	193	100
Total backlog	\$ 933	\$ 793
<b>Total consolidated:</b>		
Funded backlog	\$ 5,062	\$ 4,625
Negotiated unfunded backlog	9,912	10,286
Total backlog	\$ 14,974	\$ 14,911

The restatement of previously reported backlog as of January 31, 2008 includes a downward adjustment of \$65 million for the Government segment to eliminate amounts attributable to our discontinued operations.

Total backlog may fluctuate from period to period depending on the timing of contract awards, renewals, modifications and cancellations.

We expect to recognize a substantial portion of our funded backlog as revenues within the next 12 months. However, the U.S. Government may cancel any contract at any time. In addition, certain contracts in the Commercial segment include provisions that allow the customer to cancel at any time. Most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and potential fees for work performed.

*Contract Types.* We generate revenues under the following types of contracts:

Cost-reimbursement contracts which provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee.

Time-and-materials (T&M) contracts which typically provide for negotiated fixed hourly rates plus reimbursement of other direct costs.

Fixed-price-level-of-effort contracts which are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

Firm-fixed-price (FFP) contracts which provide for a fixed price for specified products, systems and/or services. If actual costs vary from planned costs on a FFP contract, we generate more or less than the planned amount of profit and may even incur a loss.

The following table summarizes revenues by contract type as a percentage of total revenues for the last three fiscal years:

	Year Ended January 31		
	2008	2007	2006
Cost-reimbursement	47%	48%	45%
T&M and fixed-price-level-of-effort	35	36	37
FFP	18	16	18
Total	100%	100%	100%

SAIC, Inc. Annual Report 5

## PART II

**Revenue Mix.** We generate revenues under our contracts from (1) the efforts of our technical staff, which we refer to as labor-related revenues and (2) the materials provided on a contract and efforts of our subcontractors, which we refer to as material and subcontractor (M&S) revenues. M&S revenues are generated primarily from large, multi-year systems integration contracts and contracts in our logistics and product support business area as well as through sales of our proprietary products, such as our border, port and mobile security products. While our border, port and mobile security products provide higher margins, in most cases, M&S revenues have lower margins than our labor-related revenues. The following table presents changes in labor-related revenues and M&S revenues for the last three fiscal years:

	Year Ended January 31				
	2008	Percent change	2007 (dollars in millions)	Percent change	2006
Labor-related revenues	\$ 5,492	8%	\$ 5,106	9%	\$ 4,677
<i>As a percentage of revenues</i>	<i>61%</i>		<i>63%</i>		<i>62%</i>
M&S revenues	3,443	17	2,955	4	2,841
<i>As a percentage of revenues</i>	<i>39%</i>		<i>37%</i>		<i>38%</i>

The increase in labor-related revenues in fiscal 2008 and 2007 was primarily due to increases in labor rates and the number of direct labor personnel. At the end of fiscal 2008, we had approximately 43,800 full-time and part-time employees compared to 41,700 and 41,100 at the end of fiscal 2007 and 2006, respectively. The increase in M&S revenues in fiscal 2008 compared to the prior year was primarily due to increased activities on several large systems integration programs, including work performed for the North Atlantic Treaty Organization (NATO) and the Space and Naval Surface Warfare Center and increased sales of border, port and mobile security products. The increase in M&S revenues in fiscal 2007 was due to the delivery of significant materials under certain contracts primarily in the homeland security business area. This increase for the year was partially offset by declines in M&S activity in the systems engineering and integration business area primarily due to the completion of a large contract that had a substantial component of materials, declines in our logistics and product support business area primarily due to the completion of one of our large prime vendor contracts and a reduced volume of orders on other prime vendor contracts caused by non-recurring customer events.

**Contract Concentration.** The growth of our business is directly related to our ability to successfully compete for contract awards and hire personnel to perform on contracts as well as our ability to successfully deliver on these contracts. The following table summarizes information related to our larger contracts for the last three fiscal years:

	Year Ended January 31		
	2008	2007	2006
Number of contracts:			
Greater than \$50 million in annual revenues recognized	14	9	9
Greater than \$10 million in annual revenues recognized	117	107	101

These larger contracts with greater than \$10 million in annual revenues recognized represented 39%, 37% and 37% of our total consolidated revenues in fiscal 2008, 2007 and 2006, respectively. The remainder of our revenues is derived from a large number of smaller contracts with annual revenues of less than \$10 million.

In fiscal 2008, 2007, and 2006, 87%, 88% and 88%, respectively, of our consolidated revenues were attributable to prime contracts with the U.S. Federal Government or to subcontracts with other contractors engaged in work for the U.S. Federal Government. The percentage of total consolidated revenues from customers representing greater than 10% of our total consolidated revenues were as follows:

	Year Ended January 31		
	2008	2007	2006
U.S. Army	21%	18%	16%
U.S. Navy	12	12	12
U.S. Air Force	8	9	10

*Geographic Location.* The majority of our services are performed in the United States. Revenues earned within the United States accounted for 98%, 97% and 97% of our total consolidated revenues in fiscal 2008, 2007 and 2006, respectively.

***Cost of Revenues and Operating Expenses***

*Cost of Revenues.* Cost of revenues includes direct labor and related fringe benefits, overhead, and direct expenses incurred to complete contracts and task orders, such as subcontract labor and materials. Overhead consists of indirect costs relating to rent/facilities, administration, certain depreciation and management information systems expenses, travel and other expenses.



## PART II

**Selling, General and Administrative Expenses.** Selling, general and administrative (SG&A) expenses are primarily for corporate administrative functions, such as management, legal, finance and accounting, contracts and administration, human resources and certain management information systems expenses. SG&A also includes bid-and-proposal and internal research and development expenses.

### Results of Operations

The following table summarizes our consolidated results of operations for the last three fiscal years:

	2008	Year Ended January 31		2006
		Percent change	2007	
			As Restated	
			(dollars in millions)	
Revenues	\$ 8,935	11%	\$ 8,061	7%
Cost of revenues	7,698	10	6,974	6
Selling, general and administrative expenses	571	11	515	7
Operating income	666	16	572	22
<i>As a percentage of revenues</i>	7.5%		7.1%	6.3%
Non-operating income (expense), net	(40)		24	(2)
Income from continuing operations before income taxes	626	5	596	27
Provision for income taxes	240	4	231	74
Income from continuing operations	386	6	365	9
Income from discontinued operations, net of tax	30		25	584
Net income	\$ 416	7	\$ 390	(58)

**Revenues.** Our consolidated revenues increased 11% and 7% in fiscal 2008 and 2007, respectively, primarily due to growth in revenues in our Government segment, including growth related to the acquisition of businesses. Internal, or non-acquisition, related growth was 7% and 4% for fiscal 2008 and 2007, respectively. We calculate internal revenue growth by comparing our current year reported revenue to the prior year revenue adjusted to include the revenue of acquired businesses for the comparable period before acquisition. Revenue growth related to acquisition of businesses was 4% and 3% for fiscal 2008 and 2007, respectively.

The following table summarizes changes in segment revenues for the last three fiscal years:

	2008	Year Ended January 31		2006
		Percent change	2007	
			As Restated	
			(dollars in millions)	
Government segment revenues	\$ 8,426	12%	\$ 7,543	7%
<i>As a percentage of total revenues</i>	94%		94%	93%
Commercial segment revenues	509	(2)	518	5
<i>As a percentage of total revenues</i>	6%		6%	7%
Corporate and Other segment revenues				(3)
Total revenues	\$ 8,935	11	\$ 8,061	7

Government segment revenues increased \$883 million, or 12%, in fiscal 2008, including internal revenue growth of 8%. Internal revenue growth in the Government segment for fiscal 2008 was attributed to continued growth in a number of our business areas, most notably our intelligence, defense and homeland security business areas. The increase in the intelligence business area was

## Edgar Filing: SAIC, Inc. - Form 10-K/A

due to new program wins and higher levels of activity on existing programs, including certain classified and operational intelligence programs in fiscal 2008. The increase in the defense business area is primarily due to increased volume in Command, Control and Communications programs with the U.S. Navy and Marine Corps customers and new program wins. This activity in our defense business area included revenue from work performed on the recently-won NATO Ballistic Missile Defense program and slightly reduced revenues from our highly visible Future Combat Systems program caused by customer budget reductions and timing of work. Increases in revenues in our homeland security business area were driven by increased sales of border, port and mobile security products as well as new program wins with various Department of Homeland Security agencies. Revenue growth related to acquisitions of businesses in the Government segment was 4% for fiscal 2008.

Government segment revenues increased \$516 million, or 7%, in fiscal 2007, including internal revenue growth of 4%. Internal revenue growth in the Government segment for fiscal 2007 was positively impacted by growth in the intelligence,

[SAIC, Inc. Annual Report 7](#)

## PART II

homeland security and defense business areas. In addition, fiscal 2006 revenues reflect a reduction in revenues associated with difficulties encountered on our Greek contract. The fiscal 2007 revenue increase was partially offset by declines in our systems engineering and integration business area primarily due to the completion of a large contract. We also experienced declines in our logistics and product support business area in fiscal 2007 primarily due to the completion of one of our large prime vendor contracts and a reduced volume of orders on other prime vendor contracts caused by non-recurring customer events. Revenue growth related to acquisitions of businesses in the Government segment was 3% for fiscal 2007.

Commercial segment revenues decreased \$9 million, or 2%, in fiscal 2008, primarily due to a one-time sale of equipment in fiscal 2007. Commercial segment revenues were also impacted by reductions in information technology outsourcing revenues in our U.K. subsidiary, offset in part by increased outsourcing and consulting services volume on various domestic programs. Commercial segment revenues increased \$24 million, or 5%, in fiscal 2007 due to higher volume in our consulting services and information technology outsourcing business areas, including a one-time sale of equipment.

Corporate and Other segment revenues include the elimination of intersegment revenues of \$3 million in fiscal 2006. There were no intersegment revenues in fiscal 2008 and 2007.

*Cost of Revenues.* The following table summarizes changes in segment cost of revenues for the last three fiscal years:

	2008	Year Ended January 31		2006	
		Percent change	2007 As Restated (dollars in millions)		Percent change
Government segment cost of revenues	\$ 7,333	11%	\$ 6,598	6%	\$ 6,206
<i>As a percentage of related revenues</i>	<i>87.0%</i>		<i>87.5%</i>		<i>88.3%</i>
Commercial segment cost of revenues	387	(2)	394	3	382
<i>As a percentage of related revenues</i>	<i>76.0%</i>		<i>76.1%</i>		<i>77.3%</i>
Corporate and Other segment cost of revenues	(22)	(22)	(18)	10	(20)
Total cost of revenues	\$ 7,698	10	\$ 6,974	6	\$ 6,568
<i>As a percentage of revenues</i>	<i>86.2%</i>		<i>86.5%</i>		<i>87.4%</i>

Government segment cost of revenues improved as a percentage of related revenues for fiscal 2008 primarily due to increased profitability on many cost reimbursement contracts as a result of the recovery of a greater percentage of our indirect costs through our indirect pricing rates, continued reductions in costs associated with management infrastructure, and improved fee rates on several large programs. The indirect rate performance improvement actions resulted in both increased profitability on certain cost reimbursable contracts as a result of the recovery of \$15 million of prior year indirect rate overruns as well as an overall reduction in indirect rate overruns expensed to cost of revenues in fiscal 2008 compared to fiscal 2007. Government segment cost of revenues for fiscal 2008 also benefited from increases in contract fee rates, primarily due to a higher volume of sales of more profitable border, port and mobile security products. The fiscal 2008 improvement was partially offset by increased stock-based compensation expense related to both our required adoption of Statement of Financial Accounting Standards (SFAS) No. 123(R) for stock options as well as a fiscal 2008 increase in vesting stock award activity.

The fiscal 2007 improvement in Government segment cost of revenues as a percentage of related revenues was primarily due to a decrease of \$81 million in losses recognized on our Greek contract as compared to fiscal 2006, a slightly higher concentration of labor-related revenues, which typically carry higher margins than our M&S revenues, and better management of our overhead expenses for fiscal 2007 as compared to fiscal 2006. The fiscal 2007 improvement was partially offset by increased stock-based compensation expense related to stock options and discounts on the employee stock purchase plan in fiscal 2007 of \$21 million as a result of the required adoption SFAS No. 123(R). There was no expense recognized for stock options or employee stock purchase plan discounts in fiscal 2006.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

Commercial segment cost of revenues remained consistent as a percentage of related revenues in fiscal 2008 as compared to fiscal 2007. Commercial segment cost of revenues improved as a percentage of related revenues in fiscal 2007 primarily due to improved contract margin performance on certain of our longer term information technology outsourcing contracts in that year.

Corporate and Other segment cost of revenues in fiscal 2008 and 2007 represents the elimination of intersegment facility charges to our Government and Commercial segments for use of company-owned properties.

[8 SAIC, Inc. Annual Report](#)

## PART II

*Selling, General and Administrative Expenses.* The following table summarizes changes in consolidated SG&A expense by type of activity for the last three fiscal years:

	2008	Year ended January 31		2006	
		Percent change	2007		Percent change
			(dollars in millions)		
General and administrative	<b>\$ 409</b>	11%	\$ 369	7%	\$ 344
<i>As a percentage of total revenues</i>	<b>4.6%</b>		4.6%		4.6%
Bid and proposal	<b>113</b>	1	112	3	109
<i>As a percentage of total revenues</i>	<b>1.3%</b>		1.4%		1.4%
Internal research and development	<b>49</b>	44	34	26	27
<i>As a percentage of total revenues</i>	<b>.5%</b>		.4%		.4%
Total SG&A	<b>\$ 571</b>	11	\$ 515	7	\$ 480
<i>As a percentage of total revenues</i>	<b>6.4%</b>		6.4%		6.4%

Total consolidated SG&A increased \$56 million, or 11%, for fiscal 2008. As a percentage of revenues, consolidated SG&A for fiscal 2008 remained relatively consistent with fiscal 2007 levels, largely reflecting management's efforts to control general and administrative spending as a percentage of revenues offset by planned increases in internal research and development efforts to develop new products and technologies to meet our customers' anticipated needs.

General and administrative expenses increased \$40 million, or 11%, for fiscal 2008 as compared to fiscal 2007 primarily due to the fiscal 2008 acquisition of a business with a higher general and administrative cost structure, increased stock-based compensation expense, increased professional services spending and increased corporate business development spending offset by a reduction in legal expenses. The increase in stock-based compensation results from both our required adoption of SFAS 123(R) for stock options as well as a fiscal 2008 increase in vesting stock award activity. The increase in professional services spending includes activities associated with efforts to improve our information technology systems infrastructure, including the first phase of implementation during fiscal 2008 of a new information technology system, as well as efforts to improve related business processes to provide greater effectiveness and efficiency across all business functions. The reduction in fiscal 2008 legal spending reflects reduced legal activity associated with our Greek contract. Internal research and development expenses increased \$15 million for fiscal 2008, consistent with our business strategy to increase efforts to develop new products and technologies to support our customers and our long-term growth. Bid and proposal (B&P) expenses increased \$1 million for fiscal 2008. The level of B&P activities fluctuates depending on the timing of bidding opportunities.

Total consolidated SG&A increased \$35 million, or 7% for fiscal 2007 as compared to fiscal 2006. General and administrative expenses increased \$25 million, or 7%, primarily due to increased information technology and other infrastructure expenditures, increased legal expenses as well as increased stock-based compensation, business development and professional services expenses. Stock-based compensation expense related to stock options and discounts on the employee stock purchase plan increased approximately \$12 million during fiscal 2007 as a result of the adoption of SFAS No. 123(R). There was no expense recognized for stock options or employee stock purchase plan discounts in fiscal 2006. Professional services expense increased by \$12 million for fiscal 2007 largely due to certain systems implementation projects and our Sarbanes-Oxley compliance efforts. Internal research and development expenses increased \$7 million for fiscal 2007 primarily due to increased efforts to develop new products and technologies to support our customers and our long-term growth. Bid and proposal (B&P) expenses increased \$3 million for fiscal 2007, reflecting increased B&P activities offset by declines in production costs stemming from government actions to simplify the bidding process and actions taken by us to make our proposal process more efficient, both of which generally reduced the average cost of responding to a given B&P opportunity.

The following table summarizes changes in SG&A expense by segment for the last three fiscal years:

Edgar Filing: SAIC, Inc. - Form 10-K/A

	2008	Year Ended January 31		2006
		Percent change	2007	
			As Restated	
			(dollars in millions)	
Government segment SG&A	<b>\$ 437</b>	16%	\$ 376	3% \$ 366
<i>As a percentage of related revenues</i>	<b>5.2%</b>		5.0%	5.2%
Commercial segment SG&A	<b>78</b>		78	10 71
<i>As a percentage of related revenues</i>	<b>15.3%</b>		15.1%	14.4%
Corporate and Other segment SG&A	<b>56</b>	(8)	61	42 43
Total SG&A	<b>\$ 571</b>	11	\$ 515	7 \$ 480
<i>As a percentage of revenues</i>	<b>6.4%</b>		6.4%	6.4%

SAIC, Inc. Annual Report 9

## PART II

Government segment SG&A increased \$61 million for fiscal 2008 primarily due to the acquisition in fiscal 2008 of a new business with a higher general and administrative cost structure, increased professional services spending, and increased internal research and development and business development spending. Government segment SG&A increased \$10 million for fiscal 2007 primarily due to increased stock-based compensation, internal research and development and professional services expenses.

Commercial segment SG&A expenses remained consistent in fiscal 2008. Commercial segment SG&A increased \$7 million in fiscal 2007 due to increased spending to support Commercial segment revenue growth and higher net periodic pension cost.

Corporate and Other segment SG&A expenses represent corporate costs that are unallowable under Cost Accounting Standards and the net effect of various items related to operating business units that are excluded from the evaluation of a business unit's operating performance in the Government or Commercial segments. Corporate and Other segment SG&A decreased \$5 million in fiscal 2008 primarily due to a reduction in legal expenses offset by an increase in unallowable stock option expense. Corporate and Other segment SG&A increased \$18 million for fiscal 2007 primarily due to increased unallowable stock option expense, professional service and legal expenses.

*Operating Income.* The following tables summarize changes in segment operating income for the last three fiscal years:

	2008	Year Ended January 31		2006
		Percent change	2007 As Restated (dollars in millions)	
Government segment operating income	\$ 656	15%	\$ 569	\$ 455
<i>As a percentage of related revenues</i>	<i>7.8%</i>		<i>7.5%</i>	<i>6.5%</i>
Commercial segment operating income	44	(4)	46	41
<i>As a percentage of related revenues</i>	<i>8.6%</i>		<i>8.9%</i>	<i>8.3%</i>
Corporate and Other segment operating income	(34)	21	(43)	(26)
Total operating income	\$ 666	16	\$ 572	\$ 470
<i>As a percentage of revenues</i>	<i>7.5%</i>		<i>7.1%</i>	<i>6.3%</i>

Total operating income increased \$94 million for fiscal 2008 primarily due to increased profitability in the Government segment and reduced losses in the Corporate and Other segment. Total operating income increased \$102 million for fiscal 2007 primarily due to increased Government and Commercial segment profitability, primarily due to increased revenues and decreased losses recognized on our Greek contract, partially offset by an increase in Corporate and Other segment operating loss for the period.

Government segment operating income increased \$87 million for fiscal 2008, benefiting from increased profitability on many cost reimbursable contracts as a result of the recovery of a greater percentage of our indirect costs through our indirect pricing rates, continued reductions in costs associated with management infrastructure, improved fee rates on several large programs and increased sales of more profitable border, port and mobile security products. These benefits were partially offset by increases in stock based compensation expense due to our adoption of SFAS 123(R) for stock options and increased vesting stock award activity, increased professional services spending and increased spending on internal research and development initiatives and discretionary overhead spending mostly for business development activities. Government segment operating income increased \$114 million for fiscal 2007 primarily due to growth in related revenues and decreased losses recognized on our Greek contract partially offset by increased SG&A expenses.

Commercial segment operating income decreased \$2 million for fiscal 2008. Commercial segment operating income increased \$5 million for fiscal 2007 primarily due to growth in related revenues and improvements in cost of revenues as a percentage of revenues offset by increased SG&A expenses.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

Corporate and Other segment operating loss decreased \$9 million for fiscal 2008 primarily reflecting lower legal expenses, including expenses relating to our dispute on the Greek contract. Corporate and Other segment operating loss increased \$17 million for fiscal 2007 primarily due to increased unallowable stock option expense, professional services spending and legal expenses.

*Interest Income.* Interest income decreased by \$60 million, or 52%, for fiscal 2008 due to a decrease in our average cash and marketable securities balances, resulting primarily from the payment of a \$2.45 billion special dividend in November



## PART II

2006 offset by the \$1.24 billion raised in our October 2006 initial public offering. Interest income increased \$20 million, or 21%, in fiscal 2007 due primarily to increased average interest rates and cash balances.

**Interest Expense.** Interest expense reflects interest on (1) our outstanding debt securities, (2) a building mortgage, (3) deferred compensation arrangements and (4) notes payable. Interest expense remained consistent for fiscal 2008 as most of our debt instruments have fixed interest rates and there were no significant changes in the underlying debt balances during fiscal 2008. Interest expense increased slightly during fiscal 2007, reflecting short-term borrowings made on our credit facility following our initial public offering.

As more fully described in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 filed with the SEC on March 28, 2008 and Note 9 of the notes to consolidated financial statements, we are currently exposed to interest rate risks and foreign currency risks that are inherent in the financial instruments arising from transactions entered into in the normal course of business. We will from time to time use derivative instruments to manage these risks. The derivative instruments we currently hold have not had a material impact on our consolidated financial position or results of operations.

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

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Impairment losses on investments	\$ (13)	\$ (1)	\$ (6)
Gross realized gains on sale of marketable securities			1
Gross realized losses on sale of marketable securities			(9)
Net gain (loss) on sale of other investments	1	1	(1)
Equity interest in earnings and impairment losses of unconsolidated affiliates	6	2	5
Other	3	3	3
Total other income (expense), net	\$ (3)	\$ 5	\$ (7)

The impairment losses on investments in fiscal 2008, 2007 and 2006 were due to declines in fair value of private equity securities held by our venture capital subsidiary that were deemed to be other-than-temporary. The carrying value of our cost and equity method investments as of January 31, 2008 was \$48 million, including \$24 million of private equity securities held by our venture capital subsidiary.

**Provision for Income Taxes.** The provision for income taxes as a percentage of income from continuing operations before income taxes was 38.3% in fiscal 2008, 38.8% in fiscal 2007 and 28.4% in fiscal 2006. The lower effective tax rate for fiscal 2006 was primarily due to the reversal of approximately \$50 million in accruals for uncertain tax positions as a result of settlements of federal and state audits for amounts different than the recorded accruals for uncertain tax positions, as well as the expiration of statutes on open tax years.

We are subject to routine compliance reviews by the Internal Revenue Service (IRS), and other taxing authorities. The IRS is currently auditing fiscal 2005 and 2006. The IRS has completed audits through fiscal 2004. As of January 31, 2008, we had liabilities for uncertain tax positions of \$58 million, including \$28 million related to continuing operations. While we believe we have adequate accruals for our uncertain tax positions, the tax authorities may determine that we owe taxes in excess of recorded accruals or our recorded accruals may be in excess of the final settlement amounts agreed to by tax authorities.

**Income from Continuing Operations.** Income from continuing operations increased \$21 million, or 6%, in fiscal 2008 primarily due to increased operating income of \$94 million caused by increased revenues and improved operating margins offset by a \$60 million

## Edgar Filing: SAIC, Inc. - Form 10-K/A

decrease in interest income, an \$8 million decline in other income (expense), net, primarily attributable to other-than-temporary impairment losses on investments, and a \$9 million increase in income tax expense. Income from continuing operations increased \$30 million, or 9%, in fiscal 2007 primarily due to increased operating income of \$102 million, increased interest income of \$20 million, and increased other income offset by a \$98 million increase in income tax expense.

*Earnings per Share (EPS) from Continuing Operations.* Diluted EPS from continuing operations decreased \$0.07 per share, or 7%, for fiscal 2008 as compared to fiscal 2007 despite a \$21 million increase in income from continuing operations. This was primarily due to a 53 million share increase in the number of diluted weighted average shares outstanding in fiscal 2008 as compared to fiscal 2007. Diluted EPS from continuing operations increased \$0.07, or 8%, for fiscal 2007 primarily due to a \$30 million increase in income from continuing operations offset by a 5 million share increase in the number of diluted weighted average shares outstanding in fiscal 2007 as compared to fiscal 2006. The increase in the weighted average shares outstanding for fiscal 2008 and 2007 was primarily due to the sale of 86 million shares of common stock in connection with our October 2006 initial public offering.

SAIC, Inc. Annual Report 11

## PART II

**Discontinued Operations.** During fiscal 2008, we completed a reorganization transaction resulting in the disposition of our 55% interest in our consolidated majority-owned subsidiary, AMSEC LLC, in exchange for our acquisition of certain divisions and subsidiaries of AMSEC LLC and recorded a pre-tax gain on sale of \$31 million. During fiscal 2007, we sold ANX, a majority-owned subsidiary, for an initial sales price of \$27 million and recorded a pre-tax gain of \$19 million. During fiscal 2006, we sold our Telcordia subsidiary for \$1.35 billion and recorded a pre-tax gain of \$871 million.

The results of operations and the financial position of AMSEC LLC (other than the divisions and subsidiaries that we acquired in the reorganization transaction), ANX and Telcordia have been reported as discontinued operations for all fiscal years presented. The operating results of these discontinued operations for fiscal 2008, 2007 and 2006 were as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Revenues	\$ 106	\$ 246	\$ 363
Costs and expenses:			
Cost of revenues	96	215	290
Selling, general and administrative expenses	4	13	42
Non-operating income		3	
Income before minority interest in income of consolidated subsidiaries and income taxes	\$ 6	\$ 21	\$ 31

The AMSEC LLC reorganization transaction was generally treated as a tax-free liquidation of our interest in AMSEC LLC for income tax purposes.

With respect to the sale of Telcordia, we have indemnified the buyer for all income tax obligations on and through the closing date of the transaction. While we believe we have appropriate accruals for these uncertain tax positions, the ultimate resolution of these matters could differ from the amounts accrued. We also have customary indemnification obligations owing to the buyer and are entitled to receive additional amounts as contingent sale price, including all of the proceeds, net of the tax liability incurred by Telcordia, from any judgment or settlement of the litigation Telcordia initiated against Telkom South Africa and 50% of the net proceeds received in connection with the prosecution of certain patent rights of Telcordia as described in *Commitments and Contingencies*. All future contingent payments or contingent purchase price proceeds and changes in our estimates of these items and other related items will be reflected as discontinued operations and result in adjustments to the gain on sale in the period in which they arise.

**Net Income and EPS.** Net income increased \$26 million, or 7%, for fiscal 2008. This reflects a \$21 million increase in income from continuing operations and a \$5 million increase in income from discontinued operations. Diluted EPS decreased \$0.07 per share, or 7%, for fiscal 2008 despite the \$26 million increase in net income due to a 53 million share increase in the number of diluted weighted average shares outstanding for fiscal 2008 compared to fiscal 2007. Net income decreased \$529 million for fiscal 2007 primarily due to reduced income from discontinued operations of \$559 million related to the fiscal 2006 sale of Telcordia offset by a \$30 million increase in income from continuing operations. Diluted EPS decreased \$1.49 per share, or 58%, for fiscal 2007 primarily due to the \$1.56 per share decline in income from discontinued operations. The increase in the number of weighted average shares outstanding for fiscal 2008 and 2007 was primarily due to the sale of 86 million shares of common stock in connection with our October 2006 initial public offering.

### Liquidity and Capital Resources

We have financed our operations from our inception in 1969 primarily through cash flow from operations, proceeds from the sales of investments, issuances of debt securities and borrowings under our credit facilities. In connection with the October 2006 initial public offering, we received net proceeds of \$1.24 billion, after deducting underwriting commissions and discounts and other offering-related costs. Prior to the initial public offering and reorganization merger, our 100%-owned subsidiary, Science

## Edgar Filing: SAIC, Inc. - Form 10-K/A

Applications International Corporation, declared a special dividend of \$2.45 billion to its stockholders, which was paid in November 2006. We anticipate our principal sources of liquidity for the next 12 months and beyond will be cash flows from operations. We may also make borrowings under our revolving credit facility. We anticipate our principal uses of cash will be for operating expenses, capital expenditures, working capital requirements, acquisitions, debt service requirements, stock repurchases, and funding of pension obligations. We anticipate that our operating cash flows, existing cash and cash equivalents and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

[12 SAIC, Inc. Annual Report](#)

## PART II

**Historical Trends**

Cash and cash equivalents totaled \$1.10 billion and \$1.11 billion at January 31, 2008 and 2007, respectively. The following table summarizes cash provided or used by type of activity for the last three fiscal years:

	Year Ended January 31		
	2008	2007	2006
		(in millions)	
Total cash flows provided by operations	\$ 345	\$ 693	\$ 573
Total cash flows provided by (used in) investing activities	(203)	1,211	(581)
Total cash flows used in financing activities	(157)	(1,833)	(707)
Increase (decrease) in cash and cash equivalents from discontinued operations	(2)	7	761
Total increase (decrease) in cash and cash equivalents	\$ (17)	\$ 78	\$ 46

**Cash Provided by Operations.** The \$348 million decrease in fiscal 2008 cash flows from operations compared to fiscal 2007 was primarily due to an increase in accounts receivable due to increased revenues and an increase in the average time to collect receivables at the end of fiscal 2008 as compared to fiscal 2007, a greater portion of fiscal 2007 bonuses and retirement plan contributions paid in cash instead of stock in fiscal 2008, an increase in inventories primarily related to increased activity in our logistics and products support business area and increased cash paid for income taxes. The increase in the average time to collect receivables at the end of fiscal 2008 as compared to fiscal 2007 was largely due to invoice processing delays arising from a system implementation at a major customer and billing delays attributable to our implementation of our new information technology system. During fiscal 2008, we recognized \$64 million of excess tax benefits realized from stock options exercised and unvested stock that vested subsequent to our reorganization merger as cash inflows from financing activities as required by SFAS No. 123(R)

**Share-Based Payment.** Excess tax benefits, realized prior to the reorganization merger and initial public offering were presented as cash flows from operations as previously required by SFAS No. 95 Statement of Cash Flows. The \$120 million increase in fiscal 2007 cash flows from operations compared to fiscal 2006 was primarily due to decreases in cash paid for income taxes, higher income from continuing operations, and additional non-cash stock based compensation offset by increased accounts receivable balances due to increased revenue during the fourth quarter of fiscal 2007 as compared to the same period in fiscal 2006.

**Cash Provided by (Used in) Investing Activities.** We used \$203 million of cash in support of investing activities during fiscal 2008, including \$144 million to acquire two businesses, one in the Government segment and one in the Commercial segment and \$61 million for purchases of property, plant and equipment. We generated cash from investing activities of \$1.21 billion in fiscal 2007 primarily due to the liquidation of \$1.66 billion in marketable securities in preparation for the November 2006 payment of the \$2.45 billion special dividend offset by \$377 million used in the acquisition of eight businesses and \$73 million in purchases of property, plant and equipment. We used \$581 million of cash in support of investing activities during fiscal 2006, including \$291 million to purchase marketable securities, \$212 million in the acquisition of four businesses and \$52 million in purchases of property, plant and equipment.

**Cash Used in Financing Activities.** We used \$157 million of cash in support of financing activities during fiscal 2008, including \$309 million used to repurchase shares of preferred and common stock, offset by \$98 million in proceeds from the sale of stock and exercise of stock options and \$64 million in excess tax benefits associated with stock-based compensation. We used cash in financing activities of \$1.83 billion during fiscal 2007 primarily representing the payment of a special dividend of \$2.45 billion and the repurchase of \$724 million of stock offset by sales of \$1.34 billion of stock, including \$1.24 billion through our initial public offering, and exercise of stock options. We used \$707 million of cash in support of financing activities in fiscal 2006, primarily representing repurchases of our stock of \$818 million offset by sales of stock and exercises of stock options of \$155 million. Repurchases of stock for each of the last three fiscal years were as follows:

Edgar Filing: SAIC, Inc. - Form 10-K/A

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Repurchases of stock:			
Under publicly announced repurchase plans	\$ 215	\$ 42	\$
Limited market stock trades		230	399
Retirement plans		360	228
Upon employee terminations			112
Other stock repurchases	94	92	79
Total	\$ 309	\$ 724	\$ 818

Prior to the initial public offering, we maintained an internal, limited market for the purpose of allowing our employees and retirement plans to periodically buy and sell shares of our stock. We had the right, but not the obligation, to repurchase stock

SAIC, Inc. Annual Report 13

---

**PART II**


---

in the limited market and retirement plan trades that we conducted, to the extent that the number of shares offered for sale exceeded the number of shares sought to be purchased. As a publicly traded company, we no longer conduct limited market or retirement plan trades.

**Stock Repurchase Program**

In December 2006, our board of directors authorized a stock repurchase program under which we may repurchase up to 40 million shares of our common stock. Stock repurchases under this program may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate and regulatory requirements and other market conditions. Through January 31, 2008, we repurchased 14.7 million shares of our common stock under this program, which includes 12.2 million shares repurchased in fiscal 2008. On March 21, 2008, our board of directors authorized the repurchase of an aggregate of 40 million of shares under the stock repurchase program from and after the open of the NYSE on March 24, 2008 (excluding shares purchased under the stock repurchase program from December 2006 through March 21, 2008).

**Underfunded Pension Obligation**

We sponsor a defined benefit pension plan for eligible employees of our United Kingdom subsidiary that perform services on a specific customer contract. As of January 31, 2008, the pension plan had an underfunded projected benefit obligation of \$21 million, which we expect to fund over future years. A dispute exists with the customer over the timeframe in which this underfunded pension obligation is required to be funded under terms of the customer contract and applicable pension regulations. The resolution of this dispute may result in an acceleration of both the funding and expense recognition of the unrecognized actuarial loss.

**Outstanding Indebtedness**

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

	January 31	
	2008	2007
	(in millions)	
6.25% notes due fiscal 2013	\$ 549	\$ 549
5.5% notes due fiscal 2034	296	296
7.125% notes due fiscal 2033	248	248
6.75% notes due fiscal 2009	100	96
Other notes payable	35	39
	<b>1,228</b>	1,228
Less current portion	130	29
Total	<b>\$ 1,098</b>	\$ 1,199

We paid \$100 million to settle the 6.75% notes at maturity on February 1, 2008.

All of the notes described above contain customary restrictive covenants, including, among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions. We were in compliance with such covenants as of January 31, 2008. Our other notes payable have interest rates from 5.0% to 11.0% and are due on various dates through fiscal 2017. For additional information on our notes payable and long-term debt, see Note 8 of the notes to consolidated financial statements.

*Credit Facility.* We have a revolving credit facility providing for \$750 million in unsecured borrowing capacity at interest rates determined, at our option, based on either LIBOR plus a margin or a defined base rate through fiscal 2013. As of January 31, 2008,

## Edgar Filing: SAIC, Inc. - Form 10-K/A

\$745 million of the revolving credit facility was available, due to \$5 million of outstanding standby letters of credit issued in connection with our contract with the Greek government. The terms of the standby letters of credit require them to remain outstanding until the customer formally accepts the system pursuant to the contract. See also [Commitments and Contingencies](#) [Firm-Fixed-Price Contract with the Greek Government](#).

The facility contains various customary restrictive covenants, including financial covenants. As of January 31, 2008, we were in compliance with all covenants under the credit facility.



## PART II

## Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain of our unconsolidated joint venture investments as described in Note 19 of the notes to consolidated financial statements. These off-balance sheet arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition.

## Contractual Obligations

The following table summarizes our obligations to make future payments pursuant to certain contracts or arrangements as of January 31, 2008, as well as an estimate of the timing in which these obligations are expected to be satisfied:

	Total	Payments Due by Fiscal Year			
		2009	2010- 2011 As Restated (in millions)	2012- 2013	2014 and Thereafter
Contractual obligations:					
Long-term debt (including current portion) <sup>(1)</sup>	\$ 2,250	\$ 201	\$ 139	\$ 671	\$ 1,239
Operating lease obligations <sup>(2)</sup>	310	117	124	42	27
Capital lease obligations	1	1			
Estimated purchase obligations <sup>(3)</sup>	21	19	1		1
Liabilities for uncertain tax positions <sup>(4)</sup>	32	32			
Other long-term liabilities <sup>(5)</sup>	148	42	48	20	38
Total contractual obligations	\$ 2,762	\$ 412	\$ 312	\$ 733	\$ 1,305

<sup>(1)</sup> Includes total interest payments on our outstanding debt of \$72 million in fiscal 2009, \$138 million in fiscal 2010-2011, \$120 million in fiscal 2012-2013 and \$686 million in fiscal 2014 and thereafter.

<sup>(2)</sup> Excludes \$78 million related to an operating lease on a contract with the Greek government as we are not obligated to make the lease payments to the lessee if our customer defaults on payments to us.

<sup>(3)</sup> Includes estimated obligations to transfer funds under legally enforceable agreements for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Excludes purchase orders for products or services to be delivered pursuant to U.S. Government contracts in which we have full recourse under normal contract termination clauses.

<sup>(4)</sup> Excludes obligations for uncertain tax positions of \$26 million, which are included in other long-term liabilities.

<sup>(5)</sup> Other long-term liabilities were allocated by fiscal year as follows: a liability for our foreign defined benefit pension plan is based upon payments made in prior years and estimated future payments to the plan; liabilities under deferred compensation

arrangements are based upon the average annual payments in prior years upon termination of employment by participants; liabilities for uncertain tax positions are based upon the fiscal year that the statute of limitations is currently expected to expire, a liability to reimburse a customer for cash advances on a contract that is periodically renewed is based upon the fiscal year that the most recent contract renewal is ending; and other liabilities are based on the fiscal year that the liabilities are expected to be realized.

## **Commitments and Contingencies**

### ***Telkom South Africa***

Our former Telcordia subsidiary instituted arbitration proceedings before the International Chamber of Commerce (ICC), against Telkom South Africa in March 2001 as a result of a contract dispute. Telcordia seeks to recover damages for breach of contract, plus interest at a rate of 15.5%. Telkom South Africa counterclaimed, seeking substantial damages from Telcordia. On September 27, 2002, the arbitrator found that Telkom South Africa repudiated the contract and dismissed Telkom South Africa's counterclaims against Telcordia. The damages to be recovered by Telcordia will be determined in the second phase of the arbitration. Although Telkom South Africa challenged the arbitrator's partial award in Telcordia's favor in the South African court system, the arbitrator's decision was ultimately upheld.

The second phase of the arbitration to determine the damages to be recovered by Telcordia has now commenced. Telcordia submitted its statement of claim and related document production on March 30, 2007, which seeks damages in excess of \$200 million plus interest and legal fees and costs. As a result of a preliminary hearing with the arbitrator, Telkom South Africa paid Telcordia \$9 million of uncontested damages relating to one aspect of the dispute. In July 2007, the arbitrator ruled that Telcordia is entitled to 15.5% simple interest per year on awarded damages, running from the date of breach by Telkom South Africa. Due to the complexity of the remaining issues, the arbitrator cancelled a September 2007 arbitration hearing to determine the amount of Telcordia's damages and scheduled an April 2008 hearing focusing only on damage issues. A final hearing with closing submissions was scheduled for June 2008 in London. In February 2008, the arbitrator

---

**PART II**

---

appointed a third party expert to provide an independent opinion regarding specific technical issues. The parties disagree on the scope of the third party expert's mandate, as well as certain discovery issues. Consequently, the hearings originally scheduled for April and June have been cancelled and a hearing to address the outstanding procedural issues is scheduled for April 2008. As a result, the completion of the arbitration will likely be delayed. Pursuant to the definitive stock purchase agreement for the sale of Telcordia, we are entitled to receive all of the proceeds, net of the tax liability incurred by Telcordia, from any judgment or settlement. We received \$4 million during the year ended January 31, 2008 related to amounts collected by Telcordia from Telkom South Africa.

Due to the complex nature of the legal and factual issues involved in the dispute, the damages that Telcordia will ultimately be awarded in the second phase of arbitration, and therefore the amounts we will be entitled to receive, net of applicable taxes, are not presently determinable. We do not have any assets or liabilities recorded related to this contract and the related legal proceedings as of January 31, 2008 and 2007.

***Firm-Fixed-Price Contract with the Greek Government***

***Original Contract.*** In May 2003, we entered into a euro-denominated firm-fixed-price contract (the Greek contract) with the Hellenic Republic of Greece (the Customer) to provide a Command, Control, Communications, Coordination and Integration (C4I) System (the System), to support the 2004 Athens Summer Olympic Games (the Olympics), and to serve as the security system for the Customer's public order departments following completion of the Olympics. The System is comprised of 29 subsystems, organized into three major functional areas: the Command Decision Support System (CDSS), the Communication and Information System and the Command Center Systems. Under the Greek contract, the System was to be completed, tested, and accepted by September 1, 2004, at a price of approximately \$199 million. The Greek contract also requires us to provide five years of System support and maintenance for approximately \$15 million and ten years of TETRA radio network services for approximately \$125 million. The Greek contract contains an unpriced option for an additional five years of TETRA network services.

The Customer took delivery of the System for use and operation during the Olympics beginning in August 2004, and continues to use significant portions of the System today. In November 2004, we delivered a revised version of the CDSS portion of the System to the Customer. Beginning in December 2004 and continuing through April 2005, the Customer performed subsystems acceptance testing on each of the subsystems comprising the System based on test procedures that had not been mutually agreed upon by the parties. The Customer identified numerous omissions and deviations in its test reports. We believe that certain of these omissions and deviations were valid, while others were not.

***Modification of Contract.*** On March 29, 2007, we and the Customer executed a modification to the Greek contract which establishes specific requirements, contract terms, and a payment schedule under which the various subsystems can be completed and provides for, among other things, the following:

acceptance of 20 specific subsystems of the 29 subsystems comprising the System within 70 days of the execution of the modification

payment of \$34 million within 30 days of our submitting invoices for certain work already performed on both the system development portion and service portion of the Greek contract

reduction of the advance payment and performance bonds maintained by us in favor of the Customer by at least \$123 million which represents the value of the 20 subsystems required to be accepted within 70 days of the execution of the modification

credit for past warranty, maintenance and TETRA services

a revised test and acceptance process for the remaining subsystems being re-delivered during 2008

provision of subsystem maintenance for a period of up to 5 years following subsystem acceptance

In connection with the acceptance of 20 of the 29 subsystems referred to above, the Greek contract modification provides a framework for the parties to determine the price reduction for omissions and deviations relating to those subsystems. An agreement of the parties limits the total price reduction for these subsystems to a maximum of \$11 million. On September 11, 2007, the Greek contract was further modified to provide for an extension of the system development portion of the Greek contract to October 2008, as previously agreed.

*Performance of Modified Contract.* Subsequent to the modification of the Greek contract on March 29, 2007, the following developments have occurred:

18 of the 20 subsystems to have been accepted within 70 days of March 29, 2007 have been fully and finally accepted by the Customer. A subcontractor, in consultation with us and the Customer, has chosen to remediate omissions and

---

PART II

---

deviations in the remaining two subsystems it delivered, in an effort to minimize or eliminate the price reduction associated with them. The contract authorizes such remediation as long as it is completed before the System acceptance testing to be conducted in fiscal 2009.

The Customer has paid substantially all of the \$34 million related to services previously performed required to be paid within 30 days of us submitting our invoices.

The initial price reduction assessed by the Customer for omissions and deviations on the 18 subsystems accepted to date totaled \$14 million, which is \$3 million in excess of the previously agreed-upon maximum price reduction limit of \$11 million. Accordingly, the parties have entered into negotiation under the provisions of the Greek contract to resolve this discrepancy. We have an informal agreement with the Customer to resolve the omissions and deviations on these 18 subsystems for a total price reduction of \$6 million which has not yet been finalized through a contract modification.

The Customer has reduced the advance payment, performance and offset bonds requirement by \$154 million.

We and our subcontractors are performing work under the terms of the modified Greek contract and modified subcontracts, including the requirement to deliver a modified CDSS.

The parent corporation of our principal subcontractor has been subject to a number of investigations focusing on alleged improper payments to government officials and political parties in a number of countries, including Greece. Our subcontractor has represented to us that it did not make improper payments in connection with the Greek contract. We have taken a number of actions to confirm the accuracy of our subcontractor's representations. If the subcontractor's representations are ultimately determined to be false and improper payments were in fact made in connection with the Greek contract, the legal compliance and political issues that this would raise could impact our subcontractor's ability to perform the subcontract and our ability to perform the Greek contract. This could have a material adverse affect on our consolidated financial position, results of operations and cash flows.

*Financial Status and Contingencies of the Greek Contract.* We have recorded \$124 million of losses under the Greek contract as of January 31, 2008. We recorded \$1 million and \$2 million of losses relating to foreign currency translation in fiscal 2008 and 2007, respectively, and \$83 million of losses in fiscal 2006. The \$124 million loss reflected our estimated total cost to complete the System under the original Greek contract and assumed the Greek contract value was limited to the cash received to date.

The Greek contract modification resulted in significant changes to the terms and conditions and the deliverables under the Greek contract and clarifies the parties' responsibilities. If we complete the work and receive future payments as required under the modified Greek contract, we may reverse a portion of the losses previously recognized. However, based on the complex nature of this contractual situation and the difficulties encountered to date, significant uncertainties exist and we are unable to reliably estimate the ultimate outcome. Accordingly, we have not adjusted and will not adjust the losses on this contract until such time as we can reliably estimate the ultimate outcome of the modified contract. Also, as a result of the significant uncertainties that remain on this contract, we are utilizing the completed-contract method of accounting for the system development portion of this contract. Examples of these uncertainties include acceptance of the remaining subsystems and the overall system, receipt of the remaining payments, release of the remaining bonds, changes in the political representatives from the Greek government involved with the project and subcontractor performance and legal compliance issues. Accordingly, no additional revenue will be recognized on the development portion of the contract until it is completed. Revenue on the maintenance portion of the contract is recognized as maintenance payments are received from the Customer. Although we expect to receive additional payments in accordance with the terms of the modified Greek contract, our accounting as of January 31, 2008 was based on cash received to date. Through

## Edgar Filing: SAIC, Inc. - Form 10-K/A

January 31, 2008, we have recognized revenues of \$157 million, which represents a portion of the \$201 million of cash received to date. We recognized \$37 million of revenues and equal amounts of costs on the maintenance portion of the Greek contract during the year ended January 31, 2008, primarily related to the receipt of payments from the Customer for services previously rendered.

We have \$15 million of accounts receivable (classified as other assets) relating to value added taxes (VAT) that we have paid and believe we are entitled to recover either as a refund from the taxing authorities or as a payment under the Greek contract upon final billing. The Customer has paid to us all amounts owed for VAT to date for the subsystems accepted and services provided. Failure by the Customer to pay any future VAT amounts could result in an additional obligation payable by us to the Greek taxing authorities and could increase our total losses on the Greek contract.

In accordance with the terms of the Greek contract, we are required to maintain certain advance payment, performance and offset bonds in favor of the Customer. These bonding requirements have been met through the issuance of standby letters of credit. As of January 31, 2008, there were \$111 million in advance payment and performance standby letters of credit and \$7 million in offset bonds outstanding. If the standby letters of credit are called based on a future failure to fulfill our obligations under the Greek contract, we may have the right to call some of the \$71 million of bonds provided by our subcontractors in connection with their work under the Greek contract if the performance failure relates to subcontracted work.

---

**PART II**

---

If we and our subcontractors are unable to perform in accordance with the modified Greek contract, damages or claims by the Customer or subcontractors may be successfully asserted against us, our bonds may be called, and the Customer may be able to recover additional contract costs required to fulfill our obligations. This could have a material adverse affect on our consolidated financial position, results of operations and cash flows.

***INTESA Joint Venture***

We held a 60% interest in Informática, Negocios y Tecnología, S.A., (INTESA), a Venezuelan joint venture the Company formed in fiscal 1997 with Venezuela's national oil company, PDVSA, to provide information technology services in Latin America. INTESA derived substantially all its revenues from an outsourcing services agreement with PDVSA. The services agreement expired on June 30, 2002 and INTESA subsequently ceased operations. The operations of INTESA were classified as discontinued operations as of January 31, 2003 and INTESA is currently insolvent.

INTESA is a defendant in a number of lawsuits brought by former employees seeking unpaid severance and pension benefits. PDVSA, SAIC and SAIC Bermuda, our 100%-owned subsidiary and the entity that held our interest in INTESA, were added as defendants in a number of these suits. Based on the procedural standing of these cases and our understanding of applicable laws and facts, we believe that our exposure to any possible loss related to these employment claims is either remote or, if reasonably possible, immaterial.

***DS&S Joint Venture***

In March 2006, we sold our interest in DS&S, a joint venture in which we owned a 50% interest. As part of the sale, we agreed to indemnify the purchaser for certain legal costs and expenses, including those relating to a government investigation involving DS&S and any litigation resulting from that investigation up to the sum of the sales price of \$9 million plus \$1 million received by us in repayment of a loan owed by DS&S. As of January 31, 2008, we have deferred the potential \$9 million gain on this sale pending resolution of the investigation and any resulting litigation.

***Other Joint Ventures***

We are an investor in Danet Partnership GbR (Danet GbR), a German partnership accounted for under the equity method. Danet GbR has an internal equity trading market similar to the limited market that was formerly maintained by Science Applications International Corporation. We are required to provide liquidity rights to the other Danet GbR investors in certain circumstances. These rights allow Danet GbR investors who are withdrawing from the partnership to put their Danet GbR shares to us in exchange for the current fair value of those shares. We do not currently record a liability for these put rights because their exercise is contingent upon the occurrence of future events which we cannot determine will occur with any certainty. The carrying value of our investment in Danet GbR was \$17 million as of January 31, 2008. The maximum potential obligation, assuming all the current Danet GbR investors were to put their Danet GbR shares to us, was \$8 million as of January 31, 2008.

We have a guarantee that relates only to claims brought by the sole customer of another of our joint ventures, Bechtel SAIC Company, LLC, for specific contractual nonperformance of the joint venture. We also have a cross-indemnity agreement with the joint venture partner, pursuant to which we will only be ultimately responsible for the portion of any losses incurred under the guarantee equal to our ownership interest of 30%. Due to the nature of the guarantee, we are not able to project the maximum potential obligations we could be required to make under the guarantee as of January 31, 2008 but, based on current conditions, we believe the likelihood of having to make any payment is remote. Accordingly, no liability relating to this guarantee is currently recorded.

On September 15, 2004, we entered into an agreement with EG&G Technical Services, Inc. (EG&G), and Parsons Infrastructure & Technology Group, Inc. (Parsons), to form Research and Development Solutions, LLC (RDS), a Delaware limited liability company that will pursue contracts offered by the Department of Energy's National Energy Technical Laboratory. We, EG&G and Parsons,

## Edgar Filing: SAIC, Inc. - Form 10-K/A

each have a one-third equal joint venture interest. In conjunction with a contract award to RDS, each joint venture partner was required to sign a performance guarantee agreement with the U.S. Government. Under this agreement, we unconditionally guarantee all of RDS's obligations to the U.S. Government under the contract award, which has a total value of up to \$217 million. We also have a cross-indemnity agreement with each of the other two joint venture partners to protect us from liabilities for any U.S. Government claims resulting from the actions of the other two joint venture partners and to limit our liability to our share of the contract work. As of January 31, 2008, the fair value of the guarantee is not material.

### ***Debt Guarantee***

SAIC Inc. has fully and unconditionally guaranteed the obligations of Science Applications International Corporation, a 100%-owned subsidiary, under its revolving credit facility, \$300 million 5.5% notes, \$550 million 6.25% notes, \$250 million 7.125% notes, and \$100 million 6.75% notes and certain letters of credit. We paid \$100 million to settle the 6.75% notes at maturity on February 1, 2008.



---

**PART II**

---

***Letters of Credit and Surety Bonds***

We have outstanding letters of credit aggregating to \$166 million at January 31, 2008, principally related to guarantees on contracts with domestic commercial and foreign government customers. Of the total outstanding letters of credit, \$118 million was related to the firm-fixed-price contract with the Greek government described above, \$5 million of which was issued under our revolving credit facility. We also have outstanding surety bonds aggregating to \$169 million, principally related to performance and payment bonds.

***Other***

We are subject to investigations and reviews relating to compliance with various laws and regulations with respect to our role as a contractor to agencies and departments of the U.S. Government and in connection with performing services in countries outside of the United States. Such matters can lead to criminal, civil or administrative proceedings and we could be faced with penalties, fines, repayments or compensatory damages. Adverse findings could also have a material adverse effect on us because of our reliance on government contracts. Although we can give no assurance, based upon management's evaluation of current matters that are subject to U.S. Government investigations of which we are aware and based on management's current understanding of the facts, we do not believe that the outcome of any such matter would likely have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business.

During the year ended January 31, 2008, we recorded \$8 million in costs associated with actions taken to remediate a data security lapse affecting several customer contracts. As part of the remediation effort, we continue to review our technology assets to evaluate any other areas of potential information security risk.

We maintain self-insured medical and workers compensation insurance plans. We provided estimated accruals for claims incurred but not yet reported of \$25 million and \$27 million as of January 31, 2008 and 2007, respectively.

We are subject to periodic audits by state and local governments for taxes other than income taxes. We do not believe that the outcome of any such tax matters would have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business.

We are also involved in various claims and lawsuits arising in the normal conduct of our business, none of which, in the opinion of our management, based upon current information, will likely have a material adverse effect on our consolidated financial position, results of operations, or cash flows or our ability to conduct business.

As a result of a dispute over the proper interpretation of contract pricing terms, we have initiated a lawsuit against a state government customer seeking payment for certain technical services. Although the amount of the claim, based on three unpaid invoices, is only approximately \$40,000, the resolution of the claim is expected to resolve the pricing interpretation dispute and could have significant implications for the contract going forward. While we are confident in our interpretation of the pricing terms, if the customer's interpretation prevails, given estimated future tasking over the five year term of the base contract and the two option years, we estimate that this could result in an aggregate loss on the contract of approximately \$5 million to \$50 million, with the lower end of the range more likely. We have not recorded a liability for this matter as of January 31, 2008.

In the normal conduct of our business, we seek to monetize our patent portfolio through licensing agreements. We have defended and will continue to defend our patent positions when we believe our patents have been infringed and are involved in such litigation from time to time. As described in Note 18 of the notes to consolidated financial statements, we sold our Telcordia subsidiary in fiscal 2006. Pursuant to the terms of the definitive stock purchase agreement, we will receive 50% of any net proceeds that Telcordia receives in the future in connection with the enforcement of certain patent rights.

**Critical Accounting Policies**

## Edgar Filing: SAIC, Inc. - Form 10-K/A

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

[SAIC, Inc. Annual Report 19](#)

---

PART II

---

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

*Revenue Recognition.* Our revenues are primarily recognized using the percentage-of-completion method as discussed in Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Under the percentage-of-completion method, revenues are recognized based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimating total costs at completion. Estimating costs at completion on our long-term contracts, particularly due to the technical nature of the services being performed, is complex and involves significant judgment. Factors that must be considered in making estimates include labor productivity and availability, the nature and technical complexity of the work to be performed, potential performance delays, the availability and timing of funding from the customer, the progress toward completion and the recoverability of claims. 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 estimates is made when facts develop, events become known or an adjustment is otherwise warranted, such as in the case of a contract modification. When estimates indicate that we will experience a loss on the contract, we recognize the estimated loss at the time it is determined. Additional information may subsequently indicate that the loss is more or less than initially recognized, which would require further adjustment in our financial statements. We have procedures and processes in place to monitor the actual progress of a project against estimates and our estimates are updated quarterly or more frequently if circumstances warrant.

Although our primary revenue recognition policy is the percentage-of-completion method, we do have contracts for which we use other acceptable methods to record revenue (see Note 1 of the notes to consolidated financial statements). Selecting the appropriate revenue recognition method involves judgment based on the contract and can be complex depending upon the structure and terms and conditions of the contract.

Costs incurred on projects accounted for under the percentage-of-completion method may be recognized as pre-contract costs and deferred as assets when we have been requested by the customer to begin work under a new arrangement. We record pre-contract costs when formal contracts have not yet been executed, and it is probable that we will recover the costs through the issuance of a contract. When the formal contract has been executed, the costs are recorded to the contract and revenue is recognized based on the percentage-of-completion method of accounting.

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

*Stock-Based Compensation.* We account for stock-based compensation in accordance with SFAS No. 123(R), Share-Based Payment. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The estimation of stock option fair value requires management to make complex estimates and judgments about, among other things, employee exercise behavior, forfeiture rates, and the volatility of our common stock. These judgments directly affect the amount of compensation expense that will ultimately be recognized. As our common stock was not publicly-traded until October 13, 2006, the expected term of option awards granted is derived utilizing the simplified method presented in SEC Staff Accounting Bulletin Nos. 107 and 110, Share-Based Payment, and volatility is estimated based on a weighted average historical volatility of a group of publicly-traded, peer companies for a period consistent with the expected option term. We assumed weighted average volatilities of 26.8% and 33.4% for fiscal 2008 and 2007, respectively. All other assumptions held constant, a ten percentage point change in our fiscal 2008 volatility assumption would have increased or decreased the grant-date fair value of our fiscal 2008 option awards by approximately 23%.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

*Income Taxes.* Provision for income taxes is recorded utilizing the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Under this method, changes in tax rates and laws are reflected in income in the period such changes are enacted. In addition, the provision for federal, state, foreign and local income taxes is calculated on reported financial statement income before income taxes based on current tax law and include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We also have recognized liabilities for uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. We recognize liabilities for uncertain tax positions on open

20 SAIC, Inc. Annual Report

---

**PART II**

---

tax years when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Our income taxes payable balance includes liabilities for uncertain tax positions. We have experienced years when liabilities for uncertain tax positions were settled for amounts different from recorded amounts as described in Note 13 of the notes to the consolidated financial statements. Including interest and penalties, we have liabilities for uncertain tax positions of \$58 million at January 31, 2008, of which \$32 million is classified as current income taxes payable on our consolidated balance sheet.

Recording our provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until final resolution of an examination by the IRS or State agencies. Additionally, recording liabilities for uncertain tax positions involves significant judgment in evaluating our tax positions and determining the amount of benefit to be recognized.

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

Goodwill is assessed for impairment annually and whenever events or circumstances indicate a condition of impairment may exist. We perform our annual goodwill impairment assessment as of the beginning of the fourth quarter. The goodwill impairment test is a two-step process performed at the reporting unit level. The first step consists of estimating the fair values of each of the reporting units based on a combination of two valuation methods, a market approach and an income approach. Fair value computed using these two methods is determined using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable market data with a consistent industry grouping, and the cost of capital. The estimated fair values are compared with the carrying values of the reporting units, which include the allocated goodwill. If the fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit's identifiable assets and liabilities from its estimated fair value calculated in the first step. The impairment expense represents the excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the reporting unit's goodwill. The goodwill impairment test process requires management to make significant judgments and assumptions, including revenue, profit and cash flow forecasts, about the business units to which goodwill is assigned. Misjudgments in this forecasting process could prevent management from taking an impairment charge when one may be required. Our goodwill impairment tests performed in fiscal years 2008, 2007, and 2006 did not result in any impairment of goodwill. The carrying value of goodwill as of January 31, 2008 was \$1.08 billion.

Intangible assets with finite lives are evaluated for impairment whenever events or changes in circumstances indicate that a condition of impairment may exist. We did not recognize any impairment losses on intangible assets in fiscal 2008 and 2007. We recognized immaterial impairment losses on intangible assets in fiscal 2006. The carrying value of intangible assets as of January 31, 2008 was \$102 million.

#### **Recently Issued Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for us in the first quarter of fiscal 2009 and will be applied prospectively. Subsequent to the issuance of SFAS No. 157, the FASB issued FASB Staff Position No. FAS 157-1 and No. FAS 157-2, which exclude the lease classification measurements under SFAS No. 13 Accounting for Leases from the scope of SFAS No. 157 and delay the effective date on SFAS No. 157 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. We do not believe that the adoption of the provisions of SFAS No. 157 will materially impact our

## Edgar Filing: SAIC, Inc. - Form 10-K/A

consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (Including an Amendment of FASB Statement No. 115). SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. Most of the provisions in SFAS No. 159 are elective. This statement is effective for us in the first quarter of fiscal 2009 and may be applied prospectively. We do not intend to adopt the elective provisions of this statement.

In December 2007, the FASB issued SFAS No. 141(R) Business Combinations. SFAS No. 141(R) changes the requirements for an acquirer's recognition and measurement of the assets acquired and liabilities assumed in a business

SAIC, Inc. Annual Report 21

---

**PART II**

---

combination. This statement is effective for us with respect to all business combinations for which the acquisition date is after January 31, 2009. Adoption is not expected to materially impact our consolidated financial position or results of operations directly when it becomes effective, as the only impact that the statement will have on recorded amounts at that time is that related to disposition of uncertain tax positions related to prior acquisitions. Following the date of adoption of the statement, the resolution of such items at values that differ from recorded amounts will be adjusted through earnings, rather than through goodwill. Adoption of this statement is, however, expected to have significant effect on how acquisition transactions subsequent to January 31, 2009 are reflected in the financial statements.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements (an amendment of ARB No. 51). SFAS No. 160 requires that noncontrolling (minority) interests be reported as a component of equity, that net income attributable to the parent and to the noncontrolling interest be separately identified in the income statement, that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. This statement is effective for us as of February 1, 2009, and shall be applied prospectively except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. As of January 31, 2008, we do not have any consolidated subsidiaries in which there is a noncontrolling interest. The retrospective presentation and disclosure requirements of this statement will be applied to any prior periods presented in financial statements for the fiscal year ending January 31, 2010 and later periods during which we had a consolidated subsidiary with a noncontrolling interest.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (an amendment of FASB Statement No. 133). SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities and their effects on an entity's financial position, financial performance, and cash flows. The requirements of this statement are effective for us in the first quarter of fiscal 2010. Since this statement only pertains to disclosures in the notes to consolidated financial statements, it will not impact our consolidated financial position and results of operations.

#### **Effects of Inflation**

Our cost-reimbursement type contracts are generally completed within one year. As a result, we have generally been able to anticipate increases in costs when pricing our contracts. Bids for longer-term FFP and T&M contracts typically include sufficient provisions for labor and other cost escalations to cover cost increases over the period of performance. Consequently, revenues and costs have generally both increased commensurate with the general economy. As a result, net income as a percentage of total consolidated revenues has not been significantly impacted by inflation.

#### **Item 8. Financial Statements and Supplementary Data**

See our consolidated financial statements attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 31, 2008.

#### **Item 9A. Controls and Procedures**

##### **Restatement of Financial Statements**

As discussed elsewhere in this Amendment No.1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 31, 2008, we have restated our previously issued consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007 and 2006. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Restatement contained in the notes to consolidated financial statements in Item 8 for more detailed information regarding the restatement.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

In connection with this restatement, under the direction of our chief executive officer and chief financial officer, we reevaluated our disclosure controls and procedures and internal control over financial reporting. Based on our re-evaluation, we reconfirmed our previous conclusion that our disclosure controls and procedures and internal control over financial reporting were effective as of January 31, 2008.

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer (our Chairman and Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of January 31, 2008, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the



---

**PART II**

---

time periods specified in the rules and forms of the Securities and Exchange Commission. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes In Internal Control Over Financial Reporting**

During the year ended January 31, 2008, we began a phased implementation of a new information technology system to be used as our accounting system. The implementation is expected to be completed in multiple phases through fiscal 2010. The transition to the new information technology system includes a significant effort in the testing of the system prior to implementation, training of employees who will be using the system and updating of our internal control process and procedures that will be impacted by the implementation. During each phase of the implementation, an appropriate level of testing and monitoring of the financial results recorded in the system will be conducted and our management will update the system of internal control over the impacted areas.

During the year ended January 31, 2008, our corporate operations and two of our twenty operating business units (representing approximately 10% of total consolidated revenues on a full year basis) were migrated to the new system. This migration did not materially affect our internal control over financial reporting because of the relatively low level of activity being performed in the new system. This phased implementation will materially affect our internal control over financial reporting. There have been no changes in our internal control over financial reporting that occurred in the fourth quarter of the annual period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report On Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness, as of January 31, 2008, of our internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has assessed in its evaluation the effectiveness of our internal control over financial reporting as of January 31, 2008 and has concluded that our internal control over financial reporting as of that date was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, audited our consolidated financial statements included in this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K and our internal control over financial reporting, and that firm's report on our internal control over financial reporting is set forth below.

---

**PART II**

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

SAIC, Inc.

San Diego, CA

We have audited the internal control over financial reporting of SAIC, Inc. and subsidiaries (the Company) as of January 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended January 31, 2008, of the Company and our report dated March 25, 2008, (August 29, 2008 as to the effects of the restatement discussed in Note 2), expressed an unqualified opinion on those financial statements and included explanatory paragraphs for the adoption of new accounting standards relating to share-based payment and defined benefit pension obligations and the restatement.

/s/ DELOITTE & TOUCHE LLP

San Diego, California

March 25, 2008

[24 SAIC, Inc. Annual Report](#)

---

**PART IV**


---

**Item 15. Exhibits, Financial Statement Schedules**

(a) Documents filed as part of the report:

**1. Financial Statements**

Our consolidated financial statements are attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 31, 2008.

**2. Financial Statement Schedules**

Financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

**3. Exhibits**

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, as amended and restated as of July 24, 2006, by and among Science Applications International Corporation, Registrant and SAIC Merger Sub, Inc. Incorporated by reference to Exhibit 2.1 to Registrant's Post-Effective Amendment No. 3 to Form S-4 Registration Statement No. 333-128022, filed on July 25, 2006.
3.1	Restated Certificate of Incorporation of Registrant. Incorporated by reference to Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2007 as filed December 11, 2007 with the SEC.
3.2	Restated Bylaws of Registrant. Incorporated by reference to Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2007 as filed December 11, 2007 with the SEC.
4.1	Form of Indenture between Science Applications International Corporation and The Chase Manhattan Bank, as Trustee. Incorporated by reference to Exhibit 4.1 to Science Applications International Corporation's Amendment No. 1 to Form S-3 Registration No. 333-37117 filed on November 19, 1997.
4.2	Indenture dated June 28, 2002 between Science Applications International Corporation and JPMorgan Chase Bank, as trustee. Incorporated by reference to Exhibit 4.2 to Science Applications International Corporation's Current Report on Form 8-K as filed July 3, 2002 with the SEC. SEC File No: 0-12771.
4.3	First Supplemental Indenture, dated October 13, 2006, by and among Science Applications International Corporation, Registrant and The Bank of New York Trust Company, N.A., as successor trustee to JPMorgan Chase f/k/a The Chase Manhattan Bank. Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K as filed October 17, 2006 with the SEC.
4.4	First Supplemental Indenture, dated October 13, 2006, by and among Science Applications International Corporation, between Registrant and The Bank of New York Trust Company, N.A., as successor trustee to JPMorgan Chase Bank, N.A. Incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K as filed October 17, 2006 with the SEC.
10.1	Assignment and Assumption Agreement, dated October 16, 2006, between Registrant and Science Applications International Corporation. Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K as filed October 17, 2006 with the SEC.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

- 10.2 Guaranty of Registrant in favor of Citicorp USA, Inc, in its capacity as administrative agent, and other lenders. Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K as filed October 17, 2006 with the SEC.
- 10.3\* Registrant's 2006 Equity Incentive Plan (as amended June 8, 2007). Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K as filed on June 14, 2007 with the SEC.
- 10.4\* Science Applications International Corporation's Stock Compensation Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.3 to Science Applications International Corporation's Current Report on Form 8-K as filed on April 3, 2006 with the SEC.
- 10.5\* Science Applications International Corporation's Management Stock Compensation Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.2 to Science Applications International Corporation's Current Report on Form 8-K as filed on April 3, 2006 with the SEC.
- 10.6\* Science Applications International Corporation's Keystaff Deferral Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.4 to Science Applications International Corporation's Current Report on Form 8-K as filed on April 3, 2006 with the SEC.

SAIC, Inc. Annual Report 25

## PART IV

Exhibit Number	Description of Exhibit
10.7*	Science Applications International Corporation's Key Executive Stock Deferral Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation's Current Report on Form 8-K as filed March 1, 2006 with the SEC.
10.8*	Registrant's 2006 Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.25 to Registrant's Post-Effective Amendment No. 3 to Form S-4 Registration Statement No. 333-128022, filed on July 25, 2006.
10.9*	Form of Stock Award Agreement of Registrant's 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2006 as filed on December 13, 2006 with the SEC.
10.10*	Form of Nonstatutory Stock Option Agreement of Registrant's 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2006 as filed on December 13, 2006 with the SEC.
10.11*	Form of Stock Award Agreement (Non-Employee Directors) of Registrant's 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.11 to Registrant's original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
10.12*	Form of Nonstatutory Stock Option Agreement (Non-Employee Directors) of Registrant's 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.12 to Registrant's original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
10.13*	Science Applications International Corporation's 1999 Stock Incentive Plan, as amended through August 15, 1999. Incorporated by reference to Exhibit 10(e) to Science Applications International Corporation's Annual Report on Form 10-K for the fiscal year ended January 31, 2000. SEC File No: 0-12771.
10.14*	Science Applications International Corporation's Bonus Compensation Plan, as restated effective July 9, 1999. Incorporated by reference to Annex III to Science Applications International Corporation's Proxy Statement for the 1999 Annual Meeting of Stockholders as filed April 29, 1999 with the SEC. SEC File No: 0-12771.
10.15	Five Year Credit Agreement, dated June 6, 2006, by and among Science Applications International Corporation, Citicorp USA, Inc., as administrative agent, Wachovia Bank, National Association, as syndication agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2006 as filed on June 9, 2006 with the SEC.
10.16	Letter Amendment, dated effective August 23, 2006, to Five Year Credit Agreement, dated June 6, 2006, by and among Science Applications International Corporation, Citicorp USA, Inc., as administrative agent, Wachovia Bank, National Association, as syndication agent, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2006 as filed on September 5, 2006 with the SEC.
10.17*	Letter Amendment No. 2, dated effective July 31, 2007, to Five Year Credit Agreement, dated June 6, 2006, by and among Science Applications International Corporation, Citicorp USA, Inc., as administrative agent, Wachovia Bank, National Association, as syndication agent, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K as filed on August 1, 2007 with the SEC.
10.18*	Employment Agreement dated October 3, 2003, between Kenneth C. Dahlberg and Science Applications International Corporation. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2003 as filed on December 12, 2003 with the SEC.
10.19*	Stock Offer Letter dated October 3, 2003, to Kenneth C. Dahlberg from Science Applications International Corporation. Incorporated by reference to Exhibit 10.2 to Science Applications International Corporation's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2003 as filed on December 12, 2003 with the SEC.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

- 10.20 Stock Purchase Agreement between Science Applications International Corporation and TTI Holding Corporation dated as of November 17, 2004, as amended on February 14, 2005 and March 11, 2005. Incorporated by reference to Exhibit 99.1 to Science Applications International Corporation's Current Report on Form 8-K as filed on March 21, 2005 with the SEC.
- 10.21\* Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2007 as filed on June 7, 2007 with the SEC.
- 10.22\* Form of Severance Protection Agreement. Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2006 as filed on December 13, 2006 with the SEC.
- 10.23\* Employment Letter Agreement between Science Applications International Corporation and Mark Sopp, dated as of November 17, 2005. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation's Current Report on Form 8-K as filed on November 28, 2005 with the SEC.

**PART IV**

Exhibit Number	Description of Exhibit
10.24*	Stock Offer Letter dated November 14, 2005 to Mark Sopp from Science Applications International Corporation. Incorporated by reference to Exhibit 10.2 to Science Applications International Corporation's Current Report on Form 8-K as filed on November 28, 2005 with the SEC.
14	Registrant's Code of Ethics for Principal Executive Officer and Senior Financial Officers. Incorporated by reference to Exhibit 14 to Science Applications International Corporation's Annual Report on Form 10-K for the fiscal year ended January 31, 2004 as filed with the SEC on April 16, 2004.
18.1	Letter dated March 25, 2008 from Deloitte & Touche LLP regarding change in Accounting Principle. Incorporated by reference to Exhibit 18.1 to Registrant's original Annual Report on Form 10-K for fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
21	Subsidiaries of Registrant. Incorporated by reference to Exhibit 21 to Registrant's original Annual Report on Form 10-K for fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
23.1	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
31.1	Certification of Chief Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Executive Compensation Plans and Arrangements



---

**SIGNATURE**

---

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAIC, Inc.

By           /s/ KENNETH C. DAHLBERG          

**Kenneth C. Dahlberg**

*Chairman of the Board and Chief Executive Officer*

Dated: September 2, 2008

---

SAIC, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

---

	Page
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	F-2
CONSOLIDATED FINANCIAL STATEMENTS	
<u>Consolidated Statements of Income for each of the three years in the period ended January 31, 2008</u> (restated)	F-3
<u>Consolidated Balance Sheets as of January 31, 2008 and 2007</u> (restated)	F-4
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income for each of the three years in the period ended January 31, 2008</u> (restated)	F-5
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended January 31, 2008</u> (restated)	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7
Financial statement schedules are omitted because they are not applicable or the required information is presented in the consolidated financial statements or the notes thereto.	

SAIC, Inc. Annual Report F-1

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

---

To the Board of Directors and Stockholders of

SAIC, Inc.

San Diego, CA

We have audited the accompanying consolidated balance sheets of SAIC, Inc. and subsidiaries (the Company) as of January 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended January 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SAIC, Inc. and subsidiaries as of January 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company changed its method of accounting for the adoption of SFAS No. 123(R), *Share-Based Payment*, effective February 1, 2006, and its method of accounting for the adoption of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective January 31, 2007.

As discussed in Note 2, the accompanying consolidated financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2008, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

San Diego, California

March 25, 2008 (August 29, 2008 as to the effects of the restatement discussed in Note 2)

## SAIC, INC.

## CONSOLIDATED STATEMENTS OF INCOME

	Year Ended January 31		
	2008	2007	2006
	As Restated		
	(see Note 2)		
	(in millions, except per		
	share amounts)		
Revenues	<b>\$ 8,935</b>	\$ 8,061	\$ 7,518
Costs and expenses:			
Cost of revenues	<b>7,698</b>	6,974	6,568
Selling, general and administrative expenses	<b>571</b>	515	480
Operating income	<b>666</b>	572	470
Non-operating income (expense):			
Interest income	<b>56</b>	116	96
Interest expense	<b>(90)</b>	(92)	(88)
Minority interest in income of consolidated subsidiaries	<b>(3)</b>	(5)	(3)
Other income (expense), net	<b>(3)</b>	5	(7)
Income from continuing operations before income taxes	<b>626</b>	596	468
Provision for income taxes	<b>240</b>	231	133
Income from continuing operations	<b>386</b>	365	335
Discontinued operations (Note 18):			
Income from discontinued operations before minority interest in income of consolidated subsidiaries and income taxes (including net gain on sales of \$34 million, \$19 million and \$871 million in fiscal 2008, 2007 and 2006, respectively)	<b>40</b>	40	902
Minority interest in income of consolidated subsidiaries	<b>(2)</b>	(9)	(11)
Provision for income taxes	<b>8</b>	6	307
Income from discontinued operations	<b>30</b>	25	584
Net income	<b>\$ 416</b>	\$ 390	\$ 919
Earnings per share:			
Basic:			
Income from continuing operations	<b>\$ .96</b>	\$ 1.04	\$ .96
Income from discontinued operations	<b>.07</b>	.07	1.68
	<b>\$ 1.03</b>	\$ 1.11	\$ 2.64
Diluted:			
Income from continuing operations	<b>\$ .93</b>	\$ 1.00	\$ .93
Income from discontinued operations	<b>.07</b>	.07	1.63
	<b>\$ 1.00</b>	\$ 1.07	\$ 2.56
Weighted average shares outstanding:			
Basic	<b>404</b>	352	348
Diluted	<b>417</b>	364	359

See accompanying notes to consolidated financial statements.

## SAIC, INC.

## CONSOLIDATED BALANCE SHEETS

	January 31	
	2008	2007
	As Restated	
	(see Note 2)	
	(in millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,096	\$ 1,109
Receivables, net	1,886	1,598
Inventory, prepaid expenses and other current assets	255	190
Assets of discontinued operations		85
Total current assets	3,237	2,982
Property, plant and equipment, net	393	382
Intangible assets, net	102	109
Goodwill	1,077	920
Deferred income taxes	71	57
Other assets	101	109
	<b>\$ 4,981</b>	<b>\$ 4,559</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,111	\$ 1,032
Accrued payroll and employee benefits	562	507
Income taxes payable	64	107
Notes payable and long-term debt, current portion	130	29
Liabilities of discontinued operations		25
Total current liabilities	1,867	1,700
Notes payable and long-term debt, net of current portion	1,098	1,199
Other long-term liabilities	148	102
Commitments and contingencies (Notes 15 and 19)		
Minority interest in consolidated subsidiaries		56
Stockholders' equity:		
Preferred stock, \$.0001 par value, 1.5 billion shares authorized, 234 million and 320 million shares issued and outstanding at January 31, 2008 and 2007, respectively		
Common stock, \$.0001 par value, 2 billion shares authorized, 179 million and 92 million shares issued and outstanding at January 31, 2008 and 2007, respectively		
Additional paid-in capital	1,804	1,523
Retained earnings	87	6
Accumulated other comprehensive loss	(23)	(27)
Total stockholders' equity	1,868	1,502
	<b>\$ 4,981</b>	<b>\$ 4,559</b>

See accompanying notes to consolidated financial statements.

## SAIC, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY  
AND COMPREHENSIVE INCOME**

	Shares Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Other stockholders equity As Restated	Accumulated other comprehensive loss	Comprehensive Income
				(in millions)			
					(see Note 2)		
Balance at February 1, 2005		363	\$ 2,280	\$ 187	\$ (105)	\$ (36)	
Net income				919			\$ 919
Other comprehensive income						4	4
Issuances of stock		27	443				
Repurchases of stock		(47)	(283)	(724)			
Income tax benefit from employee stock transactions			67				
Stock-based compensation			1				
Unearned stock compensation, net of amortization					21		
Balance at January 31, 2006		343	2,508	382	(84)	(32)	\$ 923
Net income				390			\$ 390
Other comprehensive income						15	15
Initial public offering of common stock	86		1,243				
Issuances of preferred stock and other stock transactions		21	289				
Repurchases of stock	(2)	(36)	(267)	(602)			
Conversion of preferred stock to common stock	8	(8)					
Special dividend			(2,279)	(164)			
Income tax benefit from employee stock transactions			41				
Stock-based compensation			44		28		
Adjustment to initially apply FASB Statement No. 158, net of tax						(10)	
Elimination of unearned compensation upon modification of stock awards			(56)		56		
Balance at January 31, 2007	92	320	1,523	6		(27)	\$ 405
Net income				416			\$ 416
Other comprehensive income						4	4
Issuances of preferred stock and other stock transactions		28	292				
Repurchases of stock	(12)	(15)	(164)	(334)			
Conversion of preferred stock to common stock	99	(99)					
Income tax benefit from employee stock transactions			64				
Stock-based compensation			89				
Adjustment to initially apply FIN 48, net of tax					(1)		
Balance at January 31, 2008	<b>179</b>	<b>234</b>	<b>\$ 1,804</b>	<b>\$ 87</b>	<b>\$</b>	<b>\$ (23)</b>	<b>\$ 420</b>

See accompanying notes to consolidated financial statements.



## SAIC, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended January 31		
	2008	2007 As Restated	2006
	(see Note 2) (in millions)		
Cash flows from operations:			
Net income	\$ 416	\$ 390	\$ 919
Income from discontinued operations	(30)	(25)	(584)
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	80	71	68
Stock-based compensation	89	64	39
Excess tax benefits from stock-based compensation	(64)	(9)	
Other non-cash items	24	22	16
Increase (decrease) in cash and cash equivalents, excluding effects of acquisitions and divestitures, resulting from changes in:			
Receivables	(237)	(68)	49
Inventory, prepaid expenses and other current assets	(46)	8	41
Deferred income taxes	(4)	3	(42)
Other assets	(5)	2	(19)
Accounts payable and accrued liabilities	47	33	53
Accrued payroll and employee benefits	54	97	95
Income taxes payable	28	108	(75)
Other long-term liabilities	(7)	(3)	13
Total cash flows provided by operations	345	693	573
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(61)	(73)	(52)
Acquisitions of businesses, net of cash acquired of \$29, \$14 and \$4 in fiscal 2008, 2007 and 2006, respectively	(144)	(377)	(212)
Payments for businesses acquired in previous years	(1)	(1)	(14)
Purchases of marketable securities available-for-sale		(4,258)	(7,852)
Proceeds from sales and maturities of marketable securities available-for-sale		5,917	7,561
Other	3	3	(12)
Total cash flows provided by (used in) investing activities	(203)	1,211	(581)
Cash flows from financing activities:			
Payments on notes payable and long-term debt	(10)	(20)	(40)
Sales of stock through initial public offering		1,243	
Sales of stock and exercise of stock options	98	100	155
Repurchases of stock	(309)	(724)	(818)
Payment of a special dividend	(2)	(2,439)	
Excess tax benefits from stock-based compensation	64	9	
Other	2	(2)	(4)
Total cash flows used in financing activities	(157)	(1,833)	(707)
Increase (decrease) in cash and cash equivalents from continuing operations	(15)	71	(715)
Cash flows of discontinued operations:			
Cash provided by (used in) operating activities of discontinued operations	(3)	22	(296)
Cash provided by investing activities of discontinued operations	1	15	1,063
Cash used in financing activities of discontinued operations		(30)	(6)
Increase (decrease) in cash and cash equivalents from discontinued operations	(2)	7	761



Edgar Filing: SAIC, Inc. - Form 10-K/A

Total increase (decrease) in cash and cash equivalents	(17)	78	46
Cash and cash equivalents at beginning of year continuing operations	1,109	1,001	959
Cash and cash equivalents at beginning of year discontinued operations	4	34	30
Cash and cash equivalents at beginning of year	1,113	1,035	989
Cash and cash equivalents at end of year continuing operations	1,096	1,109	1,001
Cash and cash equivalents at end of year discontinued operations		4	34
Cash and cash equivalents at end of year	\$ 1,096	\$ 1,113	\$ 1,035

See accompanying notes to consolidated financial statements.

---

**SAIC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

**Note 1 Summary of Significant Accounting Policies:**

***Reporting Entity***

Science Applications International Corporation was formed in 1969. In October 2006, in connection with becoming a publicly-traded company, Science Applications International Corporation completed a merger (reorganization merger) in which it became a 100%-owned subsidiary of SAIC, Inc. Pursuant to the reorganization merger, the shares of common stock of Science Applications International Corporation were exchanged for shares of Class A preferred stock of SAIC, Inc., after which SAIC, Inc. completed an initial public offering of 86.25 million shares of its common stock.

In October 2006, SAIC, Inc. completed the initial public offering of its common stock for net proceeds of \$1.24 billion, after deducting underwriting commissions and discounts and other offering-related costs. The common stock began trading on the New York Stock Exchange under the ticker symbol **SAI** on October 13, 2006.

***Nature of Operations and Basis of Presentation***

SAIC, Inc. is a 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. Governmental civil agencies, state and local government agencies, foreign governments and customers in selected commercial markets.

The consolidated financial statements include the accounts of SAIC, Inc. and all majority-owned and 100%-owned subsidiaries, including Science Applications International Corporation (collectively referred to as the Company). All intercompany transactions and accounts have been eliminated in consolidation. Outside investors' interests in the majority-owned subsidiaries are reflected as minority interest. Unless otherwise noted, references to years are for fiscal years ended January 31. For example, the fiscal year ended January 31, 2008 is referred to as **fiscal 2008** in these notes to consolidated financial statements.

***Reorganization Merger***

Pursuant to the October 2006 reorganization merger, each share of Class A common stock and Class B common stock of Science Applications International Corporation was exchanged for two shares and 40 shares, respectively, of Class A preferred stock of SAIC, Inc. The number and exercise price of stock options outstanding were adjusted for this exchange.

The shares of Class A preferred stock of SAIC, Inc. were allocated 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. The different series were identical, except for applicable restriction periods. Shares of Class A preferred stock were not transferable or convertible into common stock until the applicable restriction periods expired. On October 9, 2007, each share of series A-1, A-2, A-3 and A-4 preferred stock was reclassified as one share of Class A preferred stock without any series designation. All applicable restriction periods lapsed prior to the reclassification as Class A preferred stock. When shares of Class A preferred stock are sold or transferred to other than a permitted transferee, as defined in the certificate of incorporation of SAIC, Inc., the shares convert into common stock on a one-for-one basis.

***Special Dividend***

Prior to the October 2006 reorganization merger and the initial public offering, the board of directors of Science Applications International Corporation declared a special dividend of \$15 per share of Class A common stock and \$300 per share of Class B common stock to holders of record as of October 12, 2006. The stock options outstanding as of the dividend record date were

adjusted to maintain the pre-dividend fair value. This adjustment resulted in an increase in the number of options outstanding and a reduction in the exercise price of each option outstanding (Note 11). Stock-based compensation was not affected by this adjustment as it was required by the terms of the 1999 Stock Incentive Plan. The special dividend of \$2.45 billion was paid in November 2006.

### *Operating Cycle*

The Company's operating cycle for long-term contracts may be greater than one year and is measured by the average time intervening between the inception and the completion of those contracts. Contract related assets and liabilities are classified as current assets and current liabilities.

---

**SAIC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

***Discontinued Operations***

On July 13, 2007, the Company completed a reorganization transaction involving AMSEC LLC. Before this transaction was completed, AMSEC LLC was jointly owned 55% by the Company and 45% by another party, and AMSEC LLC's results were reported as a consolidated majority-owned subsidiary of the Company within the Government segment. The reorganization transaction resulted in the disposition of the Company's 55% interest in AMSEC LLC, in exchange for the acquisition by the Company of certain divisions and subsidiaries of AMSEC LLC. The Company no longer owns any interest in AMSEC LLC nor are there any minority investors in any consolidated subsidiary. On October 27, 2006, the Company completed the sale of its majority-owned subsidiary, ANXeBusiness Corp. (ANX). On March 15, 2005, the Company completed the sale of its subsidiary, Telcordia Technologies, Inc. (Telcordia). The operating results of AMSEC LLC (other than the divisions and subsidiaries that the Company acquired in the reorganization transaction), ANX and Telcordia have been classified as discontinued operations (Note 18) for all periods presented.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an on-going basis including those relating to allowances for doubtful accounts, inventories, fair value and impairment of intangible assets and goodwill, income taxes, estimated profitability of long-term contracts, pension benefits, stock-based compensation expense, contingencies and litigation. Estimates have been prepared by management on the basis of the most current and best available information and actual results could differ from those estimates.

***Revenue Recognition***

The Company's revenues are generated primarily from contracts with the U.S. Government, commercial customers, and various international, state and local governments or from subcontracts with other contractors engaged in work with such customers. The Company performs under a variety of contracts, some of which provide for reimbursement of cost plus fees, or target cost and fee with risk sharing, and others which are fixed-price or time-and-materials type contracts. Revenues and fees on these contracts are primarily recognized using the percentage-of-completion method of accounting, most often based on contract costs incurred to date compared with total estimated costs at completion (cost-to-cost method). The Company also uses the efforts-expended method of percentage-of-completion using measures such as labor dollars for measuring progress towards completion in situations in which this approach is more representative of the progress on the contract than the cost-to-cost method. For example, the efforts-expended method is utilized when there are significant amounts of materials or hardware incurred on a contract for which procurement of materials does not represent significant progress on the contract. Additionally, the Company utilizes the units-of-delivery method under percentage-of-completion on contracts where separate units of output are produced. Under the units-of-delivery method, revenue is recognized when the units are delivered to the customer, provided that all other requirements for revenue recognition have been met. On contracts that provide for incentive or award fees, the Company includes an estimate of the ultimate incentive or award fee to be received on the contract in the estimate of contract revenues for purposes of applying the percentage-of-completion method of accounting.

Revenues from services and maintenance contracts are recognized over the term of the respective contracts as the services are performed and revenue is earned. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. Revenues from the sale of manufactured products are recorded upon passage of title and risk of loss to the customer, which is generally upon delivery, provided that all other requirements for revenue recognition have been met. The Company evaluates its contracts for multiple deliverables and, when appropriate, segments the contracts into separate units of accounting for proper revenue recognition.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

The Company provides for anticipated losses on contracts by recording an expense during the period in which the losses are first identified. Amounts billed and collected but not yet recognized as revenue under certain types of contracts are deferred. Contract costs incurred for U.S. Government contracts, including indirect costs, are subject to audit and adjustment through negotiations between the Company and government representatives. The Company has agreed upon and settled indirect contract costs through fiscal 2004. Revenues on U.S. Government contracts have been recorded in amounts that are expected to be realized upon final settlement.

The Company's accounts receivable include unbilled receivables, which consist of costs and fees billable on contract completion or other specified events, the majority of which is expected to be billed and collected within one year. Unbilled receivables are stated at estimated realizable value. Contract retentions are billed when the Company has negotiated final

[F-8 SAIC, Inc. Annual Report](#)

---

**SAIC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

indirect rates with the U.S. Government and, once billed, are subject to audit and approval by government representatives. Consequently, the timing of collection of retention balances is outside the Company's control. Based on the Company's historical experience, the majority of the retention balances are expected to be collected beyond one year.

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

***Pre-contract Costs***

Costs incurred on projects accounted for under the percentage-of-completion accounting method may be recognized as pre-contract costs and deferred as assets (inventory, prepaid expenses and other current assets) when the Company has been requested by the customer to begin work under a new arrangement prior to contract execution. The Company records pre-contract costs when formal contracts have not yet been executed, and it is probable that the Company will recover the costs through the issuance of a contract. When the formal contract has been executed, the costs are recorded to the contract and revenue is recognized based on the percentage-of-completion method of accounting.

***Cash and Cash Equivalents***

Cash equivalents are highly liquid investments purchased with original maturities of three months or less. Cash equivalents are invested in institutional money market funds, money market accounts and time deposits.

***Investments***

Investments in affiliates and corporate joint ventures where the Company has an ownership interest representing between 20% and 50%, or over which the Company has the ability to exercise significant influence, are accounted for under the equity method whereby the Company recognizes its proportionate share of the affiliates' net income or loss and does not consolidate the affiliates' individual assets and liabilities. The Company recognized revenues of \$21 million, \$16 million and \$15 million on sales to these equity method investees during the years ended January 31, 2008, 2007 and 2006, respectively.

Equity investments in affiliates over which the Company does not have the ability to exercise significant influence and whose securities do not have a readily determinable fair value are carried at cost or adjusted cost net of other-than-temporary impairments.

Management evaluates its investments in private equity securities for other-than-temporary impairment at each balance sheet date. If management determines that an other-than-temporary decline in the fair value of an investment has occurred, an impairment loss is recognized to reduce the security to its estimated fair value (Note 12).

***Inventories***

Inventories are valued at the lower of cost or estimated net realizable value. Raw material inventory is valued using the average cost or first-in, first-out methods and consists of material used in the production of border, port and mobile security products. Work-in-process inventory, which consists of border, port and mobile security products, includes raw material costs plus labor costs, including fringe benefits, and allocable overhead costs. Finished goods inventory consists primarily of purchased finished goods for resale to customers in addition to manufactured border, port and mobile security products. The Company evaluates inventory against historical and planned usage to determine appropriate provisions for obsolete inventory.

***Property, Plant and Equipment***

Depreciation of buildings is recognized using the straight-line method over estimated useful lives of ten to forty years while the related improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of ten years. Depreciation of equipment is recognized using the straight-line method or the declining-balance method over the estimated useful lives of three to nine years.

Purchases of property and equipment as well as costs associated with major renewals and betterments are capitalized. Maintenance, repairs and minor renewals and betterments are expensed as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized.

The Company evaluates its long-lived assets for potential impairment whenever there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely and the carrying amount of the asset exceeds its

SAIC, Inc. Annual Report F-9

---

SAIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

estimated future undiscounted cash flows. When the carrying amount of the asset exceeds its estimated future undiscounted cash flows, an impairment loss is recognized to reduce the asset's carrying amount to its estimated fair value based on the present value of its estimated future cash flows.

***Goodwill and Intangible Assets***

Goodwill (Note 6) is assessed for impairment annually and whenever events or circumstances indicate a condition of impairment may exist. The goodwill impairment test is a two-step process performed at the reporting unit level. The first step consists of estimating the fair values of each of the reporting units based on a combination of two valuation methods, a market approach and an income approach. Fair value computed using these two methods is determined using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable market data with a consistent industry grouping, and the cost of capital. The estimated fair values are compared with the carrying values of the reporting units, which include the allocated goodwill. If the fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit's identifiable assets and liabilities from its estimated fair value calculated in the first step. The impairment expense represents the excess of the carrying amount of the reporting units' goodwill over the implied fair value of the reporting units' goodwill.

During the fourth quarter ended January 31, 2008, the Company changed the date of its annual goodwill impairment assessment from the beginning of the final month of the fourth quarter to the beginning of the fourth quarter. This change was performed to better support the completion of the assessment prior to the Company's new 60-day filing requirement for its Annual Report on Form 10-K as an accelerated filer for the year ended January 31, 2008, and in order to better align the timing of this assessment with the Company's normal process for updating its strategic plan and forecasts. The Company believes that the resulting change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. The goodwill impairment tests performed in fiscal years 2008, 2007, and 2006 did not result in any impairment of goodwill. The Company determined that the change in accounting principle related to the annual testing date is preferable under the circumstances and does not result in adjustments to the financial statements when applied retrospectively.

Intangible assets with finite lives are amortized using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives of one to fifteen years. Intangible assets with finite lives are evaluated for impairment whenever events or changes in circumstances indicate that a condition of impairment may exist. Intangible assets with indefinite lives are not amortized but are assessed for impairment at the beginning of the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

***Income Taxes***

Provision for income taxes is recorded utilizing the asset and liability method in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes" and related interpretations. The asset and liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities on an annual basis (Note 13). Under this method, changes in tax rates and laws are reflected in income in the period such changes are enacted.

The provision for federal, state, foreign and local income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes.



## Edgar Filing: SAIC, Inc. - Form 10-K/A

The Company adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 on February 1, 2007 (Note 13). The Company recognizes liabilities for uncertain tax positions on open tax years when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company's income taxes payable balance includes liabilities for uncertain tax positions.

### ***Stock-Based Compensation***

On February 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment* (Note 11). This statement requires that the Company recognize as compensation expense the fair value of all stock-based awards, including stock options,

---

**SAIC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

granted to employees and directors in exchange for services over the requisite service period, which is typically the vesting period. SFAS No. 123(R) requires that the Company recognize as compensation expense the fair value of any discount greater than 5% on employee stock purchases made under its employee stock purchase plan (ESPP).

***Defined Benefit Plans***

The Company sponsors a defined benefit plan for eligible employees of its United Kingdom subsidiary that perform services on a specific customer contract. The Company adopted SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132(R)) on January 31, 2007 (Note 10).

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, accounts receivable, short-term investments, foreign currency forward exchange contracts, and interest rate derivative contracts. At January 31, 2008, the Company's cash and cash equivalents, which include money market funds and money market accounts, bear variable interest rates.

Although credit risk is limited, the Company's receivables are concentrated with its principal customers, which are the various agencies of the U.S. Government and customers engaged in work for the U.S. Government.

***Fair Value of Financial Instruments***

The fair value of financial instruments is determined based on quoted market prices, if available, or management's best estimate. It is management's belief that the carrying amounts of the Company's financial instruments, which include cash equivalents and long-term investments in private equity securities, are reasonable estimates of their related fair values. Cash equivalents are recorded at fair value. The fair value of long-term investments in private equity securities is estimated using various valuation techniques and factors, such as discounted cash flow models, market prices of comparable companies and recent capital transactions of portfolio companies. The fair value of long-term debt (Note 8) is estimated based on quoted market prices for similar instruments and current rates offered to the Company for similar debt with the same remaining maturities.

***Foreign Currency***

Financial statements of consolidated international subsidiaries, for which the functional currency is the local currency, are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for revenues, expenses, gains and losses. Translation adjustments are recorded as accumulated other comprehensive income (loss) in stockholders' equity. Transaction gains and losses are recognized when realized.

***Recently Issued Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for the Company in the first quarter of fiscal 2009 and will be applied prospectively. Subsequent to the issuance of SFAS No. 157, the FASB issued FASB Staff Position No. FAS 157-1 and No. FAS 157-2, which exclude the lease classification measurements under SFAS No. 13 Accounting for Leases from the scope of SFAS No. 157 and delay the effective date on SFAS No. 157 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The Company does not believe that the adoption of the provisions of SFAS No. 157 will materially impact its consolidated financial position and results of operations.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (Including an Amendment of FASB Statement No. 115). SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. Most of the provisions in SFAS No. 159 are elective. This statement is effective for the Company in the first quarter of fiscal 2009 and may be applied prospectively. The Company does not intend to adopt the elective provisions of this statement.

In December 2007, the FASB issued SFAS No. 141(R) Business Combinations. SFAS No. 141(R) changes the requirements for an acquirer's recognition and measurement of the assets acquired and liabilities assumed in a business combination. This statement is effective for the Company with respect to all business combinations for which the acquisition

[SAIC, Inc. Annual Report F-11](#)

---

SAIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

date is after January 31, 2009. Adoption is not expected to materially impact the Company's consolidated financial position or results of operations directly when it becomes effective, as the only impact that the statement will have on recorded amounts at that time is that related to disposition of uncertain tax positions related to prior acquisitions. Following the date of adoption of the statement, the resolution of such items at values that differ from recorded amounts will be adjusted through earnings, rather than through goodwill. Adoption of this statement is, however, expected to have significant effect on how acquisition transactions subsequent to January 31, 2009 are reflected in the financial statements.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements (an amendment of ARB No. 51). SFAS No. 160 requires that noncontrolling (minority) interests be reported as a component of equity, that net income attributable to the parent and to the non-controlling interest be separately identified in the income statement, that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. This statement is effective for the Company as of February 1, 2009, and shall be applied prospectively except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. As of January 31, 2008, the Company does not have any consolidated subsidiaries in which there is a noncontrolling interest. The retrospective presentation and disclosure requirements of this statement will be applied to any prior periods presented in financial statements for the fiscal year ending January 31, 2010, and later periods during which the Company had a consolidated subsidiary with a noncontrolling interest.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (an amendment of FASB Statement No. 133). SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities and their effects on an entity's financial position, financial performance, and cash flows. The requirements of this statement are effective for the Company in the first quarter of fiscal 2010. Since this statement only pertains to disclosures in the notes to consolidated financial statements, it will not impact the Company's consolidated financial position and results of operations.

#### Note 2 Restatement

The Company has restated these consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007, and 2006. Certain misstatements in the Company's previously issued consolidated financial statements resulted from a recently identified transcription error that was initially made in the determination of income taxes owed from the March 2005 sale of the Company's subsidiary, Telcordia. These misstatements relate to accounting for the sale of Telcordia, which is presented as part of discontinued operations in the Company's consolidated financial statements for the year ended January 31, 2005 and for all subsequent quarterly and annual periods. This error was discovered during the quarterly period ended July 31, 2008, by Company personnel following an inquiry made during a routine Internal Revenue Service audit of the Company's 2005 and 2006 federal tax returns.

The principal effects of the error related to the calculation of the gain on the sale of Telcordia on the Company's consolidated financial statements are as follows:

An overstatement of federal deferred tax assets and an associated understatement of provision for federal income taxes from discontinued operations in the amount of \$25 million as of and for the year ended January 31, 2005. The error caused the overstated amount of a federal deferred tax asset for the excess of tax basis of the Company's investment in Telcordia over financial reporting basis to be recorded for the year ended January 31, 2005, after an acquisition agreement for the sale of Telcordia had been signed in fiscal 2005 and before the closing of the sale in fiscal 2006.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

An understatement of provision for state income taxes from discontinued operations in the amount of \$2 million for the year ended January 31, 2006. The error caused an understated amount of state tax expense to be recorded for the year ended January 31, 2006, upon completion of the sale of Telcordia in fiscal 2006.

An understatement of the provision for income taxes from discontinued operations in the amount of \$2 million and \$1 million for the years ended January 31, 2008 and 2007, respectively. This impact for fiscal 2008 and 2007 results from interest owed on the previously unrecorded federal and state tax obligations.

Two corrections to the provision for income taxes from discontinued operations to move \$3 million from the three months ended April 30, 2008 to the year ended January 31, 2006 and \$3 million from the year ended January 31, 2008 to the year ended January 31, 2006, in order to move these previously recognized amounts to the proper periods.

An overstatement of stockholders' equity and an understatement of income tax obligations related to the sale of Telcordia of \$33 million, \$34 million, and \$33 million at January 31, 2008, January 31, 2007, and January 31, 2006, respectively. These amounts reflect the cumulative impact of the items noted above, which were caused by the error.

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables illustrate the effects of the restatement of the Company's consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007, and 2006.

## Consolidated Statement of Income Items

	Year Ended January 31, 2008		
	As Previously Reported	Adjustments	As Restated
	(in millions, except per share amounts)		
Discontinued operations:			
Provision for income taxes	\$ 9	\$ (1)	\$ 8
Income from discontinued operations	29	1	30
Net income	415	1	416
Earnings per share:			
Basic:			
Income from continuing operations	\$ .96	\$	\$ .96
Income from discontinued operations	.07		.07
	\$ 1.03	\$	\$ 1.03
Diluted:			
Income from continuing operations	\$ .93	\$	\$ .93
Income from discontinued operations	.07		.07
	\$ 1.00	\$	\$ 1.00

  

	Year Ended January 31, 2007		
	As Previously Reported	Adjustments	As Restated
	(in millions, except per share amounts)		
Discontinued operations:			
Provision for income taxes	\$ 5	\$ 1	\$ 6
Income from discontinued operations	26	(1)	25
Net income	391	(1)	390
Earnings per share:			
Basic:			
Income from continuing operations	\$ 1.04	\$	\$ 1.04
Income from discontinued operations	.07		.07
	\$ 1.11	\$	\$ 1.11
Diluted:			
Income from continuing operations	\$ 1.00	\$	\$ 1.00
Income from discontinued operations	.07		.07
	\$ 1.07	\$	\$ 1.07

Edgar Filing: SAIC, Inc. - Form 10-K/A

	Year Ended January 31, 2006		
	As Previously Reported	Adjustments	As Restated
	(in millions, except per share amounts)		
Discontinued operations:			
Provision for income taxes	\$ 299	\$ 8	\$ 307
Income from discontinued operations	592	(8)	584
Net income	927	(8)	919
Earnings per share:			
Basic:			
Income from continuing operations	\$ .96	\$	\$ .96
Income from discontinued operations	1.70	(.02)	1.68
	\$ 2.66	\$ (.02)	\$ 2.64
Diluted:			
Income from continuing operations	\$ .93	\$	\$ .93
Income from discontinued operations	1.65	(.02)	1.63
	\$ 2.58	\$ (.02)	\$ 2.56

SAIC, Inc. Annual Report F-13

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Balance Sheet Items

	January 31, 2008		
	As Previously Reported	Adjustments (in millions)	As Restated
Income taxes payable	\$ 29	\$ 35	\$ 64
Total current liabilities	1,832	35	1,867
Other long-term liabilities	150	(2)	148
Additional paid-in capital	1,836	(32)	1,804
Retained earnings	88	(1)	87
Total stockholders' equity	1,901	(33)	1,868

  

	January 31, 2007		
	As Previously Reported	Adjustments (in millions)	As Restated
Income taxes payable	\$ 73	\$ 34	\$ 107
Total current liabilities	1,666	34	1,700
Additional paid-in capital	1,557	(34)	1,523
Retained earnings	6		6
Total stockholders' equity	1,536	\$ (34)	1,502

## Consolidated Statement of Cash Flows Items

	Year Ended January 31, 2008		
	As Previously Reported	Adjustments (in millions)	As Restated
Cash flows from operations:			
Net income	\$ 415	\$ 1	\$ 416
Income from discontinued operations	(29)	(1)	(30)
Total cash flows provided by operations	345	—	345

  

	Year Ended January 31, 2007		
	As Previously Reported	Adjustments (in millions)	As Restated
Cash flows from operations:			
Net income	\$ 391	\$ (1)	\$ 390
Income from discontinued operations	(26)	1	(25)
Total cash flows provided by operations	693	—	693



Edgar Filing: SAIC, Inc. - Form 10-K/A

	Year Ended January 31, 2006		
	As Previously Reported	Adjustments (in millions)	As Restated
Cash flows from operations:			
Net income	\$ 927	\$ (8)	\$ 919
Income from discontinued operations	(592)	8	(584)
Total cash flows provided by operations	573	—	573

F-14 SAIC, Inc. Annual Report

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statements of Stockholders Equity and Comprehensive Income Items

The impact of the restatement on the components of stockholders equity as of the beginning of fiscal 2006 was as follows:

	Shares		Additional paid-in capital	Retained earnings (in millions)	Other stockholders equity	Accumulated other comprehensive loss	Comprehensive Income
	Common stock	Preferred stock					
Balance at February 1, 2005 - as previously reported		363	\$ 2,280	\$ 212	\$ (105)	\$ (36)	
Adjustments				(25)			
Balance at February 1, 2005 - as restated		363	\$ 2,280	\$ 187	\$ (105)	\$ (36)	

The impact of the restatement on the components of stockholders equity for the year ended January 31, 2007 related to the issuance of the special dividend was as follows:

	Shares		Additional paid-in capital	Retained earnings (in millions)	Other stockholders equity	Accumulated other comprehensive loss	Comprehensive Income
	Common stock	Preferred stock					
Special dividend - as previously reported			\$ (2,245)	\$ (198)			
Adjustments			(34)	34			
Special dividend - as restated			\$ (2,279)	\$ (164)			

The impact of the restatement on the components of stockholders equity for the year ended January 31, 2008 related to the repurchases of stock was as follows:

	Shares		Additional paid-in capital	Retained earnings (in millions)	Other stockholders equity	Accumulated other comprehensive loss	Comprehensive Income
	Common stock	Preferred stock					
Repurchases of stock - as previously reported	(12)	(15)	\$ (166)	\$ (332)			
Adjustments			2	(2)			
Repurchases of stock - as restated	(12)	(15)	\$ (164)	\$ (334)			

## Business Segment Information

## Edgar Filing: SAIC, Inc. - Form 10-K/A

The Company has also restated its business segment information (Note 17) to correct an error that resulted in certain Government segment business activity being reported in its Commercial segment. This error resulted in an overstatement of Commercial segment revenues and an understatement of Government segment revenues of \$70 million, \$68 million, and \$52 million for the years ended January 31, 2008, 2007, and 2006, respectively. Additionally, Commercial segment operating income was overstated and Government segment operating income was understated by \$4 million and \$10 million for the years ended January 31, 2008 and 2007, respectively. Commercial segment operating income was understated and Government segment operating income was overstated by \$4 million for the year ended January 31, 2006. Commercial segment capital expenditures were overstated and Government segment capital expenditures were understated by \$1 million and \$4 million for the years ending January 31, 2008 and 2006, respectively. There was only a nominal impact to Commercial and Government segment capital expenditures for the year ending January 31, 2007. Commercial segment depreciation and amortization was overstated and Government segment depreciation and amortization was understated by \$1 million, \$2 million, and \$2 million for the years ending January 31, 2008, 2007, and 2006, respectively.

SAIC, Inc. Annual Report F-15

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 3 Earnings Per Share (EPS):**

The following EPS information reflects the exchange of shares in the reorganization merger as described in Note 1. Shares of common stock contain the same economic rights as shares of Class A preferred stock, however, holders of Class A preferred stock are entitled to 10 votes per share while holders of common stock are entitled to one vote per share.

Basic EPS is computed by dividing income by the weighted average number of shares outstanding. Stock awards are included in the computation of basic EPS only after the shares become vested. Included in the number of shares of Class A preferred stock issued and outstanding as of January 31, 2008 and 2007 were 10 million shares and 8 million shares, respectively, that were unvested and therefore excluded from the computation of basic EPS. Diluted EPS is computed similar to basic EPS, except the weighted average number of shares outstanding is increased to include the dilutive effect of stock options, unvested stock and other stock-based awards granted under stock-based compensation plans that were outstanding during the periods.

A reconciliation of the weighted average number of shares outstanding used to compute basic and diluted EPS is as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Basic weighted average number of shares outstanding	404	352	348
Add: Dilutive common share equivalents			
Stock options	11	9	8
Unvested stock awards and other stock-based awards	2	3	3
Diluted weighted average number of shares outstanding	417	364	359
Antidilutive shares excluded (stock options)	6	1	

There were no adjustments to income from continuing operations and income from discontinued operations in calculating basic and diluted EPS for the years ended January 31, 2008, 2007 and 2006.

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 4 Composition of Certain Financial Statement Captions:

	January 31 2008 As Restated	2007
	(see Note 2) (in millions)	
Receivables, net:		
Billed less allowance for doubtful accounts of \$9 million and \$5 million as of January 31, 2008 and 2007, respectively	\$ 1,419	\$ 1,204
Unbilled	452	379
Contract retentions	15	15
	\$ 1,886	\$ 1,598
Inventory, prepaid expenses and other current assets:		
Inventories	\$ 99	\$ 50
Prepaid expenses	52	41
Restricted cash	20	22
Pre-contract costs (Note 1)	7	7
Deferred income taxes	43	21
Other	34	49
	\$ 255	\$ 190
Property, plant and equipment, net:		
Computers and other equipment	\$ 226	\$ 199
Buildings and improvements	232	232
Leasehold improvements	133	108
Office furniture and fixtures	50	41
Land	47	47
Construction in progress	2	16
	690	643
Less accumulated depreciation and amortization	297	261
	\$ 393	\$ 382
Other assets:		
Equity method investments	\$ 26	\$ 20
Cost method investments	22	36
Other	53	53
	\$ 101	\$ 109
Accounts payable and accrued liabilities:		
Accounts payable	\$ 491	\$ 462
Accrued liabilities for materials, subcontractors, and other items	465	423
Collections in excess of revenues on uncompleted contracts and deferred revenue	155	147
	\$ 1,111	\$ 1,032
Accrued payroll and employee benefits:		
Salaries, bonuses and amounts withheld from employees compensation	\$ 337	\$ 300
Accrued vacation	208	189
Accrued contributions to employee benefit plans	17	18
	\$ 562	\$ 507

Edgar Filing: SAIC, Inc. - Form 10-K/A

Other long-term liabilities:		
Accrued pension liabilities	\$ 21	\$ 24
Deferred compensation	41	43
Liability for uncertain tax positions	26	
Other	60	35
	\$ 148	\$ 102

**Note 5 Acquisitions:**

The Company completed acquisitions of certain businesses in fiscal 2008, 2007 and 2006, which individually and in the aggregate were not considered material business combinations in the year acquired.

SAIC, Inc. Annual Report F-17

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In fiscal 2008, the Company completed two acquisitions, one in the Government segment (Note 17) and one in the Commercial segment for an aggregate purchase price of \$173 million in cash and \$1 million of accrued acquisition payments. One acquired business is a consulting, engineering, and architectural design company with specific competencies in industrial manufacturing and facilities construction. The other acquired business is an India-based provider of onsite and offshore IT solutions and technology consulting in the science and engineering sector. The preliminary purchase price allocations related to these acquisitions resulted in identifiable intangible assets of \$26 million (\$24 million assigned to the Government segment and \$2 million assigned to the Commercial segment) and goodwill of \$118 million (\$104 million assigned to the Government segment and \$14 million to the Commercial segment), \$104 million of which was tax deductible. The intangible assets consisted of customer relationships that are amortizable over a weighted average life of seven years. The Company has not yet obtained all of the information required to complete the purchase price allocations related to these acquisitions. The final purchase price allocations will be completed once the information identified by the Company has been received.

In fiscal 2008, the Company also completed a reorganization transaction resulting in the disposition of its 55% interest in its consolidated majority-owned subsidiary, AMSEC LLC, in exchange for the Company's acquisition of certain divisions and subsidiaries of AMSEC LLC. The Company recorded intangible assets of \$7 million and non-tax deductible goodwill of \$20 million in the Government segment related to the former AMSEC LLC divisions and subsidiaries acquired in the reorganization. The intangible assets consisted of customer relationships that are amortizable over a weighted average life of nine years.

In fiscal 2007, the Company completed eight acquisitions in its Government segment for an aggregate purchase price of \$395 million, which consisted of \$392 million in cash and \$3 million of accrued acquisition payments. The final purchase price allocations resulted in identifiable intangible assets of \$60 million (amortizable over a weighted average life of five years) and goodwill of \$305 million, of which \$221 million was tax deductible. The intangible assets consisted of customer relationships of \$37 million that are amortizable over a weighted average life of six years, software and technology of \$19 million that are amortizable over a weighted average life of four years and non-amortizable tradenames of \$4 million.

In fiscal 2006, the Company completed four acquisitions for an aggregate purchase price of \$234 million, which consisted of \$217 million in cash and 781,000 shares of the Company's stock that had a fair value of \$17 million on the date of issuance. The final purchase price allocations resulted in identifiable intangible assets of \$36 million (amortizable over a weighted average life of seven years) and goodwill of \$195 million, \$32 million of which was tax deductible. The intangible assets consisted of customer relationships of \$17 million that are amortizable over a weighted average life of four years, software and technology of \$14 million that are amortizable over a weighted average life of 12 years and other intangible assets of \$5 million that are amortizable over a weighted average life of 2 years.

In March 2008, the Company entered into definitive purchase agreements to acquire two companies for an aggregate purchase price of approximately \$200 million. These acquisitions are subject to customary closing conditions including termination or expiration of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

**Note 6 Goodwill and Intangible Assets:**

The changes in the carrying amount of goodwill by segment were as follows:

	Government	Commercial (in millions)	Total
Goodwill at January 31, 2006	\$ 600	\$ 24	\$ 624
Acquisitions	291		291

Edgar Filing: SAIC, Inc. - Form 10-K/A

Foreign currency translation		2	2
Adjustments	6	(3)	3
Goodwill at January 31, 2007	897	23	920
Acquisitions	124	14	138
Foreign currency translation		1	1
Adjustments	18		18
Goodwill at January 31, 2008	<b>\$ 1,039</b>	<b>\$ 38</b>	<b>\$ 1,077</b>

Goodwill adjustments in fiscal 2008 and 2007 resulted from the finalization of purchase price allocations related to prior year acquisitions. The incremental goodwill of \$20 million related to the reorganization transaction of AMSEC LLC in fiscal 2008 is included in the acquisitions amount for the Government segment.



## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Intangible assets consisted of the following:

	2008		January 31		2007		Net carrying value
	Gross carrying value	Accumulated amortization	Net carrying value (in millions)	Gross carrying value	Accumulated amortization	Gross carrying value	
Amortizable intangible assets:							
Customer relationships	\$ 103	\$ 38	\$ 65	\$ 75	\$ 30	\$ 45	\$ 45
Software and technology	54	22	32	63	12	51	51
Other	5	4	1	18	11	7	7
Total amortizable intangible assets	162	64	98	156	53	103	103
Non-amortizable intangible assets:							
Tradenames	4		4	6		6	6
Total intangible assets	\$ 166	\$ 64	\$ 102	\$ 162	\$ 53	\$ 109	\$ 109

Amortizable intangible assets with a gross carrying value of \$6 million, \$17 million and \$7 million became fully amortized during the years ended January 31, 2008, 2007 and 2006, respectively, and, therefore are no longer reflected in the gross carrying value after being fully amortized. Intangible assets arising from acquisitions made prior to February 1, 2007 decreased by \$13 million in fiscal 2008 due to the finalization of the valuation of certain intangible assets and other purchase price allocations. Amortization expense related to amortizable intangible assets was \$28 million, \$26 million and \$29 million in fiscal 2008, 2007 and 2006, respectively.

The estimated annual amortization expense related to amortizable intangible assets as of January 31, 2008 is as follows (in millions):

Fiscal Year Ending January 31,	
2009	\$ 28
2010	21
2011	15
2012	10
2013	8
2014 and thereafter	16
	\$ 98

Actual amortization expense in future periods could differ from these estimates as a result of acquisitions, divestitures, impairments, adjustments to preliminary allocations of purchase price and other factors. In fiscal 2008 and 2007, the Company did not recognize any impairment losses on intangible assets. In fiscal 2006, the Company recognized immaterial impairment losses on intangible assets.

**Note 7 Revolving Credit Facility:**

## Edgar Filing: SAIC, Inc. - Form 10-K/A

SAIC, Inc.'s 100%-owned subsidiary, Science Applications International Corporation, has a revolving credit facility providing for \$750 million in unsecured borrowing capacity at interest rates determined, at the Company's option, based on either LIBOR plus a margin or a defined base rate through fiscal 2013. As of January 31, 2008 and 2007, there were no borrowings outstanding under the revolving credit facility.

As of January 31, 2008, \$745 million of the revolving credit facility was available, due to \$5 million of outstanding standby letters of credit issued in connection with the Company's contract with the Greek government. The terms of the standby letters of credit require them to remain outstanding until the customer formally accepts the system pursuant to the contract (Note 19).

The revolving credit facility contains certain customary representations and warranties, as well as certain affirmative and negative covenants. The financial covenants contained in the revolving credit facility require that, for a period of four trailing fiscal quarters, the Company maintains a ratio of consolidated funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA) adjusted for other items as defined in the credit facility of not more than 3.0 to 1.0 and a ratio of EBITDA adjusted for other items as defined in the credit facility to interest expense of greater than 3.5 to 1.0. The Company was in compliance with these financial covenants as of January 31, 2008. Other covenants restrict certain of the Company's

[SAIC, Inc. Annual Report F-19](#)

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

activities, including among other things, its ability to create liens, dispose of certain assets and merge or consolidate with other entities and to declare and pay a dividend on the Company's stock. The revolving credit facility also contains certain customary events of default, including, among others, defaults based on certain bankruptcy and insolvency events, nonpayment, cross-defaults to other debt, breach of specified covenants, ERISA events, material monetary judgments, change of control events and the material inaccuracy of the Company's representations and warranties.

SAIC, Inc. has fully and unconditionally guaranteed the obligations of Science Applications International Corporation under the revolving credit facility (Note 20).

**Note 8 Notes Payable and Long-Term Debt:**

Notes payable and long-term debt consisted of the following:

	January 31	
	2008	2007
	(in millions)	
6.25% notes due fiscal 2013	\$ 549	\$ 549
5.5% notes due fiscal 2034	296	296
7.125% notes due fiscal 2033	248	248
6.75% notes due fiscal 2009	100	96
Other notes payable	35	39
	<b>1,228</b>	1,228
Less current portion	130	29
	<b>\$ 1,098</b>	<b>\$ 1,199</b>

In fiscal 2003, the Company issued \$550 million of 6.25% senior unsecured notes (6.25% notes). The 6.25% notes are due on July 1, 2012 with interest payable semi-annually beginning January 1, 2003. The note discounts, issuance costs and the loss on the settlement of related treasury lock contracts are amortized to interest expense, which results in an effective interest rate of 6.5%. The fair value of the 6.25% notes exceeded the carrying value by \$40 million and \$16 million at January 31, 2008 and 2007, respectively.

In fiscal 2004, the Company completed an offering of \$300 million of senior unsecured notes (5.5% notes). The 5.5% notes are due on July 1, 2033 with interest payable on a semi-annual basis beginning January 1, 2004. The note discounts, issuance costs and the loss on the settlement of related treasury lock contracts are amortized to interest expense using the effective interest method, which results in an effective interest rate of 5.8%. The fair value of the 5.5% notes was less than the carrying value by \$41 million and \$31 million at January 31, 2008 and 2007, respectively.

In fiscal 2003, the Company issued \$250 million of 7.125% senior unsecured notes (7.125% notes). The 7.125% notes are due on July 1, 2032 with interest payable semi-annually beginning January 1, 2003. The note discounts, issuance costs and the loss on the settlement of related treasury lock contracts are amortized to interest expense, which results in an effective interest rate of 7.43%. The fair value of the 7.125% notes exceeded the carrying value by \$15 million and \$21 million at January 31, 2008 and 2007, respectively.

In fiscal 1998, the Company issued \$100 million of 6.75% senior unsecured notes with a nominal discount (6.75% notes) with interest paid semi-annually beginning August 1, 1998. The Company paid \$100 million to settle the 6.75% notes at maturity on February 1, 2008. The 6.75% notes had an effective interest rate of 8.3%, due principally to the amortization of the loss on the

## Edgar Filing: SAIC, Inc. - Form 10-K/A

settlement of a related treasury lock contract, the discount on issuance of the notes and underwriting fees associated with the offering. In fiscal 2005, the Company entered into interest rate swaps related to this debt as described in Note 9.

The Company is subject to certain restrictions on the notes described above, such as limitations on liens and sale and leaseback transactions. As of January 31, 2008, the Company was in compliance with these restrictions.

[F-20 SAIC, Inc. Annual Report](#)

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has various other notes payable with interest rates from 5.0% to 11.0% that are due on various dates through fiscal 2017. Maturities of notes payable and long-term debt are as follows (in millions):

Year Ending January 31	
2009	\$ 130
2010	1
2011	1
2012	1
2013	550
2014 and thereafter	552
Total principal payments	1,235
Less unamortized discount	7
	\$ 1,228

**Note 9 Derivative Instruments:**

The Company is exposed to certain market risks which are inherent in certain transactions entered into during the normal course of business. They include sales contracts denominated in foreign currencies, investments in equity securities and exposure to changing interest rates. The Company uses a risk management policy to assess and manage cash flow and fair value exposures. The policy permits the use of derivative instruments with certain restrictions. The Company does not hold derivative instruments for trading or speculative purposes.

**Interest Rate Risk**

The Company entered into interest rate swap agreements in fiscal 2002 (2002 swap agreements), which converted a variable payment stream to a fixed payment stream. In fiscal 2004, the 2002 swap agreements were no longer designated in a cash flow hedging relationship. Consequently, all subsequent changes in fair value of the 2002 swap agreements through the expiration of the agreements are recorded in income. Additionally, the cumulative loss before income taxes at the date of the change in designation of \$14 million is amortized as additional interest expense through expiration of the agreements. The agreements expire in fiscal 2009.

In fiscal 2004, the Company entered into additional interest rate swaps (2004 swap agreements) to offset the effects of the 2002 swap agreements. The net change in the fair values of the 2002 and 2004 swap agreements since the fiscal 2004 change in designation has not been material and has been recorded as additional interest expense. At January 31, 2008, the combined fair value of the 2002 and 2004 swap agreements was \$2 million, all of which is reflected in accrued liabilities. At January 31, 2007, the combined fair value of the 2002 and 2004 swap agreements was \$5 million, of which \$3 million and \$2 million are reflected in accrued liabilities and other long-term liabilities, respectively.

The Company entered into interest rate swap agreements in fiscal 2005 (2005 swap agreements) to convert the fixed interest payments on its \$100 million 6.75% notes (Note 8) to a variable rate, computed based on a rolling six-month LIBOR plus a margin. These swap agreements were designated as fair value hedges of changes in the notes' fair value and were fully effective in offsetting the change in fair value of the underlying notes. On February 1, 2008, the Company paid \$1 million on the expiration date of the 2005 swap agreements as final settlement. The fair value of the 2005 swap agreements at January 31, 2007 was a liability of \$2 million, which was reflected in accrued liabilities.

**Foreign Currency Risk**

## Edgar Filing: SAIC, Inc. - Form 10-K/A

Although the majority of the Company's transactions are in U.S. dollars, some transactions are denominated in foreign currencies. The Company's objective in managing its exposure to foreign currency rate fluctuations is to mitigate adverse fluctuations in earnings and cash flows associated with foreign currency exchange rate fluctuations. The Company manages cash flow exposure of certain receivables, payables and anticipated transactions through the use of natural hedges and foreign currency forward exchange contracts. Foreign currency forward exchange contracts are contracts requiring the Company to exchange a stated quantity of a currency for a fixed amount of a second currency. At January 31, 2008, the Company did not apply hedge accounting treatment to any of its foreign currency forward exchange contracts. Accordingly, the change in fair value of these contracts was recorded in income.

### **Note 10 Retirement Plans:**

#### ***SAIC Retirement Plan***

The Company maintains the SAIC Retirement Plan (SRP), which is both a 401(k) plan and an employee stock ownership plan (ESOP). The SRP allows eligible participants to defer a portion of their income through payroll deductions. Employee

SAIC, Inc. Annual Report F-21

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

deferrals are fully vested and may be matched by the Company. Employees are eligible to immediately participate in the SRP and receive the Company matching contribution upon their employment with the Company. The Company's matching contribution is a 50% match for each dollar an employee contributes to the 401(k), up to 6% of the employee's eligible compensation. In addition, the Company may also provide profit sharing contributions in cash and Company stock. These contributions are based upon amounts determined annually by the board of directors and are allocated to participants' accounts based on their annual eligible compensation. Employees must meet a one-year eligibility period to qualify for profit sharing contributions made by the Company. Participants' interests in the Company's matching and profit sharing contributions vest 20% per year in the first through fifth year of service. Participants also become fully vested upon reaching age 59<sup>1/2</sup>, permanent disability or death. The Company's contributions, including the matching contributions, expensed related to the SRP and previous plans were \$139 million, \$127 million and \$121 million in fiscal 2008, 2007 and 2006, respectively.

**Deferred Compensation Plans**

The Company maintains two deferred compensation plans for the benefit of key executives and directors and allows eligible participants to elect to defer all or a portion of their annual bonus and sign-on bonus. The Company makes no contributions to the Keystaff Deferral Plan but maintains participant accounts for deferred amounts and interest earned. Interest is accrued based on the Moody's Seasoned Corporate Bond Rate (4.93% to 5.93% during fiscal 2008). Deferred balances are generally paid upon termination. Under the Key Executive Stock Deferral Plan (KESDP), eligible participants may elect to defer in share units all or a portion of their annual bonus awards granted under the 2006 Equity Incentive Plan (Note 11) and prior plans. The Company makes no contributions to the accounts of KESDP participants. Benefits from the KESDP are payable in shares of the Company's stock that may be held in a trust for the purpose of funding benefit payments to KESDP participants. Deferred balances will generally be paid upon retirement or termination.

**Defined Benefit Plans**

The Company sponsors a defined benefit plan for eligible employees of its United Kingdom subsidiary that perform services on a specific customer contract.

**Adoption of New Standard.** In September 2006, the FASB issued SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (an amendment of FASB Statements No. 87, 88, 106 and 132(R)). The Company adopted SFAS No. 158 on January 31, 2007 and the effects of adopting the provisions of SFAS No. 158 on the Company's balance sheet are presented in the following table:

	Before Application of SFAS No. 158	Effect of Adopting SFAS No. 158 (in millions)	As Reported at January 31, 2007
Deferred income taxes	\$ 73	\$ 5	\$ 78
Accrued pension liabilities (other long-term liabilities)	9	15	24
Total liabilities	2,986	15	3,001
Accumulated other comprehensive loss	(17)	(10)	(27)
Total stockholders' equity	1,512	(10)	1,502

**Funded Status.** The following tables set forth the funded status and amounts recognized in the consolidated balance sheets for this plan. The plan has a January 31 measurement date.

Edgar Filing: SAIC, Inc. - Form 10-K/A

	Year Ended January 31	
	2008	2007
	(in millions)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 121	\$ 113
Service cost	4	5
Interest cost	7	6
Plan participants' contributions	1	1
Actuarial gain	(10)	(14)
Benefits paid	(2)	(1)
Foreign currency translation	3	11
Benefit obligation at end of year	\$ 124	\$ 121

F-22 SAIC, Inc. Annual Report



## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended January 31	
	2008	2007
	(in millions)	
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 97	\$ 75
Actual return on plan assets	(3)	7
Company contributions	8	6
Plan participants' contributions	1	1
Benefits paid	(2)	(1)
Foreign currency translation	2	9
Fair value of plan assets at end of year	\$ 103	\$ 97

	January 31	
	2008	2007
	(in millions)	
Funded status at end of year	\$ (21)	\$ (24)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued pension liability (other long-term liabilities)	\$ (21)	\$ (24)
Amounts recognized in accumulated other comprehensive loss consist of:		
Net actuarial loss (pretax)	\$ 27	\$ 27
Amounts for the defined benefit pension plan with an accumulated benefit obligation in excess of plan assets were as follows:		

	January 31	
	2008	2007
	(in millions)	
Projected benefit obligation	\$ 124	\$ 121
Accumulated benefit obligation	109	106
Fair value of plan assets	103	97

The components of the Company's net periodic benefit cost for this plan were as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Service cost	\$ 4	\$ 5	\$ 3
Interest cost	7	6	5
Expected return on plan assets	(7)	(6)	(5)
Amortization of actuarial loss	1	2	2
	\$ 5	\$ 7	\$ 5

The net actuarial loss included in accumulated other comprehensive loss and expected to be recognized in net periodic benefit cost during fiscal 2009 is \$1 million.

**Actuarial Assumptions.** The weighted-average assumptions used in determining the benefit obligations and the net periodic benefit cost of pension were as follows:

Edgar Filing: SAIC, Inc. - Form 10-K/A

	January 31	
	2008	2007
Assumptions used to determine benefit obligations at the plan's measurement date:		
Discount rate	6.2%	5.3%
Rate of compensation increase	4.3	3.9

	Year Ended January 31		
	2008	2007	2006
Assumptions used to determine net periodic benefit cost:			
Discount rate	5.3%	4.7%	5.3%
Expected return on plan assets	7.3	7.3	7.6
Rate of compensation increase	3.9	3.6	3.6

SAIC, Inc. Annual Report F-23

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The long-term rate of return assumption represents the expected average earnings on funds invested or to be invested by the plan. This return is based on a variety of factors including long-term historical market returns for the various asset classes in the plans and review of peer data. A weighting of these asset class returns, based on the anticipated long-term allocation of the asset classes in the plans, is performed to determine an overall average expected long-term rate of return.

*Plan Assets.* As of the measurement date, pension plan assets were allocated as follows:

	January 31	
	2008	2007
International equity securities	68%	70%
Debt securities	23	22
Real estate and other	9	8
	100%	100%

The Company's overall investment strategy for all pension plan assets is to utilize a total return investment approach whereby a mix of equity securities, fixed income, real estate and cash investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through consideration of plan demographics, plan liabilities, plan funded status and overall corporate financial condition. The investment portfolio contains a diversified blend of international equity securities, fixed income securities, and real estate investments. Target asset allocation as prescribed by the investment strategy is substantially similar to actual allocation at measurement date.

*Cash Flows.* During fiscal 2009, the Company expects to contribute approximately \$7 million to the defined benefit pension plan. Estimated annual benefit payments, which reflect expected future service, as appropriate, are expected to be \$2 million for each of the years in fiscal 2009 to 2013. Total estimated benefit payments for fiscal 2014 through 2018 are expected to be \$23 million. A dispute exists with the customer over the timeframe in which the underfunded projected benefit obligation is required to be funded under the terms of the customer contract and applicable pension regulations. The resolution of this dispute may result in an acceleration of both the funding and expense recognition of the unrecognized actuarial loss.

**Other**

The Company also makes contributions to a defined benefit pension plan for employees working on one U.S. Government contract. As part of the contractual agreement, the customer reimburses the Company for contributions made to the plan that are allowable under government contract cost accounting requirements. If the Company were to cease to be the contractor as a result of a recompetition process, this defined benefit pension plan and related plan assets and liabilities would transfer to the new contractor. If the contract expires or is terminated with no transfer of the plan to a successor contractor, any amount by which plan liabilities exceed plan assets, as of that date, will be reimbursed by the government customer. Accordingly, the amounts associated with this plan are not included in the defined benefit plan disclosures above.

**Note 11 Stock-Based Compensation:**

On February 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment. Prior to February 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under the intrinsic value method, no compensation expense was reflected in net income for stock options granted to employees and directors, as all stock options had an exercise price equal to the fair value of the underlying stock on the date of grant. Additionally, no compensation expense was recognized for the ESPP because it was a non-compensatory plan. Compensation expense was recognized for grants of vesting and vested stock

## Edgar Filing: SAIC, Inc. - Form 10-K/A

awards based on the fair value of the underlying stock on the date of grant, with vesting stock expense recognized on a straight-line basis over the period in which the awards were earned. The Company accounted for stock options granted to non-employees using the fair value method under SFAS No. 123, Accounting for Stock-Based Compensation.

The Company adopted SFAS No. 123(R) using the modified prospective transition method for stock-based awards granted on or after September 1, 2005, the date the Company made its initial filing with the SEC for the initial public offering, and the prospective transition method for stock-based awards granted prior to September 1, 2005. The difference in accounting treatment between options granted prior to and on or after September 1, 2005 is due to the fact that the Company met the definition of a non-public company under SFAS No. 123 and applied the minimum value method (assumed no volatility in its pro forma stock-based employee compensation expense disclosures) under SFAS No. 123 prior to September 1, 2005. Under these transition methods, compensation expense associated with stock options during the year ended January 31, 2007, includes (1) amortization related to the remaining unvested portion of all stock option awards granted between

---

SAIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

September 1, 2005 and January 31, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 and (2) amortization related to all stock option awards granted subsequent to January 31, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the modified prospective transition method, results from prior periods have not been restated. Under the prospective transition method, there is no compensation expense resulting from options granted to employees and directors prior to September 1, 2005 unless a modification is made to those options other than a modification in conjunction with an equity restructuring to equalize the fair value of the options immediately before and after an equity restructuring. In connection with the reorganization merger, a modification was made to outstanding stock options in order to equalize the fair value, which consequently did not result in any incremental fair value or compensation expense.

Compensation expense recorded for stock options and vesting stock includes an estimated forfeiture rate. For vesting stock granted prior to September 1, 2005, the Company had accounted for the effects of forfeitures of vesting stock as the forfeitures occurred until the completion of the initial public offering and reorganization merger. In connection with the reorganization merger, which constituted a modification in connection with an equity restructuring, the Company recorded a cumulative effect adjustment, which reduced stock-based compensation by \$12 million, to apply an estimated forfeiture rate to vesting stock granted prior to September 1, 2005 and to accelerate compensation expense over the requisite service period on awards granted to certain individuals that were eligible for special retirement without forfeiture of their award. As a result, all future stock-based compensation expense on vesting stock and stock options will include an estimated forfeiture rate. Additionally, the Company reclassified all remaining unearned compensation related to unvested stock awards at the time of modification to additional paid-in capital.

*Plan Summaries.* At January 31, 2008, the Company had stock-based compensation awards outstanding under the following plans: the 2006 Equity Incentive Plan, the 1999 Stock Incentive Plan (SIP), the 1984 Bonus Compensation Plan (BCP), the Management Stock Compensation Plan, the Stock Compensation Plan and the 2006 Employee Stock Purchase Plan.

Since October 16, 2006, the date of the reorganization merger, all stock awards are issued under the 2006 Equity Incentive Plan and stock awards are no longer issued under the SIP or BCP. The 2006 Equity Incentive Plan provides the Company's and its affiliates' employees, directors and consultants the opportunity to receive stock options, stock appreciation rights, vested stock awards, restricted stock awards, restricted stock units, deferred stock awards, phantom stock awards, cash awards, performance awards, and other similar types of stock awards. As of January 31, 2008, the Company has issued stock options, vested stock awards, restricted stock awards and cash awards under this plan. The 2006 Equity Incentive Plan provides that in the event of the Company's merger with or into another corporation, a sale of substantially all of its assets or another change of control transaction as determined by the plan 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 the Company will accelerate. Awards under the BCP become fully vested upon the occurrence of a change in control of the Company as defined by the plan unless otherwise provided in an award agreement. Stock awards granted under the plans generally vest or become exercisable 20%, 20%, 20%, and 40% after one, two, three and four years, respectively. The amounts expensed under these plans were \$167 million, \$140 million and \$115 million in fiscal 2008, 2007 and 2006, respectively, including cash bonuses. As of January 31, 2008, 86 million shares of the Company's stock were reserved for issuance under the 2006 Equity Incentive Plan.

The Company has a Management Stock Compensation Plan and a Stock Compensation Plan, together referred to as the Stock Compensation Plans. The board of directors may at any time amend or terminate the Stock Compensation Plans. The Stock Compensation Plans provide for awards in share units to eligible employees. Benefits from these plans are payable in shares of the Company's stock that are held in a trust for the purpose of funding benefit payments to the plans' participants. The fair value of stock awards granted under the Stock Compensation Plans, which are vesting stock awards, is based on the fair value of the award on

## Edgar Filing: SAIC, Inc. - Form 10-K/A

the date of grant. Compensation expense is measured at grant date and generally recognized over the vesting period of four or seven years depending upon the initial date of grant. For awards granted prior to January 1, 2006, participants' interests in these share units vest on a seven year schedule at the rate of one-third at the end of each of the fifth, sixth and seventh years following the date of the award. Awards granted on or after January 1, 2006 vest 100% after four years following the date of the award. Upon a change in control of the Company (as defined by the Stock Compensation Plans), participant accounts will become fully vested and shares of Company stock held in the accounts will be immediately distributed. The amounts expensed under these plans were \$6 million, \$2 million and \$6 million in fiscal 2008, 2007 and 2006, respectively. As a result of the reorganization merger discussed above, stock-based compensation expense in fiscal 2007 for the Stock Compensation Plans was reduced by \$5 million. The Stock Compensation Plans do not provide for a maximum number of shares available for future issuance.

[SAIC, Inc. Annual Report F-25](#)

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has an ESPP which, prior to January 1, 2008, allowed eligible employees to purchase shares of the Company's stock at a discount of up to 15% of the fair market value on the date of purchase. Effective January 1, 2008, the discount was reduced to 5% of fair market value on the date of purchase. As of January 31, 2008, 11 million shares were authorized and reserved for issuance under the ESPP.

*Total Stock-based Compensation.* Total stock-based compensation expense under all plans was as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Stock options	\$ 27	\$ 22	\$
Vesting stock awards	51	29	38
Vested stock awards		2	1
ESPP discount	11	11	
Total stock-based compensation expense	\$ 89	\$ 64	\$ 39

These amounts do not include \$4 million, \$54 million and \$71 million in vested stock issued during the years ended January 31, 2008, 2007 and 2006, respectively, as settlement of annual bonus accruals in the following year under the 2006 Equity Incentive Plan and BCP and accrued retirement plan contributions. In addition, during fiscal 2007, the Company recognized \$9 million of expense related to dividends paid on unvested shares of vesting stock expected to be forfeited in future periods which is not reflected in the table above.

As a result of the adoption of SFAS No. 123(R), the Company's financial results were lower in fiscal 2007 than under the Company's previous accounting method for share-based compensation by the following amounts:

	Year Ended January 31, 2007 (in millions, except per share amount)	
Income from continuing operations before income taxes	\$	33
Income from continuing operations		24
Net income		24
Basic and diluted earnings per share	\$	0.07

The tax benefits related to stock-based compensation were as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Tax benefits recognized from stock-based compensation	\$ 30	\$ 21	\$ 15
Tax benefits realized from exercise of stock options	64	35	47

The Company recognized excess tax benefits realized from stock options exercised and unvested stock that vested subsequent to its October 2006 reorganization merger and initial public offering as cash inflows from financing activities as required by SFAS

## Edgar Filing: SAIC, Inc. - Form 10-K/A

No. 123(R). Excess tax benefits realized prior to the reorganization merger and initial public offering were presented as cash flows from operations as previously required by SFAS No. 95 Statement of Cash Flows.

For the year ended January 31, 2007, the tax benefits realized from stock awards prior to the reorganization merger of \$32 million were recorded as additional paid-in capital and shown as cash flows from operations in the accompanying statements of cash flows. Excess tax benefits realized from stock awards after the reorganization merger of \$9 million are presented as cash inflows from financing activities as all outstanding stock awards accounted for in accordance with APB Opinion No. 25 were modified as a result of the reorganization merger requiring those stock awards to be accounted for in accordance with SFAS No. 123(R).

*Stock Options.* Options may be granted with exercise prices no less than the fair value of the Company's common stock on the date of grant and for terms not greater than ten years. All of the options outstanding at January 31, 2008 were granted with vesting periods of four years and terms of five years. Options granted under the 2006 Equity Incentive Plan were granted with exercise prices equal to fair market value on the date of grant, as defined by the plan. Options granted under the SIP were granted with exercise prices equal to the fair value of Science Applications International Corporation's Class A common stock on the date of grant.



## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. As the Company's common stock was not publicly-traded until October 13, 2006 as described in Note 1, the expected term of awards granted is derived utilizing the simplified method presented in SEC Staff Accounting Bulletin Nos. 107 and 110,

Share-Based Payment, and the Company estimates expected volatility based on a weighted average historical volatility of a group of publicly-traded, peer companies for a period consistent with the expected option term. The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the option on the grant date. The Company uses historical data to estimate forfeitures.

The fair value of options granted was determined using the following weighted average assumptions:

	Year Ended January 31	
	2008	2007
Expected term (in years)	3.9	3.9
Expected volatility	26.8%	33.4%
Risk-free interest rate	4.5%	4.7%
Dividend yield	0%	0%

The weighted average grant-date fair value of stock options granted during the years ended January 31, 2008 and 2007 using the Black-Scholes option-pricing model was \$5.01 and \$4.84 (as adjusted for the additional options issued as a result of the special dividend adjustment), respectively.

Stock option activity under the plans for the three years ended January 31, 2008 was as follows:

	Shares of stock under options (in millions)	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in millions) \$
Outstanding at January 31, 2005	73.7	\$ 15.72	2.4	\$ 335
Options granted	13.0	20.55		
Options forfeited or expired	(12.6)	16.00		
Options exercised	(19.0)	14.74		118
Outstanding at January 31, 2006	55.1	17.13	2.5	266
Options granted	9.8	21.99		
Options forfeited or expired	(5.5)	15.41		
Options exercised	(12.5)	14.17		90
Special dividend adjustment	26.4	(6.07)		
Outstanding at January 31, 2007	73.3	12.23	2.3	463
Options granted	6.2	17.78		
Options forfeited or expired	(5.5)	13.06		
Options exercised	(20.5)	10.61		163
Outstanding at January 31, 2008	53.5	13.41	2.1	294
Vested and expected to vest in the future as of January 31, 2008	50.6	13.29	2.1	284
	85.5			

## Edgar Filing: SAIC, Inc. - Form 10-K/A

Available for grant under the 2006 Equity Incentive Plan at  
January 31, 2008

During the year ended January 31, 2007, the stock options outstanding as of the special dividend record date were adjusted to maintain their pre-dividend fair value as required by the terms of the SIP. This resulted in an increase in the number of options outstanding and a reduction in the exercise price of each option outstanding. Stock-based compensation was not affected by this adjustment as the fair value of these options was the same before and after the modification. During the years ended January 31, 2008 and 2007, the Company received cash from exercises of stock options of \$34 million and \$33 million, respectively, and stock exchanged at fair value upon exercise of stock options of \$184 million and \$143 million, respectively.

[SAIC, Inc. Annual Report F-27](#)

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the options outstanding as of January 31, 2008 was as follows:

Range of exercise prices	Options outstanding (in millions)	Weighted average exercise price	Weighted average remaining contractual term (in years)	Options exercisable (in millions)	Weighted average exercise price	Weighted average remaining contractual term (in years)
\$9.53 to \$10.60	8.9	\$ 9.80	0.3	8.9	\$ 9.80	0.3
\$12.17 to \$12.71	11.7	12.23	1.2	6.4	12.23	1.2
\$13.52 to \$13.93	11.9	13.53	2.2	4.4	13.53	2.2
\$14.09 to \$14.64	14.4	14.59	3.1	3.4	14.56	3.0
\$15.76 to \$20.12	6.6	17.59	4.1	0.3	16.81	3.8
	53.5	13.41	2.1	23.4	11.95	1.3

The aggregate intrinsic value for options exercisable at January 31, 2008 was \$163 million.

As of January 31, 2008, there was \$46 million of unrecognized compensation cost, net of estimated forfeitures, related to stock options granted under the 2006 Equity Incentive Plan and the SIP, which is expected to be recognized over a weighted-average period of 2.4 years. Compensation expense is measured at the grant date and generally recognized over the vesting period of four years.

*Stock Awards.* Compensation expense is measured at the grant date fair value and generally recognized over the vesting period of four years.

Vesting stock award activity for the year ended January 31, 2008 and the unvested shares outstanding under the 2006 Equity Incentive Plan and BCP were as follows:

	Shares of stock under stock awards (in millions)	Weighted average grant-date fair value
Unvested at January 31, 2007	5.3	\$ 19.89
Awards granted	5.3	17.84
Awards forfeited	(0.8)	19.10
Awards vested	(1.8)	18.30
Unvested at January 31, 2008	<b>8.0</b>	<b>18.97</b>

As of January 31, 2008, there was \$87 million of unrecognized compensation cost, net of estimated forfeitures, related to vesting stock awards granted under the 2006 Equity Incentive Plan and BCP which is expected to be recognized over a weighted average period of 2.7 years. The fair value of vesting stock awards that vested under the 2006 Equity Incentive Plan and BCP during the years ended January 31, 2008 and 2007, was \$32 million and \$33 million, respectively.

*Stock Compensation Plans.* Vesting stock award activity under the Stock Compensation Plans for the year ended January 31, 2008 was as follows:

Edgar Filing: SAIC, Inc. - Form 10-K/A

	Shares of stock under stock awards (in millions)		Weighted average grant- date fair value
Unvested at January 31, 2007	2.4	\$	16.89
Awards granted	0.5		17.61
Awards forfeited	(0.3)		17.40
Awards vested	(0.4)		15.03
Unvested at January 31, 2008	<b>2.2</b>		<b>17.35</b>

As of January 31, 2008, there was \$15 million of unrecognized compensation cost, net of estimated forfeitures, related to vesting stock awards granted under the Stock Compensation Plans which is expected to be recognized over a weighted average period of 2.8 years. The fair value of vesting stock awards that vested under the Stock Compensation Plans during the years ended January 31, 2008 and 2007 was \$8 million and \$12 million, respectively.

F-28 SAIC, Inc. Annual Report

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 12 Other Income (Expense), Net:

The components of other income (expense), net were as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Impairment losses on investments	\$ (13)	\$ (1)	\$ (6)
Gross realized gains on sale of marketable securities			1
Gross realized losses on sale of marketable securities			(9)
Net gain (loss) on sale of other investments	1	1	(1)
Equity interest in earnings and impairment losses of unconsolidated affiliates	6	2	5
Other	3	3	3
Total other income (expense), net	\$ (3)	\$ 5	\$ (7)

The impairment losses on investments in fiscal 2008, 2007 and 2006 were due to declines in fair value of private equity securities held by the Company's venture capital subsidiary that were deemed to be other-than-temporary. The carrying value of the Company's cost and equity method investments as of January 31, 2008 was \$48 million (Note 4), including \$24 million of private equity securities held by the Company's venture capital subsidiary.

The gross realized losses on the sale of marketable securities in fiscal 2006 were primarily due to the liquidation of fixed rate securities prior to their stated maturity date. The market value of the securities had been negatively impacted by rising interest rates.

## Note 13 Income Taxes:

Income from continuing operations before income taxes included the following:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
United States	\$ 606	\$ 562	\$ 453
Foreign	20	34	15
	\$ 626	\$ 596	\$ 468

The provision for income taxes related to continuing operations included the following:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Current:			
Federal	\$ 223	\$ 214	\$ 162
State	36	34	(10)

Edgar Filing: SAIC, Inc. - Form 10-K/A

Foreign	7	10	10
Deferred:			
Federal	(21)	(21)	(20)
State	(6)	(5)	(8)
Foreign	1	(1)	(1)
	<b>\$ 240</b>	<b>\$ 231</b>	<b>\$ 133</b>

SAIC, Inc. Annual Report F-29

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income taxes are recorded for differences in the basis of assets and liabilities for financial reporting purposes and tax reporting purposes. Deferred tax assets (liabilities) are comprised of the following:

	January 31	
	2008	2007
	(in millions)	
Accrued vacation pay	\$ 64	\$ 57
Investments	25	31
Deferred compensation	32	32
Vesting stock bonuses	23	9
State taxes	2	3
Employee benefit contributions	7	10
Other	26	11
Total deferred tax assets	179	153
Deferred revenue	(24)	(38)
Fixed asset basis difference	(10)	(10)
Intangible assets	(30)	(24)
Total deferred tax liabilities	(64)	(72)
Net deferred tax assets, before valuation allowance	115	81
Valuation allowance	(1)	(3)
Net deferred tax assets	\$ 114	\$ 78

A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate (35%) to income from continuing operations before income taxes follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Amount computed at statutory rate	\$ 219	\$ 209	\$ 164
State income taxes, net of federal tax benefit	19	19	19
Change in accruals for uncertain tax positions		(6)	(49)
Employee stock purchase plan	3	4	
Other	(1)	5	(1)
	\$ 240	\$ 231	\$ 133
Effective income tax rate	38.3%	38.8%	28.4%

The lower effective tax rate for fiscal 2006 when compared to fiscal 2007 and 2008 was primarily attributable to the reversal of approximately \$50 million in accruals for uncertain tax positions as a result of settlements of federal and state audits for amounts different than the recorded accruals for uncertain tax positions, as well as the expiration of statutes on open tax years.

Income taxes paid in fiscal 2008, 2007 and 2006 were \$217 million, \$195 million and \$590 million, respectively. Included in these tax payments are payments for discontinued operations in the amount of approximately \$5 million, \$14 million and \$280 million for fiscal 2008, 2007 and 2006, respectively.

At January 31, 2008, the Company had approximately \$18 million of federal net operating loss (NOL) carryforwards. These NOL carryforwards will begin to expire in fiscal year 2010 to 2024; however the Company expects to fully utilize these NOL

carryforwards before they expire.

[F-30 SAIC, Inc. Annual Report](#)



## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In June 2006, the FASB issued FIN No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). The Company adopted FIN 48 on February 1, 2007. In connection with the implementation of FIN 48, the Company increased the liability associated with its uncertain tax positions by \$1 million through an adjustment to retained earnings. A reconciliation of the beginning of year and end of year amount of unrecognized tax benefits, excluding accrued interest and penalties, is as follows:

	<b>Year Ended January 31, 2008</b>
	As Restated (see Note 2) (in millions)
Unrecognized tax benefits at beginning of year	\$ 48
Additions based on tax positions related to current year	6
Additions for tax positions related to prior years	16
Reductions for tax positions related to prior years	(5)
Lapse of statute of limitations	(12)
Unrecognized tax benefits at end of year	\$ 53

The total amount of unrecognized tax benefits, net of deferred taxes and excluding accrued interest and penalties, that would affect the Company's effective tax rate if recognized is \$22 million for continuing operations and \$25 million for discontinued operations as of January 31, 2008. The Company recognizes interest and penalties related to uncertain tax positions in its income tax expense. The amount of interest and penalties recognized in the consolidated statements of income for fiscal 2008 was \$4 million. At January 31, 2008, accrued interest and penalties totaled \$9 million.

The balance of unrecognized tax benefits at January 31, 2008 includes a liability for uncertain tax positions of \$58 million, of which \$32 million is classified as current income taxes payable and \$26 million is classified as other long-term liabilities on the consolidated balance sheet.

The Company is subject to routine compliance reviews by the Internal Revenue Service (IRS) and other taxing authorities. The IRS is currently auditing fiscal 2005 and 2006. During the next 12 months, it is reasonably possible that resolution of these reviews by the IRS and other taxing authorities, both domestic and international, could be reached with respect to \$35 million of the Company's unrecognized tax benefits, including accrued interest and penalties (\$26 million of which relates to discontinued operations), depending on the timing of ongoing examinations, litigation and statute closures, either because the Company's tax positions are sustained on audit or because the Company agrees to their disallowance and pays the related income tax. These unrecognized tax benefits are primarily related to research and development, foreign tax credits and certain recurring deductions customary for the Company's industry.

The Company has effectively settled with the IRS and certain states for all fiscal years prior to and including fiscal 2004. While the Company believes it has adequate accruals for its uncertain tax positions, the tax authorities may determine that the Company owes taxes in excess of recorded accruals or the Company's recorded accruals may be in excess of the final settlement amounts agreed to by tax authorities. After the fiscal 2005 and 2006 audit cycle, the remaining years subject to examinations are fiscal 2007 and 2008.

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 14 Comprehensive Income and Accumulated Other Comprehensive Loss:

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) represents certain components of revenues, expenses, gains and losses that are included in comprehensive income but are excluded from net income. These amounts are recorded directly as an adjustment to stockholders' equity, net of tax, and were as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Other comprehensive income:			
Foreign currency translation adjustments	\$ 3	\$ 4	\$ (2)
Deferred taxes	(1)	(2)	1
Foreign currency translation adjustments, net of tax	2	2	(1)
Unrealized loss on marketable securities			(3)
Reclassification of net realized loss			8
Deferred taxes			(1)
Unrealized gain on marketable securities, net of tax			4
Reclassification of net unrealized loss on derivative instruments to net income	3	3	3
Deferred taxes	(1)	(1)	(1)
Reclassification of unrealized loss on derivatives to net income, net of tax	2	2	2
Pension liability adjustments, net of tax		11	(1)
	\$ 4	\$ 15	\$ 4

As a result of the Company's adoption of SFAS No. 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132(R)) on January 31, 2007, the Company's pension liability increased by \$15 million and accumulated comprehensive loss, net of tax, increased by \$10 million.

The components of accumulated other comprehensive loss were as follows:

	January 31	
	2008	2007
	(in millions)	
Foreign currency translation adjustments	\$ 3	\$ 1
Unrealized net loss on derivative instruments	(7)	(9)
Unrealized loss on defined benefit plan	(19)	(19)
	\$ (23)	\$ (27)

As of January 31, 2008, \$1 million of the unrealized net loss on derivative instruments will be amortized and recognized as interest expense during the next 12 months.

## Note 15 Leases:

The Company occupies most of its facilities under operating leases. Most of the leases require the Company to pay maintenance and operating expenses such as taxes, insurance and utilities and also contain renewal options extending the leases from one to 20 years. Certain of the leases contain purchase options and provisions for periodic rate escalations to reflect cost-of-living

## Edgar Filing: SAIC, Inc. - Form 10-K/A

increases. Certain equipment, primarily computer-related, is leased under short-term or cancelable operating leases. Rental expense for facilities and equipment was \$134 million, \$123 million and \$116 million in fiscal 2008, 2007 and 2006, respectively, which is net of sublease income of \$10 million, \$8 million and \$7 million in fiscal 2008, 2007 and 2006, respectively.

In fiscal 2004, the Company was awarded a contract with the Greek Government (Note 19) that requires the Company to lease certain equipment under an operating lease from a subcontractor for ten years. The lease term commences as soon as the development and integration of the system under contract is completed and accepted by the customer. The terms of the customer contract and lease agreement provide that if the customer defaults on its payments to the Company to cover the future lease payments, then the Company is not required to make the lease payments to the subcontractor. Consequently, the maximum contingent lease liability of \$78 million at January 31, 2008 is not reflected in the future minimum lease commitments table below and such amount has not been recorded in the consolidated financial statements.

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minimum lease commitments, primarily for facilities under non-cancelable operating leases in effect at January 31, 2008 are as follows:

Year Ending January 31	Operating lease commitment	Sublease income
	(in millions)	
2009	\$ 117	\$ 6
2010	79	4
2011	45	1
2012	27	1
2013	15	
2014 and thereafter	27	1
	<b>\$ 310</b>	<b>\$ 13</b>

As of January 31, 2008, the Company had capital lease obligations of \$1 million that are payable over the next year.

**Note 16 Supplementary Income Statement and Cash Flow Information:**

Depreciation and amortization expense for property, plant and equipment and assets acquired under capital leases was \$52 million, \$45 million and \$39 million in fiscal 2008, 2007 and 2006, respectively.

Internal research and development costs of \$49 million, \$34 million and \$27 million in fiscal 2008, 2007 and 2006, respectively, were included in selling, general and administrative expenses.

Interest paid amounted to \$87 million, \$85 million and \$80 million in fiscal 2008, 2007 and 2006, respectively.

The non-cash investing and financing activities for the periods noted were as follows:

	2008	January 31 2007	2006
	(in millions)		
Stock exchanged upon exercise of stock options	\$ 184	\$ 143	\$ 189
Stock issued for settlement of accrued employee benefits	\$ 4	\$ 54	\$ 71
Fair value of assets acquired in acquisitions	\$ 204	\$ 431	\$ 288
Cash paid in acquisitions, net of cash acquired	(144)	(377)	(212)
Issuance of stock in acquisitions			(17)
Accrued acquisition payments	(1)	(9)	(2)
Liabilities assumed in acquisitions	\$ 59	\$ 45	\$ 57
Accrued share repurchases	\$ 6	\$ 1	\$

In addition, during the year ended January 31, 2008, the Company completed a reorganization transaction involving its 55% interest in AMSEC LLC, whereby the Company disposed of its 55% interest in AMSEC LLC in exchange for the acquisition by the Company of certain divisions and subsidiaries of AMSEC LLC, resulting in the following non-cash investing and financing activities (in millions):

Fair value of assets received	\$ 49
Assets divested, excluding cash	93
Liabilities divested, including minority interest	86
<a href="#">Note 17 Business Segment Information:</a>	

The Company defines its reportable segments using the management approach, which is based on the way the chief operating decision maker (CODM) manages the operations within the Company for the allocation of resources, decision making and performance assessment.

Using the management approach, the Company has three reportable segments: Government, Commercial, and Corporate and Other. The Company's operating business units are aggregated into the Government or Commercial segments, depending on the nature of the customers, the contractual requirements and the regulatory environment governing the business unit's services. The Corporate and Other segment includes the operations of the Company's internal real estate

[SAIC, Inc. Annual Report F-33](#)

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

management subsidiary, Campus Point Realty Corporation, various corporate activities, the elimination of intersegment revenues and costs and certain corporate expense items not billable to the Company's Government customers referred to as unallowable expenses. In addition, in certain circumstances, for management purposes as determined by the CODM, certain revenue and expense items related to operating business units are excluded from the evaluation of a business unit's operating performance and are reflected in the Corporate and Other segment.

Business units in the Government segment provide technical services and products through contractual arrangements as either a prime contractor or subcontractor to other contractors, primarily for departments and agencies of the U.S. Government. Operations in the Government segment are subject to specific regulatory accounting and contracting guidelines such as Cost Accounting Standards (CAS) and Federal Acquisition Regulations. The Commercial segment's business unit provides technical services and products primarily to customers in commercial markets and its operations are generally not subject to specific regulatory accounting or contracting guidelines. As discussed in Note 2, the Company has restated its business segment information to correct an error that resulted in certain Government segment business activity being reported in the Commercial segment.

Certain corporate expenses are reflected in operating income based on agreed-upon allocations to the segments or as required by CAS. Elimination of intersegment revenues of \$3 million for the year ended January 31, 2006 is reflected in the Corporate and Other segment and was recorded at cost. There were no intersegment revenues for the years ended January 31, 2008 and 2007. Asset information by segment is not a key measure of performance used by the CODM. The Company also monitors capital expenditures by the business units. Interest income, interest expense and provision for income taxes, as reported in the consolidated financial statements, are not part of operating income and are primarily recorded at the corporate level.

The following tables summarize business segment information:

	Year Ended January 31		
	2008	2007	2006
		As Restated	
	(see Note 2)		
	(in millions)		
Revenues:			
Government segment	\$ 8,426	\$ 7,543	\$ 7,027
Commercial segment	509	518	494
Corporate and Other segment			(3)
Total reportable segment revenues	\$ 8,935	\$ 8,061	\$ 7,518
Operating income (loss):			
Government segment	\$ 656	\$ 569	\$ 455
Commercial segment	44	46	41
Corporate and Other segment	(34)	(43)	(26)
Total reportable operating income	\$ 666	\$ 572	\$ 470
Capital expenditures:			
Government segment	\$ 48	\$ 43	\$ 37
Commercial segment	4	1	1
Corporate and Other segment	9	29	14
Total reportable segment and consolidated capital expenditures	\$ 61	\$ 73	\$ 52
Depreciation and amortization:			
Government segment	\$ 66	\$ 60	\$ 56

Edgar Filing: SAIC, Inc. - Form 10-K/A

Commercial segment	2	2	2
Corporate and Other segment	12	9	10
Total reportable segment and consolidated depreciation and amortization	\$ 80	\$ 71	\$ 68

The following tables summarize revenues and long-lived assets, which include property, plant and equipment, intangible assets, goodwill, deferred income taxes and other assets, by geographic location of the entity that is performing the services:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Revenues:			
United States	\$ 8,721	\$ 7,821	\$ 7,290
United Kingdom	166	178	169
All other international countries	48	62	59
Total consolidated revenues	\$ 8,935	\$ 8,061	\$ 7,518

F-34 SAIC, Inc. Annual Report

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	January 31	
	2008	2007
	(in millions)	
Long-lived assets:		
United States	\$ 1,670	\$ 1,518
United Kingdom	29	30
All other international countries	45	29
Total consolidated long-lived assets	\$ 1,744	\$ 1,577

In fiscal 2008, 2007, and 2006, 87%, 88% and 88%, respectively, of the Company's consolidated revenues were attributable to prime contracts with the U.S. Federal Government or to subcontracts with other contractors engaged in work for the U.S. Government and are reflected in the Government segment revenues. As a percentage of consolidated revenues, customers comprising 10% or more of consolidated revenues were as follows:

	Year Ended January 31		
	2008	2007	2006
U.S. Army	21%	18%	16%
U.S. Navy	12	12	12
U.S. Air Force	8	9	10

**Note 18 Discontinued Operations:****AMSEC LLC**

On July 13, 2007, the Company completed a reorganization transaction involving AMSEC LLC. Before this transaction was completed, AMSEC LLC was jointly owned 55% by the Company and 45% by another party, and AMSEC LLC's results were reported as a consolidated majority-owned subsidiary of the Company within the Government segment. The reorganization transaction resulted in the disposition of the Company's 55% interest in AMSEC LLC in exchange for the acquisition by the Company of certain divisions and subsidiaries of AMSEC LLC. The Company no longer owns any interest in AMSEC LLC nor are there any minority investors in any consolidated subsidiary.

The Company applied purchase accounting to the AMSEC LLC divisions and subsidiaries that were acquired and recorded the divested portion of the business as a sale at fair value. The Company recorded a pre-tax gain on sale of \$31 million in discontinued operations during the year ended January 31, 2008. The parties have a mutual indemnification arrangement for pre-transaction events.

**ANX**

On October 27, 2006, the Company completed the sale of ANX, a majority-owned subsidiary for proceeds of \$27 million. The Company recorded a gain on sale before income taxes of \$19 million during the year ended January 31, 2007.

**Telcordia**

On March 15, 2005, the Company completed the sale of Telcordia for \$1.35 billion. The sales price continues to be subject to adjustment for the settlement of certain litigation and tax contingencies as described below. The Company recorded a gain on sale before income taxes of \$871 million during the year ended January 31, 2006. An income tax benefit of \$13 million was recorded during the year ended January 31, 2007, which reflected a favorable resolution of certain tax contingencies related to Telcordia



## Edgar Filing: SAIC, Inc. - Form 10-K/A

operations prior to the sale. The Company received \$11 million during the year ended January 31, 2008 related to amounts collected for resolution of certain tax contingencies related to Telcordia.

The Company is entitled to receive additional amounts as contingent sales price, including all of the proceeds, net of taxes and other expenses, from any judgment or settlement of the litigation Telcordia initiated against Telkom South Africa and 50% of the net proceeds Telcordia receives in connection with the prosecution of certain patent rights of Telcordia as described in Note 19. The Company received \$4 million during the year ended January 31, 2008 related to amounts collected by Telcordia from Telkom South Africa. In addition to customary indemnifications to the buyer, the Company has indemnified the buyer for all income tax obligations on and through the date of close. While the Company believes it has adequate accruals for these contingencies, the ultimate resolution of these matters could differ from the amounts accrued. The impact of these future contingent payments or contingent purchase price proceeds as well as changes in estimates for these items, if any, will be reflected as discontinued operations in the period in which they arise.

[SAIC, Inc. Annual Report F-35](#)

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The operating results of AMSEC LLC (other than the divisions and subsidiaries that the Company acquired in the reorganization transaction), ANX and Telcordia have been classified as discontinued operations for all periods presented. The operating results prior to sale were as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Revenues	\$ 106	\$ 246	\$ 363
Costs and expenses			
Cost of revenues	96	215	290
Selling, general and administrative expenses	4	13	42
Non-operating income		3	
Income before minority interest in income of consolidated subsidiaries and income taxes	\$ 6	\$ 21	\$ 31

Note 19 Commitments and Contingencies:

#### *Telkom South Africa*

The Company's former Telcordia subsidiary instituted arbitration proceedings before the International Chamber of Commerce (ICC), against Telkom South Africa in March 2001 as a result of a contract dispute. Telcordia seeks to recover damages for breach of contract, plus interest at a rate of 15.5%. Telkom South Africa counterclaimed, seeking substantial damages from Telcordia. On September 27, 2002, the arbitrator found that Telkom South Africa repudiated the contract and dismissed Telkom South Africa's counterclaims against Telcordia. The damages to be recovered by Telcordia will be determined in the second phase of the arbitration. Although Telkom South Africa challenged the arbitrator's partial award in Telcordia's favor in the South African court system, the arbitrator's decision was ultimately upheld.

The second phase of the arbitration to determine the damages to be recovered by Telcordia has now commenced. Telcordia submitted its statement of claim and related document production on March 30, 2007, which seeks damages in excess of \$200 million plus interest and legal fees and costs. As a result of a preliminary hearing with the arbitrator, Telkom South Africa paid Telcordia \$9 million of uncontested damages relating to one aspect of the dispute. In July 2007, the arbitrator ruled that Telcordia is entitled to 15.5% simple interest per year on awarded damages, running from the date of breach by Telkom South Africa. Due to the complexity of the remaining issues, the arbitrator cancelled a September 2007 arbitration hearing to determine the amount of Telcordia's damages and scheduled an April 2008 hearing focusing only on damage issues. A final hearing with closing submissions was scheduled for June 2008 in London. In February 2008, the arbitrator appointed a third party expert to provide an independent opinion regarding specific technical issues. The parties disagree on the scope of the third party expert's mandate, as well as certain discovery issues. Consequently, the hearings originally scheduled for April and June have been cancelled and a hearing to address the outstanding procedural issues is scheduled for April 2008. As a result, the completion of the arbitration will likely be delayed. Pursuant to the definitive stock purchase agreement for the sale of Telcordia, the Company is entitled to receive all of the proceeds, net of the tax liability incurred by Telcordia, from any judgment or settlement. The Company received \$4 million during the year ended January 31, 2008 related to amounts collected by Telcordia from Telkom South Africa.

Due to the complex nature of the legal and factual issues involved in the dispute, the damages that Telcordia will ultimately be awarded in the second phase of arbitration, and therefore the amounts the Company will be entitled to receive, net of applicable taxes, are not presently determinable. The Company does not have any assets or liabilities recorded related to this contract and the related legal proceedings as of January 31, 2008 and 2007.

#### *Firm-Fixed-Price Contract with the Greek Government*

## Edgar Filing: SAIC, Inc. - Form 10-K/A

*Original Contract.* In May 2003, the Company entered into a euro-denominated firm-fixed-price contract (the Greek contract) with the Hellenic Republic of Greece (the Customer) to provide a Command, Control, Communications, Coordination and Integration (C4I) System (the System), to support the 2004 Athens Summer Olympic Games (the Olympics), and to serve as the security system for the Customer's public order departments following completion of the Olympics. The System is comprised of 29 subsystems, organized into three major functional areas: the Command Decision Support System (CDSS), the Communication and Information System and the Command Center Systems. Under the Greek contract, the System was to be completed, tested, and accepted by September 1, 2004, at a price of approximately \$199 million. The Greek contract also requires the Company to provide five years of System support and maintenance for approximately \$15 million and ten years of TETRA radio network services for approximately \$125 million. The Greek contract contains an unpriced option for an additional five years of TETRA network services.

---

SAIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

The Customer took delivery of the System for use and operation during the Olympics beginning in August 2004, and continues to use significant portions of the System today. In November 2004, the Company delivered a revised version of the CDSS portion of the System to the Customer. Beginning in December 2004 and continuing through April 2005, the Customer performed subsystems acceptance testing on each of the subsystems comprising the System based on test procedures that had not been mutually agreed upon by the parties. The Customer identified numerous omissions and deviations in its test reports. The Company believes that certain of these omissions and deviations were valid, while others were not.

*Modification of Contract.* On March 29, 2007, the Company and the Customer executed a modification to the Greek contract which establishes specific requirements, contract terms, and a payment schedule under which the various subsystems can be completed and provides for, among other things, the following:

acceptance of 20 specific subsystems of the 29 subsystems comprising the System within 70 days of the execution of the modification

payment of \$34 million within 30 days of the Company submitting invoices for certain work already performed on both the system development portion and service portion of the Greek contract

reduction of the advance payment and performance bonds maintained by the Company in favor of the Customer by at least \$123 million which represents the value of the 20 subsystems required to be accepted within 70 days of the execution of the modification

credit for past warranty, maintenance and TETRA services

a revised test and acceptance process for the remaining subsystems being re-delivered during 2008

provision of subsystem maintenance for a period of up to 5 years following subsystem acceptance  
In connection with the acceptance of 20 of the 29 subsystems referred to above, the Greek contract modification provides a framework for the parties to determine the price reduction for omissions and deviations relating to those subsystems. An agreement of the parties limits the total price reduction for these subsystems to a maximum of \$11 million. On September 11, 2007, the Greek contract was further modified to provide for an extension of the system development portion of the Greek contract to October 2008, as previously agreed.

*Performance of Modified Contract.* Subsequent to the modification of the Greek contract on March 29, 2007, the following developments have occurred:

## Edgar Filing: SAIC, Inc. - Form 10-K/A

18 of the 20 subsystems to have been accepted within 70 days of March 29, 2007 have been fully and finally accepted by the Customer. A subcontractor, in consultation with the Company and the Customer, has chosen to remediate omissions and deviations in the remaining two subsystems it delivered, in an effort to minimize or eliminate the price reduction associated with them. The contract authorizes such remediation as long as it is completed before the System acceptance testing to be conducted in fiscal 2009.

The Customer has paid substantially all of the \$34 million related to services previously performed required to be paid within 30 days of the Company submitting its invoices.

The initial price reduction assessed by the Customer for omissions and deviations on the 18 subsystems accepted to date totaled \$14 million, which is \$3 million in excess of the previously agreed-upon maximum price reduction limit of \$11 million. Accordingly, the parties have entered into negotiation under the provisions of the Greek contract to resolve this discrepancy. The Company has an informal agreement with the Customer to resolve the omissions and deviations on these 18 subsystems for a total price reduction of \$6 million which has not yet been finalized through a contract modification.

The Customer has reduced the advance payment, performance and offset bonds requirement by \$154 million.

The Company and its subcontractors are performing work under the terms of the modified Greek contract and modified subcontracts, including the requirement to deliver a modified CDSS.

The parent corporation of the Company's principal subcontractor has been subject to a number of investigations focusing on alleged improper payments to government officials and political parties in a number of countries, including Greece. The Company's subcontractor has represented to the Company that it did not make improper payments in connection with the Greek contract. The Company has taken a number of actions to confirm the accuracy of its subcontractor's representations. If the subcontractor's representations are ultimately determined to be false and improper payments were in fact made in connection with the Greek contract, the legal compliance and political issues that this would raise could impact the Company's subcontractor's ability to perform the subcontract and the Company's ability to perform the Greek contract. This could have a material adverse affect on the Company's consolidated financial position, results of operations and cash flows.

---

SAIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

*Financial Status and Contingencies of the Greek Contract.* The Company has recorded \$124 million of losses under the Greek contract as of January 31, 2008. The Company recorded \$1 million and \$2 million of losses relating to foreign currency translation in fiscal 2008 and 2007, respectively, and \$83 million of losses in fiscal 2006. The \$124 million loss reflected the Company's estimated total cost to complete the System under the original Greek contract and assumed the Greek contract value was limited to the cash received to date.

The Greek contract modification resulted in significant changes to the terms and conditions and the deliverables under the Greek contract and clarifies the parties' responsibilities. If the Company completes the work and receives future payments as required under the modified Greek contract, the Company may reverse a portion of the losses previously recognized. However, based on the complex nature of this contractual situation and the difficulties encountered to date, significant uncertainties exist and the Company is unable to reliably estimate the ultimate outcome. Accordingly, the Company has not adjusted and will not adjust the losses on this contract until such time as the Company can reliably estimate the ultimate outcome of the modified contract. Also, as a result of the significant uncertainties that remain on this contract, the Company is utilizing the completed-contract method of accounting for the system development portion of this contract. Examples of these uncertainties include acceptance of the remaining subsystems and the overall system, receipt of the remaining payments, release of the remaining bonds, changes in the political representatives from the Greek government involved with the project and subcontractor performance and legal compliance issues. Accordingly, no additional revenue will be recognized on the development portion of the contract until it is completed. Revenue on the maintenance portion of the contract is recognized as maintenance payments are received from the Customer. Although the Company expects to receive additional payments in accordance with the terms of the modified Greek contract, the Company's accounting as of January 31, 2008 was based on cash received to date. Through January 31, 2008, the Company has recognized revenues of \$157 million, which represents a portion of the \$201 million of cash received to date. The Company recognized \$37 million of revenues and equal amounts of costs on the maintenance portion of the Greek contract during the year ended January 31, 2008, primarily related to the receipt of payments from the Customer for services previously rendered.

The Company has \$15 million of accounts receivable (classified as other assets) relating to value added taxes (VAT) that the Company has paid and believes the Company is entitled to recover either as a refund from the taxing authorities or as a payment under the Greek contract upon final billing. The Customer has paid to the Company all amounts owed for VAT to date for the subsystems accepted and services provided. Failure by the Customer to pay any future VAT amounts could result in an additional obligation payable by the Company to the Greek taxing authorities and could increase the Company's total losses on the Greek contract.

In accordance with the terms of the Greek contract, the Company is required to maintain certain advance payment, performance and offset bonds in favor of the Customer. These bonding requirements have been met through the issuance of standby letters of credit. As of January 31, 2008, there were \$111 million in advance payment and performance standby letters of credit and \$7 million in offset bonds outstanding. If the standby letters of credit are called based on a future failure to fulfill the Company's obligations under the Greek contract, the Company may have the right to call some of the \$71 million of bonds provided by the Company's subcontractors in connection with their work under the Greek contract if the performance failure relates to subcontracted work.

If the Company and its subcontractors are unable to perform in accordance with the modified Greek contract, damages or claims by the Customer or subcontractors may be successfully asserted against the Company, the Company's bonds may be called, and the Customer may be able to recover additional contract costs required to fulfill the Company's obligations. This could have a material adverse affect on the Company's consolidated financial position, results of operations and cash flows.

**INTESA Joint Venture**

The Company held a 60% interest in Informática, Negocios y Tecnología, S.A., (INTESA), a Venezuelan joint venture the Company formed in fiscal 1997 with Venezuela's national oil company, PDVSA, to provide information technology services in Latin America.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

INTESA derived substantially all its revenues from an outsourcing services agreement with PDVSA. The services agreement expired on June 30, 2002 and INTESA subsequently ceased operations. The operations of INTESA were classified as discontinued operations as of January 31, 2003 and INTESA is currently insolvent.

INTESA is a defendant in a number of lawsuits brought by former employees seeking unpaid severance and pension benefits. PDVSA, SAIC and SAIC Bermuda, the Company's 100%-owned subsidiary and the entity that held the Company's interest in INTESA, were added as defendants in a number of these suits. Based on the procedural standing of these cases and the Company's understanding of applicable laws and facts, the Company believes that its exposure to any possible loss related to these employment claims is either remote or, if reasonably possible, immaterial.

[F-38 SAIC, Inc. Annual Report](#)

---

**SAIC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

***DS&S Joint Venture***

In March 2006, the Company sold its interest in DS&S, a joint venture in which the Company owned a 50% interest. As part of the sale, the Company agreed to indemnify the purchaser for certain legal costs and expenses, including those relating to a government investigation involving DS&S and any litigation resulting from that investigation up to the sum of the sales price of \$9 million plus \$1 million received by the Company in repayment of a loan owed by DS&S. As of January 31, 2008, the Company has deferred the potential \$9 million gain on this sale pending resolution of the investigation and any resulting litigation.

***Other Joint Ventures***

The Company is an investor in Danet Partnership GbR (Danet GbR), a German partnership, accounted for under the equity method. Danet GbR has an internal equity trading market similar to the limited market formerly maintained by Science Applications International Corporation. The Company is required to provide liquidity rights to the other Danet GbR investors in certain circumstances. These rights allow Danet GbR investors who are withdrawing from the partnership to put their Danet GbR shares to the Company in exchange for the current fair value of those shares. The Company does not currently record a liability for these put rights because their exercise is contingent upon the occurrence of future events which the Company cannot determine will occur with any certainty. The carrying value of the Company's investment in Danet GbR was \$17 million as of January 31, 2008. The maximum potential obligation, assuming all the current Danet GbR investors were to put their Danet GbR shares to the Company, was \$8 million as of January 31, 2008.

The Company has a guarantee that relates only to claims brought by the sole customer of another of its joint ventures, Bechtel SAIC Company, LLC, for specific contractual nonperformance of the joint venture. The Company also has a cross-indemnity agreement with the joint venture partner, pursuant to which it will only be ultimately responsible for the portion of any losses incurred under the guarantee equal to its ownership interest of 30%. Due to the nature of the guarantee, the Company is not able to project the maximum potential obligation it could be required to make under the guarantee as of January 31, 2008 but, based on current conditions, the Company believes the likelihood of having to make any payment is remote. No liability relating to this guarantee is currently recorded.

On September 15, 2004, the Company entered into an agreement with EG&G Technical Services, Inc. (EG&G) and Parsons Infrastructure & Technology Group, Inc. (Parsons) to form Research and Development Solutions, LLC (RDS), a Delaware limited liability company, that will pursue contracts offered by the Department of Energy's National Energy Technical Laboratory. The Company, EG&G and Parsons, each have a one-third equal joint venture interest. In conjunction with a contract award to RDS, each joint venture partner was required to sign a performance guarantee agreement with the U.S. Government. Under this agreement, the Company unconditionally guarantees all of RDS's obligations to the U.S. Government under the contract award, which has a total value of up to \$217 million. The Company also has a cross-indemnity agreement with each of the other two joint venture partners to protect it from liabilities for any U.S. Government claims resulting from the actions of the other two joint venture partners and to limit the Company's liability to its share of the contract work. As of January 31, 2008, the fair value of the guarantee is not material.

***Debt Guarantee***

SAIC Inc. has fully and unconditionally guaranteed the obligations of Science Applications International Corporation, a 100%-owned subsidiary, under its revolving credit facility, \$300 million 5.5% notes, \$550 million 6.25% notes, \$250 million 7.125% notes, and \$100 million 6.75% notes and certain letters of credit. The Company paid \$100 million to settle the 6.75% notes at maturity on February 1, 2008.

***Letters of Credit and Surety Bonds***



## Edgar Filing: SAIC, Inc. - Form 10-K/A

The Company has outstanding letters of credit aggregating to \$166 million at January 31, 2008, principally related to guarantees on contracts with domestic commercial and foreign government customers. Of the total outstanding letters of credit, \$118 million was related to the firm-fixed-price contract with the Greek government described above, \$5 million of which was issued under the Company's revolving credit facility (Note 7). The Company also has outstanding surety bonds aggregating to \$169 million, principally related to performance and payment bonds.

### *Other*

The Company is subject to investigations and reviews relating to compliance with various laws and regulations with respect to its role as a contractor to agencies and departments of the U.S. Government and in connection with performing services in countries outside of the United States. Such matters can lead to criminal, civil or administrative proceedings and the Company could be faced with penalties, fines, repayments or compensatory damages. Adverse findings could also have a material adverse effect on the Company because of its reliance on government contracts. Although the Company can give

SAIC, Inc. Annual Report F-39

---

SAIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

no assurance, based upon management's evaluation of current matters that are subject to U.S. Government investigations of which the Company is aware and based on management's current understanding of the facts, the Company does not believe that the outcome of any such matter would likely have a material adverse effect on its consolidated financial position, results of operations, cash flows or its ability to conduct business.

During the year ended January 31, 2008, the Company recorded \$8 million in costs associated with actions taken to remediate a data security lapse affecting several customer contracts. As part of the remediation effort, the Company continues to review its technology assets to evaluate any other areas of potential information security risk.

The Company maintains self-insured medical and workers compensation insurance plans. The Company provided estimated accruals for claims incurred but not yet reported of \$25 million and \$27 million as of January 31, 2008 and 2007, respectively.

The Company is subject to periodic audits by state and local governments for taxes other than income taxes. The Company does not believe that the outcome of any other such tax matters would have a material adverse effect on its consolidated financial position, results of operations, cash flows or its ability to conduct business.

The Company is also involved in various claims and lawsuits arising in the normal conduct of its business, none of which, in the opinion of the Company's management, based upon current information, will likely have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows or its ability to conduct business.

As a result of a dispute over the proper interpretation of contract pricing terms, the Company has initiated a lawsuit against a state government customer seeking payment for certain technical services. Although the amount of the claim, based on three unpaid invoices, is only approximately \$40,000, the resolution of the claim is expected to resolve the pricing interpretation dispute and could have significant implications for the contract going forward. While the Company is confident in its interpretation of the pricing terms, if the customer's interpretation prevails, given estimated future tasking over the five year term of the base contract and the two option years, the Company estimates that this could result in an aggregate loss on the contract of approximately \$5 million to \$50 million, with the lower end of the range more likely. The Company has not recorded a liability for this matter as of January 31, 2008.

In the normal conduct of its business, the Company seeks to monetize its patent portfolio through licensing agreements. The Company has defended and will continue to defend its patent positions when it believes its patents have been infringed and is involved in such litigation from time to time. As described in Note 18, the Company sold its Telcordia subsidiary in fiscal 2006. Pursuant to the terms of the definitive stock purchase agreement, the Company will receive 50% of any net proceeds that Telcordia receives in the future in connection with the enforcement of certain patent rights.

**Note 20 Supplemental Guarantor Information:**

SAIC, Inc. (Parent) has fully and unconditionally guaranteed the obligations of Science Applications International Corporation (Subsidiary Issuer) under its \$300 million 5.5% notes, \$550 million 6.25% notes, \$250 million 7.125% notes, and \$100 million 6.75% notes. The Subsidiary Issuer paid \$100 million to settle the 6.75% notes at maturity on February 1, 2008.

The Parent maintains cash and investment balances and issues stock, including stock-based compensation awards, to employees of the Subsidiary Issuer. The Subsidiary Issuer is the operating subsidiary of the Parent.

As permitted by SEC rules, the following consolidating financial statements are provided as an alternative to filing separate financial statements of the Subsidiary Issuer. The consolidating financial statements should be read in conjunction with the consolidated financial statements of the Parent and notes thereto of which this note is an integral part.

## Edgar Filing: SAIC, Inc. - Form 10-K/A

As discussed in Note 2, the Company has restated these consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007 and 2006. This restatement impacted the income from discontinued operations and net income in the Subsidiary Issuer's consolidated income statements for the years ended January 31, 2008 and 2007, and equity in net income of consolidated subsidiaries in the Parent's income statements and the related income statement elimination entries for the same periods. The effect of the error also impacted the Parent's investment in consolidated subsidiaries as of January 31, 2008 and 2007 and the related balance sheet elimination entries for the same periods. The following tables present the consolidating financial information for the Parent and the Subsidiary Issuer on an equity method of accounting since October 16, 2006, the effective date of the reorganization merger. The consolidating statement of income and consolidating statement of cash flows for the year ended January 31, 2006 are not presented herein as the Parent did not fully and unconditionally guarantee the Subsidiary Issuer's debt described above during such period.

F-40 SAIC, Inc. Annual Report

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## SAIC, Inc. and Subsidiaries

## Consolidating Statements of Income

	Year Ended January 31, 2008			Consolidated
	Parent	Subsidiary Issuer	Eliminations As Restated	
			(see Note 2) (in millions)	
Revenues	\$	\$ 8,935	\$	\$ 8,935
Costs and expenses:				
Cost of revenues		7,698		7,698
Selling, general and administrative expenses		571		571
Operating income		666		666
Non-operating income (expense):				
Interest income	70	53	(67)	56
Interest expense		(157)	67	(90)
Minority interest in income of consolidated subsidiaries		(3)		(3)
Other expense, net		(3)		(3)
Equity in net income of consolidated subsidiaries	371		(371)	
Income from continuing operations before income taxes	441	556	(371)	626
Provision for income taxes	25	215		240
Income from continuing operations	416	341	(371)	386
Discontinued operations:				
Income from discontinued operations before minority interest in income of consolidated subsidiaries and income taxes		40		40
Minority interest in income of consolidated subsidiaries		(2)		(2)
Provision for income taxes		8		8
Income from discontinued operations		30		30
Net income	\$ 416	\$ 371	\$ (371)	\$ 416

	Year Ended January 31, 2007			Consolidated
	Parent	Subsidiary Issuer	Eliminations As Restated	
			(see Note 2) (in millions)	
Revenues	\$	\$ 8,061	\$	\$ 8,061
Costs and expenses:				
Cost of revenues		6,974		6,974
Selling, general and administrative expenses		515		515
Operating income		572		572
Non-operating income (expense):				

Edgar Filing: SAIC, Inc. - Form 10-K/A

Interest income	18	100	(2)	116
Interest expense		(94)	2	(92)
Minority interest in income of consolidated subsidiaries		(5)		(5)
Other income, net		5		5
Equity in net income of consolidated subsidiaries	100		(100)	
Income from continuing operations before income taxes	118	578	(100)	596
Provision for income taxes	7	224		231
Income from continuing operations	111	354	(100)	365
Discontinued operations:				
Income from discontinued operations before minority interest in income of consolidated subsidiaries and income taxes		40		40
Minority interest in income of consolidated subsidiaries		(9)		(9)
Provision for income taxes		6		6
Income from discontinued operations		25		25
Net income	\$ 111	\$ 379	\$ (100)	\$ 390

SAIC, Inc. Annual Report F-41

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## SAIC, Inc. and Subsidiaries

## Condensed Consolidating Balance Sheets

	January 31, 2008			
	Parent	Subsidiary Issuer	Eliminations As Restated	Consolidated
			(see Note 2) (in millions)	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$	\$ 1,096	\$	\$ 1,096
Receivables, net		1,886		1,886
Inventory, prepaid expenses and other current assets		255		255
Total current assets		3,237		3,237
Property, plant and equipment, net		393		393
Intangible assets, net		102		102
Goodwill		1,077		1,077
Deferred income taxes		71		71
Other assets	1,187	101	(1,187)	101
Investment in consolidated subsidiaries	687		(687)	
	\$ 1,874	\$ 4,981	\$ (1,874)	\$ 4,981
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 6	\$ 1,105	\$	\$ 1,111
Accrued payroll and employee benefits		562		562
Income taxes payable		64		64
Notes payable and long-term debt, current portion		130		130
Total current liabilities	6	1,861		1,867
Notes payable and long-term debt, net of current portion		2,285	(1,187)	1,098
Other long-term liabilities		148		148
Total stockholders equity	1,868	687	(687)	1,868
	\$ 1,874	\$ 4,981	\$ (1,874)	\$ 4,981
	January 31, 2007			
	Parent	Subsidiary Issuer	Eliminations As Restated	Consolidated
			(see Note 2) (in millions)	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 922	\$ 187	\$	\$ 1,109
Receivables, net		1,598		1,598

Edgar Filing: SAIC, Inc. - Form 10-K/A

Inventory, prepaid expenses and other current assets	270	186	(266)	190
Assets of discontinued operations		85		85
Total current assets	1,192	2,056	(266)	2,982
Property, plant and equipment, net		382		382
Intangible assets, net		109		109
Goodwill		920		920
Deferred income taxes		57		57
Other assets		109		109
Investment in consolidated subsidiaries	312		(312)	
	\$ 1,504	\$ 3,633	\$ (578)	\$ 4,559
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 2	\$ 1,062	\$ (32)	\$ 1,032
Accrued payroll and employee benefits		507		507
Income taxes payable		107		107
Notes payable and long-term debt, current portion		263	(234)	29
Liabilities of discontinued operations		25		25
Total current liabilities	2	1,964	(266)	1,700
Notes payable and long-term debt, net of current portion		1,199		1,199
Other long-term liabilities		102		102
Minority interest in consolidated subsidiaries		56		56
Total stockholders equity	1,502	312	(312)	1,502
	\$ 1,504	\$ 3,633	\$ (578)	\$ 4,559

F-42 SAIC, Inc. Annual Report

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## SAIC, Inc. and Subsidiaries

## Condensed Consolidating Statements of Cash Flows

	Parent	Year Ended January 31, 2008		Consolidated
		Subsidiary Issuer	Eliminations As Restated	
			(see Note 2) (in millions)	
Cash flows provided by operations	\$ 68	\$ 277	\$	\$ 345
Cash flows from investing activities:				
Expenditures for property, plant and equipment		(61)		(61)
Acquisitions of businesses, net of cash acquired of \$29		(144)		(144)
Payments for businesses acquired in previous years		(1)		(1)
Other		3		3
Total cash flows used in investing activities		(203)		(203)
Cash flows from financing activities:				
Payments on notes payable and long-term debt		(10)		(10)
Proceeds (payments) on intercompany obligations	(982)	982		
Sales of stock and exercise of stock options		98		98
Repurchases of stock	(8)	(301)		(309)
Payment of a special dividend		(2)		(2)
Excess tax benefits from stock-based compensation		64		64
Other		2		2
Total cash flows provided by (used in) financing activities	(990)	833		(157)
Increase (decrease) in cash and cash equivalents from continuing operations	(922)	907		(15)
Cash flows of discontinued operations:				
Cash used in operating activities of discontinued operations		(3)		(3)
Cash provided by investing activities of discontinued operations		1		1
Decrease in cash and cash equivalents from discontinued operations		(2)		(2)
Total increase (decrease) in cash and cash equivalents	(922)	905		(17)
Cash and cash equivalents at beginning of year continuing operations	922	187		1,109
Cash and cash equivalents at beginning of year discontinued operations		4		4
Cash and cash equivalents at beginning of year	922	191		1,113
Cash and cash equivalents at end of year	\$	\$ 1,096	\$	\$ 1,096

Non-cash changes in the intercompany obligations between the Parent and Subsidiary Issuer were as follows:

Year Ended

January 31, 2008



Edgar Filing: SAIC, Inc. - Form 10-K/A

	(in millions)
Repurchases of Parent stock by Subsidiary Issuer on behalf of Parent	\$ 301
Sales or issuances of stock by Parent on behalf of Subsidiary Issuer	\$ 102
Stock-based compensation recognized by Subsidiary Issuer	\$ 89
Excess tax benefits from stock based compensation realized by Subsidiary Issuer	\$ 64

SAIC, Inc. Annual Report F-43

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Parent	Year Ended January 31, 2007		Consolidated
		Subsidiary Issuer	Eliminations As Restated	
			(see Note 2) (in millions)	
Cash flows provided by operations	\$ 14	\$ 679	\$	\$ 693
Cash flows from investing activities:				
Expenditures for property, plant and equipment		(73)		(73)
Acquisitions of businesses, net of cash acquired of \$14		(377)		(377)
Payments for businesses acquired in previous years		(1)		(1)
Purchases of marketable securities available for sale		(4,258)		(4,258)
Proceeds from sales and maturities of marketable securities available for sale		5,917		5,917
Other		3		3
Total cash flows provided by investing activities		1,211		1,211
Cash flows from financing activities:				
Payments on notes payable and long-term debt		(20)		(20)
Proceeds (payments) on intercompany obligations	(235)	235		
Sales of stock through initial public offering	1,245	(2)		1,243
Sales of stock and exercise of stock options		100		100
Repurchases of stock	(102)	(622)		(724)
Payment of a special dividend		(2,439)		(2,439)
Excess tax benefits from stock-based compensation		9		9
Other		(2)		(2)
Total cash flows provided by (used in) financing activities	908	(2,741)		(1,833)
Increase (decrease) in cash and cash equivalents from continuing operations	922	(851)		71
Cash flows of discontinued operations:				
Cash provided by operating activities of discontinued operations		22		22
Cash provided by investing activities of discontinued operations		15		15
Cash used in financing activities of discontinued operations		(30)		(30)
Increase in cash and cash equivalents from discontinued operations		7		7
Total increase (decrease) in cash and cash equivalents	922	(844)		78
Cash and cash equivalents at beginning of year continuing operations		1,001		1,001
Cash and cash equivalents at beginning of year discontinued operations		34		34
Cash and cash equivalents at beginning of year		1,035		1,035
Cash and cash equivalents at end of year continuing operations	922	187		1,109
Cash and cash equivalents at end of year discontinued operations		4		4
Cash and cash equivalents at end of year	\$ 922	\$ 191	\$	\$ 1,113

Non-cash changes in the intercompany obligations between the Parent and Subsidiary Issuer were as follows:

Year Ended  
January 31, 2007  
(in millions)

Edgar Filing: SAIC, Inc. - Form 10-K/A

Repurchases of Parent stock by Subsidiary Issuer on behalf of Parent	\$	21
Sales or issuances of stock by Parent on behalf of Subsidiary Issuer	\$	43
Stock-based compensation recognized by Subsidiary Issuer	\$	7
Excess tax benefits from stock-based compensation realized by Subsidiary Issuer	\$	9

F-44 SAIC, Inc. Annual Report

## SAIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 21 Selected Quarterly Financial Data (Unaudited):

Selected unaudited financial data for each quarter of the years ended January 31, 2008 and 2007 is as follows:

	First	Second	Third	Fourth
	Quarter (1) (3)	Quarter (1) (3)	Quarter (1)	Quarter (1)
	(in millions, except per share amounts)			
<i>Fiscal 2008</i>				
Revenues	\$ 2,011	\$ 2,222	\$ 2,365	\$ 2,337
Operating income	\$ 136	\$ 173	\$ 186	\$ 171
Income from continuing operations	\$ 75	\$ 99	\$ 109	\$ 103
Income (loss) from discontinued operations	\$ 6	\$ 32	\$ (4)	\$ (4)
Net income	\$ 81	\$ 131	\$ 105	\$ 99
Basic earnings per share <sup>(2)</sup>	\$ .20	\$ .32	\$ .26	\$ .25
Diluted earnings per share <sup>(2)</sup>	\$ .19	\$ .31	\$ .25	\$ .24
<i>Fiscal 2007</i>				
Revenues	\$ 1,897	\$ 1,994	\$ 2,081	\$ 2,089
Operating income	\$ 138	\$ 151	\$ 141	\$ 142
Income from continuing operations	\$ 91	\$ 100	\$ 90	\$ 84
Income from discontinued operations	\$ 15	\$ 2	\$ 8	\$
Net income	\$ 106	\$ 102	\$ 98	\$ 84
Basic earnings per share <sup>(2)</sup>	\$ .32	\$ .31	\$ .29	\$ .21
Diluted earnings per share <sup>(2)</sup>	\$ .31	\$ .30	\$ .28	\$ .20

(1) Amounts for the first quarter of fiscal 2008 as well as all quarters for fiscal 2007 have been reclassified to conform to the presentation of AMSEC LLC (other than the divisions and subsidiaries that the Company acquired in the reorganization transaction as described in Note 18) as discontinued operations.

(2) Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the year.

(3) The impact of the restatement (Note 2) on selected quarterly financial data (unaudited) was as follows:

Fiscal 2008 - First Quarter	Three Months Ended April 30, 2007		
	As Previously Reported	Adjustments (in millions)	As Restated
Income from discontinued operations	\$ 5	\$ 1	\$ 6

Edgar Filing: SAIC, Inc. - Form 10-K/A

Net income	80	1	81
------------	----	---	----

	Three Months Ended July 31, 2006		
Fiscal 2007 - Second Quarter	As Previously Reported	Adjustments (in millions)	As Restated
Income from discontinued operations	\$ 3	\$ (1)	\$ 2
Net income	103	(1)	102

F-45 SAIC, Inc. Annual Report