SAIC, Inc.
Form 10-Q
June 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 30, 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	**20-3562868**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10260 Campus Point Drive, San Diego, California	**92121**
(Address of principal executive offices)	**(Zip Code)**

(858) 826-6000

(Registrant s telephone number, including area code)

N/A

(Former name, former address and

former fiscal year, if changed since last report)

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 x No ¨

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

Large accelerated filer x	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 x

As of May 16, 2008, the registrant had 184,018,432 shares of common stock, $.0001 par value per share, issued and outstanding, and 223,056,008 shares of Class A preferred stock, $.0001 par value per share, issued and outstanding.

PART I FINANCIAL INFORMATION

Item 1. *Financial Statements.*

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended April 30	
	2008	2007
	(in millions, except per share amounts)	
Revenues	**$ 2,369**	$ 2,011
Costs and expenses:		
Cost of revenues	**2,053**	1,746
Selling, general and administrative expenses	**143**	129
Operating income	**173**	136
Non-operating income (expense):		
Interest income	**8**	14
Interest expense	**(19)**	(22)
Minority interest in income of consolidated subsidiaries		(2)
Other income, net	**8**	
Income from continuing operations before income taxes	**170**	126
Provision for income taxes	**66**	51
Income from continuing operations	**104**	75
Discontinued operations (Note 1):		
Income (loss) from discontinued operations before minority interest in income of consolidated subsidiaries and income taxes (including a net loss on sales of $2 million and a net gain on sales of $9 million for the three months ended April 30, 2008 and 2007, respectively)	**(2)**	13
Minority interest in income of consolidated subsidiaries		(1)
Provision for income taxes	**2**	7
Income (loss) from discontinued operations	**(4)**	5
Net income	**$ 100**	$ 80
Earnings per share:		
Basic:		
Income from continuing operations	**$ .26**	$ .19
Income (loss) from discontinued operations	**(.01)**	.01
	$ .25	$ .20
Diluted:		
Income from continuing operations	**$ .25**	$ .18
Income (loss) from discontinued operations	**(.01)**	.01
	$ .24	$ .19
Weighted average shares outstanding:		
Basic	**402**	404
Diluted	**413**	418

See accompanying notes to condensed consolidated financial statements.

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SAIC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	April 30, 2008	January 31, 2008
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 662	$ 1,096
Receivables, net	1,927	1,886
Inventory, prepaid expenses and other current assets	289	255
Total current assets	2,878	3,237
Property, plant and equipment (less accumulated depreciation and amortization of $310 million and $297 million at April 30, 2008 and January 31, 2008, respectively)	390	393
Intangible assets, net	121	102
Goodwill	1,180	1,077
Deferred income taxes	73	71
Other assets	107	101
	$ 4,749	$ 4,981
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,138	$ 1,111
Accrued payroll and employee benefits	465	562
Income taxes payable	55	29
Notes payable and long-term debt, current portion	30	130
Total current liabilities	1,688	1,832
Notes payable and long-term debt, net of current portion	1,098	1,098
Other long-term liabilities	154	150
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock, $.0001 par value, 1.5 billion shares authorized, 225 million and 234 million shares issued and outstanding at April 30, 2008 and January 31, 2008, respectively		
Common stock, $.0001 par value, 2 billion shares authorized, 184 million and 179 million shares issued and outstanding at April 30, 2008 and January 31, 2008, respectively		
Additional paid-in capital	1,832	1,836
Retained earnings		88
Accumulated other comprehensive loss	(23)	(23)
Total stockholders equity	1,809	1,901
	$ 4,749	$ 4,981

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(UNAUDITED)

	Shares Common stock	Shares Preferred stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total	Comprehensive income
				(in millions)			
Balance at February 1, 2008	179	234	$ 1,836	$ 88	$ (23)	$ 1,901	
Net income				100		100	$ 100
Issuances of stock		14	99			99	
Repurchases of stock	(13)	(5)	(149)	(188)		(337)	
Conversion of preferred stock to common stock	18	(18)					
Income tax benefit from employee stock transactions			27			27	
Stock-based compensation			19			19	
Balance at April 30, 2008	**184**	**225**	**$ 1,832**	**$**	**$ (23)**	**$ 1,809**	**$ 100**

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended April 30	
	2008	2007
	(in millions)	
Cash flows from operations:		
Net income	**$ 100**	$ 80
(Income) loss from discontinued operations	**4**	(5)
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	**23**	17
Stock-based compensation	**19**	23
Other non-cash items	**(6)**	2
Increase (decrease) in cash and cash equivalents, excluding effects of acquisitions and divestitures, resulting from changes in:		
Receivables	**(37)**	(26)
Inventory, prepaid expenses and other current assets	**(34)**	1
Deferred income taxes	**(1)**	
Other assets	**(4)**	(2)
Accounts payable and accrued liabilities	**18**	(115)
Accrued payroll and employee benefits	**(94)**	(108)
Income taxes payable	**20**	
Other long-term liabilities	**5**	4
Total cash flows provided by (used in) operations	**13**	(129)
Cash flows from investing activities:		
Expenditures for property, plant and equipment	**(12)**	(12)
Acquisitions of businesses, net of cash acquired of $1 million in 2008	**(135)**	
Payments for businesses acquired in previous years	**(2)**	
Other	**8**	5
Total cash flows used in investing activities	**(141)**	(7)
Cash flows from financing activities:		
Payments on notes payable and long-term debt	**(102)**	(1)
Sales of stock and exercise of stock options	**28**	35
Repurchases of stock	**(259)**	(94)
Excess tax benefits from stock-based compensation	**27**	27
Other		1
Total cash flows used in financing activities	**(306)**	(32)
Decrease in cash and cash equivalents from continuing operations	**(434)**	(168)
Cash flows of discontinued operations:		
Cash provided by (used in) operating activities of discontinued operations	**2**	(5)
Cash provided by (used in) investing activities of discontinued operations	**(2)**	3
Decrease in cash and cash equivalents from discontinued operations		(2)
Total decrease in cash and cash equivalents	**(434)**	(170)
Cash and cash equivalents at beginning of period continuing operations	**1,096**	1,109
Cash and cash equivalents at beginning of period discontinued operations		4
Cash and cash equivalents at beginning of period	**1,096**	1,113
Cash and cash equivalents at end of period continuing operations	**$ 662**	$ 943

See accompanying notes to condensed consolidated financial statements.

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SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 Summary of Significant Accounting Policies:

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 condensed consolidated financial statements include the accounts of SAIC, Inc. and all majority-owned and 100%-owned subsidiaries (collectively referred to as the Company). All intercompany transactions and accounts have been eliminated in consolidation. The Company recognized revenues of $5 million on sales to certain unconsolidated affiliates during each of the three months ended April 30, 2008 and 2007.

The accompanying financial information has been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2008. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. 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.

In the opinion of management, the financial information as of April 30, 2008 and for the three months ended April 30, 2008 and 2007 reflects all adjustments, which include normal recurring adjustments, necessary for a fair presentation thereof. Operating results for the three months ended April 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2009, or any future period.

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. 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 parties have a mutual indemnification arrangement for pre-transaction events.

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

	Three Months Ended April 30	
	2008	2007

	(in millions)	
Revenues	$	$ 57
Costs and expenses		
Cost of revenues		51
Selling, general and administrative expenses		2
Income before minority interest in income of consolidated subsidiaries and income taxes	$	$ 4

In addition to the operating results of the divested portion of AMSEC LLC, the Company s results of discontinued operations for the three months ended April 30, 2008 and 2007 included gains and losses on sales for certain tax and litigation matters related to Telcordia Technologies, Inc. (Note 8) and the divested portion of AMSEC LLC.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Supplementary Cash Flow Information

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

	Three Months Ended April 30	
	2008	2007
	(in millions)	
Stock exchanged upon exercise of stock options	**$ 68**	$ 85
Stock issued for settlement of accrued employee benefits	**$ 3**	$ 4
Increase in accrued share repurchases	**$ 10**	$ 2
Fair value of assets acquired in acquisitions	**$ 138**	$
Cash paid in acquisitions, net of cash acquired of $1 million	**(135)**	
Accrued acquisition payments	**(2)**	
Liabilities assumed in acquisitions	**$ 1**	$

Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (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. The Company adopted SFAS No. 157 on February 1, 2008. 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 delayed the effective date on SFAS No. 157 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities until February 1, 2009. The adoption of SFAS No. 157 did not impact the Company s 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. The Company adopted the disclosure requirements of SFAS No. 159 on February 1, 2008, but did not adopt the elective provisions of this statement. The adoption of SFAS No. 159 did not impact the Company s consolidated financial position and results of operations.

Note 2 Stockholders Equity and Earnings per Share (EPS):

The Company has shares of Class A preferred stock and common stock issued and outstanding. 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. The computation of EPS by applying the two-class method to the Class A preferred stock does not yield a different result than that provided under the if-converted method. Therefore, the two-class method is not presented.

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 April 30, 2008 and 2007 were 13 million shares and 11 million shares, respectively, which 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

	Three Months Ended April 30	
	2008	2007
	(in millions)	
Basic weighted average number of shares outstanding	**402**	404
Dilutive common share equivalents:		
Stock options	**8**	12
Unvested stock awards and other stock-based awards	**3**	2
Diluted weighted average number of shares outstanding	**413**	418
Antidilutive stock options excluded from the calculation of diluted weighted average number of shares outstanding	**12**	7

There were no adjustments to income from continuing operations and income from discontinued operations in calculating basic and diluted EPS for the three months ended April 30, 2008 and 2007.

Note 3 Stock-Based Compensation:

Total Stock-Based Compensation. Total stock-based compensation expense for the periods noted was as follows:

	Three Months Ended April 30	
	2008	2007
	(in millions)	
Stock options	**$ 6**	$ 7
Vesting stock awards	**13**	12
Employee stock purchase plan discount		4
Total stock-based compensation expense	**$ 19**	$ 23

Stock Options. Stock options granted during the three months ended April 30, 2008 and 2007 have a vesting period of four years, except for stock options granted to the Company s outside directors during the three months ended April 30, 2008, which have a vesting period of one year. All stock options granted during the three months ended April 30, 2008 and 2007 have a term of five years from the date of grant. The fair value of options granted during the periods noted was determined using the following weighted average assumptions:

	Three Months Ended April 30	
	2008	2007
Expected term (in years)	**3.9**	3.9
Expected volatility	**26.1%**	26.9%
Risk-free interest rate	**2.3%**	4.5%
Dividend yield	**0%**	0%

The weighted average grant-date fair value of stock options granted during the three months ended April 30, 2008 and 2007 using the Black-Scholes option-pricing model was $4.49 and $4.99, respectively.

Stock option activity for the three months ended April 30, 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, 2008	53.5	$ 13.41	2.1	$ 294
Options granted	5.9	18.73		
Options forfeited or expired	(1.4)	11.55		
Options exercised	(7.9)	10.57		65
Outstanding at April 30, 2008	**50.1**	**14.54**	**2.5**	**224**
Exercisable at April 30, 2008	**25.0**	**13.15**	**1.7**	**146**

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Stock Awards. Vesting stock award activity for the three months ended April 30, 2008 was as follows:

	Shares of stock under stock awards (in millions)	Weighted average grant-date fair value
Unvested at January 31, 2008	10.2	$ 18.62
Awards granted	4.7	18.73
Awards forfeited	(0.2)	18.42
Awards vested	(1.7)	18.84
Unvested at April 30, 2008	**13.0**	**18.64**

The aggregate fair value of vesting stock awards that vested during the three months ended April 30, 2008 and 2007 was $32 million and $22 million, respectively.

Note 4 Acquisitions:

On April 18, 2008, the Company completed an acquisition in the Government segment, which was not considered a material business combination, for a preliminary purchase price of $138 million in cash. The acquired business designs and produces laser-based systems and products for military training and testing. The preliminary purchase price allocations related to this acquisition resulted in identifiable intangible assets of $26 million and goodwill of $104 million. The Company has not yet obtained all of the information required to complete the purchase price allocations related to this acquisition and certain prior year acquisitions. The final purchase price allocations will be completed once the information identified by the Company has been received.

Subsequent to April 30, 2008, the Company completed an acquisition in the Government segment, which was not considered a material business combination. The acquired business provides services in language translation, interpretation and training, and other consulting services to federal, state and local governments and commercial customers.

Note 5 Goodwill and Intangible Assets:

Intangible assets, including those arising from preliminary purchase price allocations, consisted of the following:

	April 30, 2008			January 31, 2008		
	Gross carrying value	**Accumulated amortization**	**Net carrying value**	Gross carrying value	Accumulated amortization	Net carrying value
	(in millions)					
Amortizable intangible assets:						
Customer relationships	**$ 119**	**$ 43**	**$ 76**	$ 103	$ 38	$ 65
Software and technology	**64**	**24**	**40**	54	22	32

Other	**5**	**4**	**1**	5	4	1
Total amortizable intangible assets	**188**	**71**	**117**	162	64	98
Non-amortizable intangible assets:						
Tradenames	**4**		**4**	4		4
Total intangible assets	**$ 192**	**$ 71**	**$ 121**	$ 166	$ 64	$ 102

Amortization expense related to amortizable intangible assets was $7 million and $6 million for the three months ended April 30, 2008 and 2007, respectively.

The estimated annual amortization expense related to amortizable intangible assets as of April 30, 2008 is as follows (in millions):

Fiscal Year Ending January 31	
2009 (remainder of the fiscal year)	$ 24
2010	27
2011	20
2012	15
2013	13
2014 and thereafter	18
	$ 117

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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. There were no goodwill or intangible asset impairment losses during the three months ended April 30, 2008 and 2007.

Note 6 Comprehensive Income and Accumulated Other Comprehensive Loss:

Comprehensive income for the periods noted was as follows:

	Three Months Ended April 30	
	2008	2007
	(in millions)	
Net income	**$ 100**	$ 80
Other comprehensive income, net of tax:		
Foreign currency translation adjustments		1
Total comprehensive income	**$ 100**	$ 81

The components of accumulated other comprehensive loss were as follows:

	April 30, 2008	January 31, 2008
	(in millions)	
Foreign currency translation adjustments	**$ 3**	$ 3
Unrealized net loss on derivative instruments	**(7)**	(7)
Unrealized loss on defined benefit plan	**(19)**	(19)
	$ (23)	$ (23)

As of April 30, 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 7 Business Segment Information:

As of February 1, 2008, certain operations were transferred between the Company s Government and Commercial segments. The following summarizes interim business segment information with prior year amounts adjusted for discontinued operations and for consistency with the current year s presentation:

	Three Months Ended April 30	
	2008	2007

	(in millions)	
Revenues:		
Government segment	**$ 2,238**	$ 1,883
Commercial segment	**131**	128
Total revenues	**$ 2,369**	$ 2,011
Operating income (loss):		
Government segment	**$ 174**	$ 135
Commercial segment	**4**	5
Corporate and Other segment	**(5)**	(4)
Total operating income	**$ 173**	$ 136

As described in more detail in Note 16 of the notes to consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2008, certain corporate expenses are reflected in the Government and Commercial segments based on agreed-upon allocations to the segments or as required by U.S. Government Cost Accounting Standards. To the extent not allocated, corporate expenses are retained in the Corporate and Other segment.

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 8 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. Due to the scope and complexity of the disputed technical issues, the arbitrator appointed a third party expert to provide an independent opinion. At a hearing on April 28-29, 2008, the arbitrator determined the technical issues that the independent technical expert would be tasked to analyze. As a result of this development and the number of other disputed issues, the damage phase of the arbitration is unlikely to be completed until after January 31, 2009. 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.

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 April 30, 2008.

Firm-Fixed-Price Contract with the Greek Government

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 $16 million and ten years of TETRA radio network services for approximately $132 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. 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

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(UNAUDITED)

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 $12 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 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. Remediation and re-testing of these two subsystems are ongoing. The contract authorizes such remediation as long as it is completed before the System acceptance testing to be conducted in fiscal year 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 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 previously represented to the Company that it did not make improper payments in connection with the Greek contract. However, more recently, the subcontractor indicated that its board of directors has initiated a comprehensive, independent investigation to determine if improper payments were made by the subcontractor to obtain business worldwide, including 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.

Financial Status and Contingencies of the Greek Contract. The Company has recorded $124 million of losses under the Greek contract as of April 30, 2008. No profits or losses were recorded during the three months ended April 30, 2008 and 2007. 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 April 30, 2008 was based on cash received to date. Through April 30, 2008, the Company has recognized revenues of $157 million, which represents a portion of the $201 million of cash received to date. No revenues or costs on the maintenance portion of the Greek contract were recognized during the three months ended April 30, 2008.

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The Company has $17 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 April 30, 2008, there were $116 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.

Nuclear Regulatory Commission

The U.S. Department of Justice filed a lawsuit against the Company in September 2004 in the U.S. District Court for the District of Columbia alleging False Claims Act violations and breach of contract by the Company on two contracts that the Company had with the Nuclear Regulatory Commission (NRC). The complaint alleges that the Company s performance of several subcontracts on separate Department of Energy (DOE) programs, the involvement of a Company employee in an industry trade association and certain other issues created organizational conflicts of interest that were required to be disclosed to the NRC under the terms of the Company s two NRC contracts. The Company disputes that the work performed on the DOE programs and other issues raised by the government created organizational conflicts of interest or impaired the work that the Company performed for the NRC. Discovery in the case was completed in September 2006. In 2007, the Company had filed a motion for summary judgment on a number of issues in the case, which if granted in its entirety would have resulted in the dismissal of the case. In May 2008, the judge ruled on the Company s motion for summary judgment, granting it on certain issues and denying it on others. The judge set the case to go to trial before a jury in July 2008. If the U.S. Department of Justice prevails in the case, the maximum damages for which the Company could be liable are estimated to be between $5 million and $8 million. The Company is currently unable to determine the outcome of this matter.

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 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.

U.S. Government agencies routinely review their contractors performance on contracts, cost structure, pricing practices and compliance with applicable contracting and procurement laws, regulations and standards. Such reviews may result in adjustments to contract costs, and costs found to be improperly allocated must be refunded to customers as required. In addition, the U.S. Government may apply penalties under certain circumstances. All of the Company s indirect contract costs have been agreed upon through fiscal year 2004 and are not subject to further adjustment. The Company has recorded contract revenues subsequent to fiscal year 2004 based upon costs that the Company believes will be approved upon final review. However, the Company does not know the outcome of any future reviews and adjustments and, if future adjustments exceed the Company s estimates, its profitability could be adversely affected.

The Company is subject to routine compliance reviews by the Internal Revenue Service (IRS) and other taxing authorities. The IRS is currently reviewing fiscal years 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 $40 million of the Company s unrecognized tax benefits ($30 million of which relates to discontinued operations), depending on the timing of ongoing examinations, litigation and expiration of statute of limitations, 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. As of April 30, 2008, the Company had liabilities for uncertain tax positions of $65 million, including $35 million related to discontinued operations.

The Company has effectively settled with the IRS and certain states for all fiscal years prior to and including fiscal year 2004. While the Company believes it has adequate accruals for uncertain tax positions, the tax authorities may determine that the Company owes taxes in excess of recorded accruals or the recorded accruals may be in excess of the final settlement amounts agreed to by tax authorities.

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.

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 that its interpretation of the pricing terms is correct, 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 is unable to determine the outcome and accordingly, has not recorded a liability for this matter as of April 30, 2008.

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, cash flows or its ability to conduct business.

Note 9 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 and $250 million 7.125% notes. The Subsidiary Issuer paid $100 million to settle its 6.75% notes, which had also been guaranteed by the Parent, at maturity on February 1, 2008.

The Parent loans cash to the Subsidiary Issuer 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 condensed consolidating financial statement information is provided as an alternative to filing separate financial statements of the Subsidiary Issuer. The condensed consolidating financial statement information should be read in conjunction with the condensed consolidated financial statements of the Company and notes thereto of which this note is an integral part.

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The following tables present condensed consolidating financial information for the Parent and the Subsidiary Issuer.

SAIC, Inc. and Subsidiaries

Condensed Consolidating Statements of Income

	Three Months Ended April 30, 2008			
	Parent	Subsidiary Issuer	Eliminations (in millions)	Consolidated
Revenues	$	$ 2,369	$	$ 2,369
Costs and expenses:				
Cost of revenues		2,053		2,053
Selling, general and administrative expenses		143		143
Operating income		173		173
Non-operating income (expense):				
Interest income	11	8	(11)	8
Interest expense		(30)	11	(19)
Other income, net		8		8
Equity in net income of consolidated subsidiaries	92		(92)	
Income from continuing operations before income taxes	103	159	(92)	170
Provision for income taxes	3	63		66
Income from continuing operations	100	96	(92)	104
Discontinued operations:				
Loss from discontinued operations before income taxes		(2)		(2)
Provision for income taxes		2		2
Loss from discontinued operations		(4)		(4)
Net income	$ 100	$ 92	$ (92)	$ 100

	Three Months Ended April 30, 2007			
	Parent	Subsidiary Issuer	Eliminations (in millions)	Consolidated
Revenues	$	$ 2,011	$	$ 2,011
Costs and expenses:				
Cost of revenues		1,746		1,746
Selling, general and administrative expenses		129		129
Operating income		136		136
Non-operating income (expense):				
Interest income	15	11	(12)	14
Interest expense		(34)	12	(22)
Other income, net		(2)		(2)
Equity in net income of consolidated subsidiaries	70		(70)	
Income from continuing operations before income taxes	85	111	(70)	126
Provision for income taxes	5	46		51
Income from continuing operations	80	65	(70)	75
Discontinued operations:				

Income from discontinued operations before minority interest in income of consolidated subsidiaries and income taxes		13		13
Minority interest in income of consolidated subsidiaries		(1)		(1)
Provision for income taxes		7		7
Income from discontinued operations		5		5
Net income	$ 80	$ 70	$ (70)	$ 80

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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SAIC, Inc. and Subsidiaries

Condensed Consolidating Balance Sheets

	April 30, 2008			
	Parent	Subsidiary Issuer	Eliminations	Consolidated
	(in millions)			
ASSETS				
Current assets:				
Cash and cash equivalents	$	$ 662	$	$ 662
Receivables, net		1,927		1,927
Inventory, prepaid expenses and other current assets		289		289
Total current assets		2,878		2,878
Property, plant and equipment, net		390		390
Intangible assets, net		121		121
Goodwill		1,180		1,180
Deferred income taxes		73		73
Other assets	1,013	107	(1,013)	107
Investment in consolidated subsidiaries	835		(835)	
	$ 1,848	$ 4,749	$ (1,848)	$ 4,749
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$ 16	$ 1,122	$	$ 1,138
Accrued payroll and employee benefits		465		465
Income taxes payable		55		55
Notes payable and long-term debt, current portion		30		30
Total current liabilities	16	1,672		1,688
Notes payable and long-term debt, net of current portion		2,111	(1,013)	1,098
Other long-term liabilities		154		154
Total stockholders equity	1,832	812	(835)	1,809
	$ 1,848	$ 4,749	$ (1,848)	$ 4,749

	January 31, 2008			
	Parent	Subsidiary Issuer	Eliminations	Consolidated
	(in millions)			
ASSETS				
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	743		(743)	
	$ 1,930	$ 4,981	$ (1,930)	$ 4,981
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$ 6	$ 1,105	$	$ 1,111
Accrued payroll and employee benefits		562		562
Income taxes payable		29		29
Notes payable and long-term debt, current portion		130		130
Total current liabilities	6	1,826		1,832
Notes payable and long-term debt, net of current portion		2,285	(1,187)	1,098
Other long-term liabilities		150		150
Total stockholders equity	1,924	720	(743)	1,901
	$ 1,930	$ 4,981	$ (1,930)	$ 4,981

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SAIC, Inc. and Subsidiaries

Consolidating Statements of Cash Flows

	Three Months Ended April 30, 2008			
	Parent	Subsidiary Issuer	Eliminations	Consolidated
	(in millions)			
Cash flows provided by operations	$ 10	$ 3		