

SCIENCE APPLICATIONS INTERNATIONAL CORP

Form 425

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

**SAIC Capital Restructuring & IPO**

**Supplemental Questions & Answers**

The following questions and answers are provided for your convenience and briefly address some commonly asked questions about our proposed merger, initial public offering and special dividend. In this Supplemental Q&A, we use the terms SAIC, we, us and our to refer to Science Applications International Corporation or SAIC, Inc. when the distinction between the two companies is not important. When the distinction is important to the discussion, we use the term Old SAIC to refer to Science Applications International Corporation and New SAIC to refer to SAIC, Inc. In addition, we sometimes refer to the common stock of Science Applications International Corporation as Old SAIC common stock, and when the distinction is important, class A common stock and class B common stock. We also sometimes refer to the class A preferred stock of SAIC, Inc. as new class A preferred stock and to the common stock of SAIC, Inc. as new common stock.

**Updated August 2, 2006**

On May 8, 2006, we provided amended and restated Supplemental Q&A that updated and superseded the prior Q&As previously posted.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

The Second Supplement to the amended and restated Supplement Q&A filed August 2, 2006 provides 17 new questions and answers related to the special meeting of stockholders of SAIC on August 29, 2006 and related matters.

Additional Supplemental Q&A (**Questions 139-155**) are now available.

**Overview of the Transactions**

- Q1. What transactions do we intend to complete?
- Q2. Why are we pursuing these transactions?

Q3. Why are we pursuing these transactions now?

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

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

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

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

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

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

Q10. Does management still think employee ownership is important?

#### **The Merger**

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

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

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

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

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

Q16. Do I have appraisal rights?

Q17. If I submitted my proxy or voting instructions for the special meeting originally scheduled for December 16, 2005, do I need to submit a new proxy or voting instructions for the upcoming special meeting? Updated 25 July 2006

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

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

#### **The Initial Public Offering**

Q20. What is an IPO?

Q21. How and when will we complete our IPO?

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

Updated 25 July 2006

Q23. How will the IPO price be determined?

Q24. Where will the new common stock be traded?

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

Q26. How was the size of the IPO determined?

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

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

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

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

#### **The Special Dividend**

Q31. What is a dividend?

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

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

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

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

Q36. When will the special dividend be paid?

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

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

#### **The New Class A Preferred Stock**

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

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

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

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

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

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

#### **Transfer Restrictions**

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

Q46. Who is a permitted transferee?

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

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

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

#### **Stock Transactions**

Q50. Can I buy or sell shares in the limited market before the IPO? Updated 25 July 2006

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

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

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

#### **IPO related Q&A**

Q54. What are some of the significant changes to the proposed merger, IPO and related transactions since SAIC announced in December 2005 that the special stockholders meeting and planned IPO would be postponed? Updated 25 July 2006

Q55. What are some of the important events associated with the IPO? When do we expect them to be completed? Updated 25 July 2006

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

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

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

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

#### **Employee Benefits Q&A**

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

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

**Retirement Plans Q&A**

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

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

Q64. What are the scheduled dates for private transactions between SAIC and our retirement plans during 2006? Updated 25 July 2006

Q65. How will the value of SAIC stock be determined for purposes of conducting the private retirement plan trades?

Q66. Can I request an in-kind distribution from the SAIC Retirement Plan before the dividend record date and IPO? Updated 25 July 2006

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

Q68. Will we continue to make annual contributions to the SAIC Retirement Plan after the merger and the IPO?

Q69. Will AMSEC continue matching contributions to the AMSEC 401(k) plan after the merger and the IPO?

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

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

#### **Stock Bonus and Option Q&A**

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

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

Q74. How will my outstanding stock options be affected by the special dividend?

Q75. How will my outstanding stock options be affected by the proposed merger?

Q76. Will the merger or the IPO affect the process I use to exercise stock options?

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

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

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

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

Q81. After the merger and IPO, will stock be withheld from my stock bonus to pay the U.S. tax withholding related to the stock bonus?

Q82. Will stock options be transferable after the merger and the IPO?

#### **Special Dividend Q&A**

Q83. How will the special dividend affect the offering price or the market value of SAIC stock?

Q84. Did we consider paying off some or all of our long-term debt rather than paying a special dividend?

Q85. Which SAIC securities are entitled to receive the special dividend?

Q86. Will the special dividend be subject to any vesting requirements?

Q87. How will the special dividend impact the non-qualified stock deferral plans?

Q88. How will the special dividend impact the Telcordia 401(k) plan?

Q89. How will the special dividend be treated under the SAIC Retirement Plan (previously the ESRP and the SAIC 401(k) Plan) or the AMSEC 401(k) Plan?

Q90. What income tax treatment is SAIC seeking concerning the special dividend payable to the SAIC Retirement Plan? What guidance has SAIC sought from the IRS? Updated 25 July 2006

Q91. Must the special dividend be distributed to plan participants in order for SAIC to deduct the special dividend payable to the SAIC Retirement Plan?

Q92. What were some of the other factors SAIC considered in deciding whether to require distribution of the special dividend proceeds to SAIC Retirement Plan participants?

Q93. How does dividend distribution in cash vs. reinvestment in company stock affect our income tax objectives?



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

Q95. How would dividend reinvestment in company stock through the SAIC Retirement Plan adversely affect the IPO price or subsequent trading and market price of SAIC stock?

Q96. What diversification and liquidity issues did SAIC consider before deciding to require dividend distribution in cash to plan participants?

Q97. Have we received the ruling from the IRS? If not, when will the IRS issue its ruling, and what will the SAIC Retirement Plan do with the proceeds of the special dividend until the IRS completes its review? Updated 25 July 2006

Q98. What will happen if the IRS rules that payment of the special dividend to the SAIC Retirement Plan likely will not qualify for the tax deduction?

Q99. May I rollover the distribution of the special dividend from my SAIC Retirement Plan account into an Individual Retirement Plan (IRA) or other qualified retirement plan to defer the payment of taxes?

Q100. Will distribution of the special dividend be subject to an early withdrawal penalty or any other extraordinary taxes?

Q101. Will distribution of the special dividend from my SAIC Retirement Plan accounts subject me to Alternative Minimum Tax (AMT) or additional AMT payments?

#### **Stock Programs Q&A/Bull, Inc.**

Q102. What do I need to do to sell my shares after the merger and the IPO? Will I need to open an account at a new brokerage firm after the merger and the IPO?

Q103. Will SAIC establish arrangements with any particular brokerage firms?

Q104. Will I need to pay a commission for stock transactions after the merger and the IPO?

Q105. Will I have an opportunity to transfer my shares of class A or class B common stock as part of my charitable giving and estate planning prior to the merger and the IPO? Updated 25 July 2006

Q106. How will the merger and the IPO affect me if I previously pledged my shares of class A or class B common stock to collateralize a loan?

Q107. What if I have an outstanding loan under our stock purchase loan program?

Q108. Will we continue to maintain stock records with respect to the class A and class B common stock of Old SAIC?

Q109. Will SAIC provide an adjusted stock history report to help me track the tax basis in my shares? How do I determine the tax basis of my shares of class A and class B common stock of Old SAIC?

Q110. Will anyone at SAIC be available to talk to me or my financial advisor about how the merger and IPO impact my stock and option holdings?

Q111. Will we make commemorative stock certificates available to our stockholders before or after the IPO?

Q112. Is the First Time Buyers Program still available?

#### **October Retirement Plans Trade Q&A**

Q113. What are the deadlines related to the retirement plan trade with the company which is currently scheduled for October 27, 2006? Updated 25 July 2006

Q114. When and how will we determine the price for the stock for the October 2006 trade between the company and the retirement plans? Updated 25 July 2006

Q115. When can I diversify out of the SAIC Non-Exchangeable Stock Funds in the retirement plans?

### **2006 Equity Incentive Plan Q&A**

Q116. If the 2006 Equity Incentive Plan is approved, when would it go into effect? Will it replace the 1984 Bonus Compensation Plan and the 1999 Stock Incentive Plan?

Q117. After the merger and the IPO, will stock awards and options granted to employees be for new common stock with one vote per share or new class A preferred stock with 10 votes per share?

Q118. Why will options granted under the 2006 Equity Incentive Plan be for the purchase of new common stock rather than for new class A preferred stock?

Q119. Will these proposed IRS tax regulations impact options that have already been granted?

Q120. Is it possible that changes will be made to these proposed IRS tax regulations prior to their becoming final?

### **Employee Stock Purchase Plan Q&A**

Q121. Is the 2004 ESPP still in effect and will it continue to be available until the proposed IPO?  
Updated 25 July 2006

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

Q123. How often will participants be able to buy stock through the proposed 2006 ESPP?

Q124. What will be the purchase price at which shares are purchased under the 2006 ESPP? Will there be any holding period imposed with respect to shares acquired under the 2006 ESPP?

Q125. If I withdraw from the 2004 ESPP, will I be able to re-enroll in the proposed 2006 ESPP?

### **Tax Q&A**

Q126. What are the anticipated tax consequences of the merger and the IPO for foreign stockholders?

Q127. How will the merger and the IPO impact the tax basis of my stock?

Q128. How will the merger and the IPO impact the holding period for calculating long-term vs. short-term gains and losses?

Q129. How will the special dividend be taxed?

Q130. At what rate will the special dividend be taxed? Are there holding period requirements to receive favorable dividend tax treatment?

Q131. Will the special dividend paid on vested, directly held stock be taxed differently than the special dividend paid on unvested stock or stock held in deferred compensation accounts? Updated 25 July 2006

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

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

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

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

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

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

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

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

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

### **Overview of the Transactions**

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

A. We intend to complete the following transactions:

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

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

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

#### Top of Page

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

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

employees' entrepreneurial spirit can flourish. Specifically, we believe the IPO is the preferred alternative because it will:

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

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

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

[Top of Page](#)

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

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

[Top of Page](#)

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

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

[Top of Page](#)

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

A. Old SAIC will become a wholly-owned subsidiary of New SAIC, a newly formed company that is named SAIC, Inc. The stockholders of Old SAIC and the investors purchasing stock in the IPO will become the stockholders of New SAIC.

[Top of Page](#)

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

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



[Top of Page](#)

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

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

[Top of Page](#)

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

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

[Top of Page](#)

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

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

[Top of Page](#)

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

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

[Top of Page](#)

**The Merger**

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

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

[Top of Page](#)

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

A. In the merger, each share of outstanding class A common stock will be converted into the right to receive two shares of new class A preferred stock and each share of outstanding class B common stock will be converted into the right to receive 40 shares of new class A preferred stock. However, we have changed the percentage of shares of series A-1 and series A-2 of new class A preferred stock that you will receive upon exchange of your shares of Old SAIC common stock from the percentages proposed in the original proxy statement/prospectus for the December 16, 2005 special stockholders meeting. Under the current proposal, you will receive 20 percent in series A-1 preferred stock, 20 percent in series A-2 preferred stock, 30 percent in series A-3 preferred stock and 30 percent in series A-4 preferred stock (as compared to the allocation proposed in the proxy statement/prospectus for the December 16, 2005 special stockholders meeting of 10 percent in series A-1 preferred stock, 30 percent in series A-2 preferred stock, 30 percent in series A-3 preferred stock and 30 percent in series A-4 preferred stock). Also, the transfer restriction period for series A-1 preferred stock has been changed in the current proposal to 90 days from completion of our IPO (as compared to the fixed date of April 1, 2006 proposed for series A-1 preferred stock in the proxy statement/prospectus for the December 16, 2005 special stockholders meeting). See Questions 45, 46, 47, 48 and 49 for a description of the transfer restrictions applicable to each series (A-1, A-2, A-3 and A-4) of new class A preferred stock. Under this new proposal, of the shares of new class A preferred stock you receive in the merger:

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

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

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

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

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

400 shares of series A-1 preferred stock  
400 shares of series A-2 preferred stock  
600 shares of series A-3 preferred stock  
600 shares of series A-4 preferred stock

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

8,000 shares of series A-1 preferred stock  
8,000 shares of series A-2 preferred stock  
12,000 shares of series A-3 preferred stock  
12,000 shares of series A-4 preferred stock

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

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

[Top of Page](#)

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

A. We established an exchange ratio in the merger that has the effect of implementing a stock split. The purpose is to increase the number of shares of our capital stock outstanding prior to the IPO, which will decrease the per share value of our capital stock. The aggregate value of your shares will not be affected by the merger, although the value will fluctuate after the IPO. We believe that offering more shares of new common stock at a lower per share price will allow for an initial offering price of the new common stock within a range that is customary in today's IPO marketplace and therefore will enhance the underwriters' ability to market the shares to public investors.

[Top of Page](#)

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

A. Holders of class B common stock are entitled to receive 20 times the number of shares to be received by the holders of class A common stock because, while the class A common stock was split 5 for 1 in 1987 and split again 4 for 1 in 1999, resulting in an overall 20 for 1 split, the class B common stock has never split. If the class B common stock had split in 1987 and 1999 along with the class A common stock, there would be no difference in the number of shares the holders of each class would receive. Furthermore, Old SAIC's certificate of incorporation provides that each share of class B common stock is convertible at any time into 20 shares of class A common stock.

[Top of Page](#)

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

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

[Top of Page](#)

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

A. Appraisal rights entitle, under certain circumstances, stockholders of Delaware corporations to receive a cash payment equal to the fair value of their shares as determined by the Delaware Court of Chancery. Record holders of Old SAIC class A common stock do not have appraisal rights in connection with the merger. Record holders of class B common stock who do not vote in favor of the merger proposal but otherwise comply with the requirements and procedures of Section 262 of the General Corporation Law of the State of Delaware, or DGCL, have appraisal rights.

[Top of Page](#)

**Q17. If I submitted my proxy or voting instructions for the special meeting originally scheduled for December 16, 2005, do I need to submit a new proxy or voting instructions for the upcoming special meeting? Updated 25 July 2006**

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

[Top of Page](#)

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

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

[Top of Page](#)

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

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

[Top of Page](#)

**The Initial Public Offering**

**Q20. What is an IPO?**

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

[Top of Page](#)

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

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

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

[Top of Page](#)



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

A. We initially scheduled a special meeting of our stockholders for December 16, 2005 to consider and vote on the merger and IPO related proposals. Our board of directors and senior management decided to not hold that stockholders' meeting due to developments relating to a firm-fixed-price contract (Greek contract) with the Hellenic Republic of Greece (the Greek government). These developments included:

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

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

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

In addition, the review by a special committee of independent directors was completed in April 2006, and the results of the review have been reported to our board of directors. Following completion of this independent review, our Chief Executive Officer has initiated an analysis of the observations and conclusions resulting from the review and begun the implementation of a number of improvements in our operational policies, processes and procedures with the goal of preventing the recurrence of problems experienced in the Greek contract in the future. The Greek contract status, contingencies and arbitration proceedings are described under Management's Discussion and Analysis of Financial Condition and Results of Operations - Commitments and Contingencies - Firm Fixed-Price Contract with the Greek Government in New SAIC's Registration Statement on Form S-4 filed with the SEC.

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

[Top of Page](#)

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

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

[Top of Page](#)

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

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

[Top of Page](#)

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

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

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

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

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