

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

(State or other jurisdiction of  
incorporation or organization)

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

20-3562868

(I.R.S. Employer  
Identification No.)

92121  
(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  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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller  
reporting company)

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

As of 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.

## 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	<b>\$2,369</b>	<b>\$2,011</b>
Costs and expenses:		
Cost of revenues	<b>2,053</b>	1,746
Selling, general and administrative expenses	<b>143</b>	129
Operating income	<b>173</b>	136
Non-operating income (expense):		
Interest income	<b>8</b>	14
Interest expense	<b>(19)</b>	(22)
Minority interest in income of consolidated subsidiaries	<b>—</b>	(2)
Other income, net	<b>8</b>	—
Income from continuing operations before income taxes	<b>170</b>	126
Provision for income taxes	<b>66</b>	51
Income from continuing operations	<b>104</b>	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)	<b>(2)</b>	13
Minority interest in income of consolidated subsidiaries	<b>—</b>	(1)
Provision for income taxes	<b>2</b>	7
Income (loss) from discontinued operations	<b>(4)</b>	5
Net income	<b>\$ 100</b>	<b>\$ 80</b>
Earnings per share:		
Basic:		
Income from continuing operations	<b>\$ .26</b>	\$ .19
Income (loss) from discontinued operations	<b>(.01)</b>	.01
	<b>\$ .25</b>	\$ .20
Diluted:		
Income from continuing operations	<b>\$ .25</b>	\$ .18
Income (loss) from discontinued operations	<b>(.01)</b>	.01
	<b>\$ .24</b>	\$ .19
Weighted average shares outstanding:		
Basic	<b>402</b>	404
Diluted	<b>413</b>	418

See accompanying notes to condensed consolidated financial statements.

**SAIC, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	April 30, 2008	January 31, 2008
	(in millions)	
<b>ASSETS</b>		
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
	<b>\$4,749</b>	<b>\$ 4,981</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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
	<b>\$4,749</b>	<b>\$ 4,981</b>

See accompanying notes to condensed consolidated financial statements.

**SAIC, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**  
**(UNAUDITED)**

	Shares		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total	Comprehensive income
	Common stock	Preferred stock					
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	—
<b>Balance at April 30, 2008</b>	<b>184</b>	<b>225</b>	<b>\$ 1,832</b>	<b>\$ —</b>	<b>\$ (23)</b>	<b>\$1,809</b>	<b>\$ 100</b>

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.

**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.

**SAIC, INC.**  
**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.

**SAIC, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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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



**SAIC, INC.**  
**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

**SAIC, INC.**  
**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
<b>Total comprehensive income</b>	<b>\$ 100</b>	<b>\$ 81</b>

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)
	<b>\$ (23)</b>	<b>\$ (23)</b>

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
<b>Total revenues</b>	<b>\$2,369</b>	<b>\$2,011</b>
Operating income (loss):		
Government segment	\$ 174	\$ 135
Commercial segment	4	5
Corporate and Other segment	(5)	(4)
<b>Total operating income</b>	<b>\$ 173</b>	<b>\$ 136</b>

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.

**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

SAIC, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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- 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

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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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SAIC, Inc. and Subsidiaries  
Condensed Consolidating Balance Sheets

	April 30, 2008			
	Parent	Subsidiary Issuer	Eliminations (in millions)	Consolidated
<b>ASSETS</b>				
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)	—
	<b>\$1,848</b>	<b>\$ 4,749</b>	<b>\$ (1,848)</b>	<b>\$ 4,749</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
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
	<b>\$1,848</b>	<b>\$ 4,749</b>	<b>\$ (1,848)</b>	<b>\$ 4,749</b>

	January 31, 2008			
	Parent	Subsidiary Issuer	Eliminations (in millions)	Consolidated
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ —	\$ 1,096	\$ —	\$ 1,096
Receivables, net	—	1,886	—	1,886
Inventory, prepaid expenses and other current assets	—	255	—	255
Total current assets	—	3,237	—	3,237
Property, plant and equipment, net	—	393	—	393
Intangible assets, net	—	102	—	102
Goodwill	—	1,077	—	1,077
Deferred income taxes	—	71	—	71
Other assets	1,187	101	(1,187)	101
Investment in consolidated subsidiaries	743	—	(743)	—
	<b>\$1,930</b>	<b>\$ 4,981</b>	<b>\$ (1,930)</b>	<b>\$ 4,981</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 6	\$ 1,105	\$ —	\$ 1,111
Accrued payroll and employee benefits	—	562	—	562
Income taxes payable	—	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
	<b>\$1,930</b>	<b>\$ 4,981</b>	<b>\$ (1,930)</b>	<b>\$ 4,981</b>



SAIC, INC.  
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SAIC, Inc. and Subsidiaries  
Consolidating Statements of Cash Flows

	Three Months Ended April 30, 2008			
	Parent	Subsidiary Issuer	Eliminations (in millions)	Consolidated
Cash flows provided by operations	\$ 10	\$ 3	\$ —	\$ 13
Cash flows used in investing activities	—	(141)	—	(141)
Cash flows used in financing activities	(10)	(296)	—	(306)
Total decrease in cash and cash equivalents	—	(434)	—	(434)
Cash and cash equivalents at beginning of period—continuing operations	—	1,096	—	1,096
Cash and cash equivalents at end of period—continuing operations	\$ —	\$ 662	\$ —	\$ 662

	Three Months Ended April 30, 2007			
	Parent	Subsidiary Issuer	Eliminations (in millions)	Consolidated
Cash flows provided by (used in) operations	\$ 3	\$ (132)	\$ —	\$ (129)
Cash flows used in investing activities	—	(7)	—	(7)
Cash flows provided by (used in) financing activities	(925)	893	—	(32)
Increase (decrease) in cash and cash equivalents from continuing operations	(922)	754	—	(168)
Cash flows used in discontinued operations	—	(2)	—	(2)
Total increase (decrease) in cash and cash equivalents	(922)	752	—	(170)
Cash and cash equivalents at beginning of period—continuing operations	922	187	—	1,109
Cash and cash equivalents at beginning of period—discontinued operations	—	4	—	4
Cash and cash equivalents at beginning of period	922	191	—	1,113
Cash and cash equivalents at end of period—continuing operations	\$ —	\$ 943	\$ —	\$ 943

During the three months ended April 30, 2008 and 2007, the cash flows provided by operations for the Parent included cash received for interest from the Subsidiary Issuer and the cash flows used in financing activities for the Parent represented loans provided to the Subsidiary Issuer.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations and quantitative and qualitative disclosures about market risk should be read in conjunction with the condensed consolidated financial statements and related notes. The following discussion contains forward-looking statements, including statements regarding our intent, belief or current expectations with respect to, among other things, trends affecting our financial condition or results of operations and the impact of competition. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Some of these factors include, but are not limited to the risk factors set forth in our Annual Report on Form 10-K for the year ended January 31, 2008, as may be updated periodically through subsequent quarterly reports on Form 10-Q. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.

Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ended January 31, 2009 as fiscal 2009. We are currently in fiscal 2009.

### Overview

We are a provider of scientific, engineering, systems integration and technical services and solutions to all branches of the U.S. military, agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, state and local government agencies, foreign governments and customers in selected commercial markets. We use the terms "Company," "we," "us," and "our" to refer to SAIC, Inc. and its majority-owned and 100%-owned subsidiaries.

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

- achieving internal, or non-acquisition related, annual revenue growth through investments in business development, internal research and new product and technology development, and through increased focus on pursuing more large lead system integrator contract opportunities;
- improving our operating income margin by increasing contract fees (by improving internal collaboration, increasing our growth in higher-margin business areas, and improving profitability on material and subcontractor deliverables) and improving our indirect cost structure (through better recovery of our indirect costs, streamlining our overhead infrastructure, and reducing unallowable and unbillable costs);
- improving our information technology systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;
- investing in our people, including enhanced training and career development programs, with a focus on retention and recruiting; and
- disciplined deployment of our cash resources and use of our capital structure to enhance growth and shareholder value through strategic acquisitions, share repurchases and other uses as conditions warrant.

Key financial highlights and events, including progress against these initiatives, during the three months ended April 30, 2008 include:

- Revenues for the three months ended April 30, 2008 increased 18% over the same period in the prior year, reflecting an internal revenue growth rate of 14%. We calculate internal revenue growth by comparing our reported revenue for the period to the revenue for the same period in the prior year adjusted to include the revenue of acquired businesses for the comparable period before acquisition. Our internal revenue growth for the three months ended April 30, 2008 was favorably impacted by increased activity on a number of new and continuing programs in our defense, homeland security, logistics and product support and intelligence business areas.
- Operating income as a percentage of revenues improved from 6.8% for the three months ended April 30, 2007 to 7.3% for the three months ended April 30, 2008 primarily due to a decrease in selling, general and administrative expenses as a percentage of revenues reflecting management's efforts to control general and administrative spending and improved fee rates on several large programs.

- Income from continuing operations increased \$29 million over the same period in the prior year primarily due to increased operating income of \$37 million caused by increased revenues and improved operating margins, and an increase in non-operating income of \$7 million offset by an increase in our provision for income taxes of \$15 million.
- Diluted earnings per share from continuing operations increased 39% for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to the increase in income from continuing operations.
- Cash and cash equivalents decreased \$434 million during the three months ended April 30, 2008 primarily due to \$259 million paid to repurchase shares of our stock, \$135 million paid related to the acquisition of a business (net of cash acquired of \$1 million), and \$102 million paid to redeem notes payable and long-term debt.
- We completed one business acquisition during the three months ended April 30, 2008 for a preliminary purchase price of \$138 million. The acquired business designs and produces laser-based systems and products for military training and testing.
- Net bookings (as defined in “Key Financial Metrics—Bookings and Backlog”) were approximately \$2.5 billion during the three months ended April 30, 2008. Total backlog was \$15.1 billion at April 30, 2008 and increased by approximately \$136 million during the three months ended April 30, 2008.

## Reportable Segments

We have three reportable segments: Government, Commercial, and Corporate and Other. Except with respect to “Other Income Statement Items—Discontinued Operations” and “Net Income and Earnings per Share,” all amounts in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are presented for our continuing operations only. As of February 1, 2008, certain operations were transferred between our Government and Commercial segments. Prior year amounts appearing in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” have been reclassified for consistency with the current year’s presentation.

**Government Segment.** Through our Government segment, we provide systems engineering, systems integration and advanced technical services and solutions primarily to U.S. federal, state and local government agencies and foreign governments. Within the Government segment, a significant portion of our revenues are derived from contracts with the U.S. Government. The revenues from contracts with the U.S. Government include contracts where we serve as the prime or lead contractor, as well as contracts where we serve as a subcontractor to other parties who are engaged directly with various U.S. Government agencies as the prime contractor. Some revenues in the Government segment are derived from certain non-government customers for whom we are required to comply with government acquisition and cost allocation regulations.

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

**Corporate and Other Segment.** Our Corporate and Other segment includes the operations of our internal real estate management subsidiary, various corporate activities, the elimination of intersegment revenues and costs and certain corporate expense items not allocable to our U.S. Government customers referred to as unallowable expenses. Our Corporate and Other segment does not contract with third parties for the purpose of generating revenues. There were no intersegment revenues for the three months ended April 30, 2008 and 2007.

## Key Financial Metrics

### Sources of Revenues

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

**Bookings and Backlog.** We recorded net bookings worth an estimated \$2.5 billion during the three months ended April 30, 2008. Bookings generally represent the estimated amount of revenue to be earned in the future from funded and unfunded contract awards received during the period, net of any adjustments to backlog amounts. We calculate bookings as the period ending backlog plus the period's revenues less prior period ending backlog and less backlog obtained in acquisitions.

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

- **Funded Backlog.** Government segment funded backlog primarily represents contracts for which funding is appropriated less revenues previously recognized on these contracts. Government segment funded backlog does not include the unfunded portion of contracts where funding is incrementally appropriated or authorized on a quarterly or annual basis by the U.S. Government and other customers, even though the contract may call for performance over a number of years. Commercial segment funded backlog represents the full value on firm contracts, which may cover multiple future years, under which we are obligated to perform, less revenues previously recognized on these contracts.
- **Negotiated Unfunded Backlog.** Negotiated unfunded backlog represents estimated amounts of revenue to be earned in the future from (1) negotiated contracts for which funding has not been appropriated or otherwise authorized and (2) unexercised priced contract options. Negotiated unfunded backlog does not include any estimate of future potential task orders expected to be awarded under IDIQ, GSA Schedule, or other master agreement contract vehicles.

The estimated value of our total backlog as of the dates noted was as follows:

	April 30, 2008	January 31, 2008
	(in millions)	
<b>Government segment:</b>		
Funded backlog	\$ 4,706	\$ 4,313
Negotiated unfunded backlog	9,484	9,716
<b>Total backlog</b>	<b>\$14,190</b>	<b>\$ 14,029</b>
<b>Commercial segment:</b>		
Funded backlog	\$ 660	\$ 749
Negotiated unfunded backlog	260	196
<b>Total backlog</b>	<b>\$ 920</b>	<b>\$ 945</b>
<b>Total:</b>		
Funded backlog	\$ 5,366	\$ 5,062
Negotiated unfunded backlog	9,744	9,912
<b>Total backlog</b>	<b>\$15,110</b>	<b>\$ 14,974</b>

Previously reported backlog as of January 31, 2008 for the Government segment was adjusted downward by \$65 million to eliminate amounts attributable to our discontinued operations.

Total backlog may fluctuate from period to period depending on our success rate in winning contracts and the timing of contract awards, renewals, modifications and cancellations.

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

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

- Cost-reimbursement contracts which provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee.
- Time-and-materials (T&M) contracts which typically provide for negotiated fixed hourly rates plus reimbursement of other direct costs.
- Fixed-price-level-of-effort contracts which are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time.
- Firm-fixed-price (FFP) contracts which provide for a fixed price for specified products, systems and/or services. If actual costs vary from planned costs on a FFP contract, we generate more or less than the planned amount of profit and may even incur a loss.

The following table summarizes revenues by contract type as a percentage of total revenues for the periods noted:

	Three Months Ended April 30	
	2008	2007
Cost-reimbursement	47%	49%
T&M and fixed-price-level-of-effort	36	35
FFP	17	16
Total	100%	100%

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

	Three Months Ended April 30		
	2008	Percent change (dollars in millions)	2007
Labor-related revenues	\$1,444	11%	\$1,305
As a percentage of revenues	61%		65%
M&S revenues	925	31	706
As a percentage of revenues	39%		35%

The increase in labor-related revenues for the three months ended April 30, 2008 as compared with the same period in the prior year is primarily due to increases in labor rates and increases in the number of direct personnel, including the addition of employees of three businesses acquired since the three months ended April 30, 2007. At April 30, 2008, we had approximately 43,800 full-time and part-time employees as compared to 41,600 at April 30, 2007. The increase in M&S revenues for the three months ended April 30, 2008 as compared with the same period in the prior year was primarily due to a number of factors, including increased activity as a prime contractor on large systems integration programs involving subcontracted efforts, such as our global positioning system and North Atlantic Treaty Organization (NATO) programs, growth in our logistics and product support business area from several new and continuing programs, and the timing and volume of material deliveries under continuing programs primarily with U.S. Department of Defense customers.

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

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

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

## Results of Operations

The following table summarizes our results of operations for the periods noted:

	Three Months Ended April 30		
	2008	Percent change (dollars in millions)	2007
Revenues	<b>\$2,369</b>	18%	\$2,011
Cost of revenues	<b>2,053</b>	18	1,746
Selling, general and administrative expenses	<b>143</b>	11	129
Operating income	<b>173</b>	27	136
<i>As a percentage of revenues</i>	<i>7.3%</i>		<i>6.8%</i>
Non-operating expense, net	<b>(3)</b>		(10)
Income from continuing operations before income taxes	<b>170</b>	35	126
Provision for income taxes	<b>66</b>	29	51
Income from continuing operations	<b>104</b>	39	75
Income (loss) from discontinued operations, net of tax	<b>(4)</b>		5
Net income	<b>\$ 100</b>	25	\$ 80

**Revenues.** Our revenues increased \$358 million, or 18% during the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to growth in revenues in our Government segment, including growth related to the acquisition of businesses. Internal, or non-acquisition, related growth was 14% for the three months ended April 30, 2008 as compared to the same period in the prior year. We calculate internal revenue growth by comparing our reported revenue for the period to the revenue for the same period in the prior year adjusted to include the revenue of acquired businesses for the comparable period before acquisition. Revenue growth related to acquisition of businesses was 4% for the three months ended April 30, 2008 as compared to the same period in the prior year.

The following table summarizes changes in segment revenues for the periods noted:

	Three Months Ended April 30		
	2008	Percent change (dollars in millions)	2007
Government segment revenues	<b>\$2,238</b>	19%	\$1,883
<i>As a percentage of total revenues</i>	<i>94%</i>		<i>94%</i>
Commercial segment revenues	<b>131</b>	2	128
<i>As a percentage of total revenues</i>	<i>6%</i>		<i>6%</i>
Total revenues	<b>\$2,369</b>	18	\$2,011

Government segment revenues increased \$355 million, or 19%, for the three months ended April 30, 2008 as compared to the same period in the prior year. Internal, or non-acquisition, related growth was 15% for the three months ended April 30, 2008 as compared to the same period in the prior year. Internal revenue growth in the Government segment for the three months ended April 30, 2008 was attributable to continued growth across a number of our business areas, most notably our defense, logistics and product support, homeland security and intelligence business areas. Growth in our defense business area was led by increased volume in Command, Control and Communications programs with the U.S. Navy and Marine Corps customers, including integration of communication systems on mine resistant ambush protected (MRAP) vehicles. Our logistics and products support business area experienced growth from new programs, including a logistics support services contract for deployed MRAP vehicles as well as our contract to provide inventory management and logistics support services for ground tires to the U.S. military deployed worldwide. Increases in revenues in our homeland security business area were driven by increased sales of homeland security preparedness products and support as well as work performed on new programs with various U.S. Department of Homeland Security agencies. The increase in the intelligence business area is primarily due to work performed on new programs and higher levels of activity on existing geospatial programs, including the global positioning system program, and classified programs. Revenue growth related to acquisitions of businesses in the Government segment was 4% for the three months ended April 30, 2008 primarily due to our acquisition of a consulting, engineering, and architectural design company during our fiscal quarter ended October 31, 2007.

Commercial segment revenues for the three months ended April 30, 2008 remained relatively consistent as compared to the same period in the prior year.

*Cost of Revenues.* The following table summarizes changes in segment cost of revenues for the periods noted:

	Three Months Ended April 30		
	2008	Percent change	2007
	(dollars in millions)		
Government segment cost of revenues	<b>\$1,956</b>	19%	\$1,650
<i>As a percentage of related revenues</i>	87.4%		87.6%
Commercial segment cost of revenues	<b>102</b>	1	101
<i>As a percentage of related revenues</i>	77.9%		78.9%
Corporate and Other segment cost of revenues	<b>(5)</b>	—	(5)
	<b>\$2,053</b>	18	\$1,746
<i>As a percentage of revenues</i>	86.7%		86.8%

Government segment cost of revenues decreased as a percentage of related revenues for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to improvements in overhead costs as a percentage of revenues and improved fee rates on several large programs. These improvements were partially offset by an increase in M&S revenues as a percentage of total revenues from certain contracts that generally have lower margins as compared to labor-related revenues.

Commercial segment cost of revenues as a percentage of related revenues for the three months ended April 30, 2008 remained relatively consistent as compared to the same period in the prior year.

Corporate and Other segment cost of revenues for the three months ended April 30, 2008 and 2007 represents the elimination of intersegment rent expense charged to our Government and Commercial segments on company-owned properties.

*Selling, General and Administrative Expenses.* The following table summarizes changes in SG&A expense by type of activity for the periods noted:

	Three Months Ended April 30		
	2008	Percent change	2007
	(dollars in millions)		
General and administrative	<b>\$103</b>	12%	\$ 92
<i>As a percentage of total revenues</i>	4.3%		4.6%
Bid and proposal	<b>33</b>	22	27
<i>As a percentage of total revenues</i>	1.4%		1.3%
Internal research and development	<b>7</b>	(30)	10
<i>As a percentage of total revenues</i>	.3%		.5%
	<b>\$143</b>	11	\$ 129
<i>As a percentage of total revenues</i>	6.0%		6.4%

Total SG&A increased \$14 million, or 11%, for the three months ended April 30, 2008 as compared to the same period in the prior year. As a percentage of revenues, SG&A for the three months ended April 30, 2008 decreased as compared with the same period in the prior year, largely reflecting an increase in revenues as well as management's efforts to control general and administrative spending.

General and administrative expenses increased \$11 million, or 12%, for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to increased professional services spending, growth in our operations, and increased depreciation and amortization expense resulting from businesses acquired since April 30, 2007. The increase in professional services spending includes activities associated with efforts to improve our information technology systems infrastructure and related business processes to provide greater effectiveness and efficiency across all business functions. Internal research and development expenses decreased \$3 million, or 30%, for the three months ended April 30, 2008 as compared to the same period in the prior year due to the timing of internal research and development activities as well as the availability of related personnel. Bid and proposal (B&P) expenses increased \$6 million, or 22%, primarily due to a significant increase in B&P activities in pursuit of an increased number of larger contracts for the three months ended April 30, 2008 as compared to the same period in the prior year. The level of B&P activities fluctuates depending on the timing of bidding opportunities.



The following table summarizes changes in SG&A expense by segment for the periods noted:

	Three Months Ended April 30		
	2008	Percent change (dollars in millions)	2007
Government segment SG&A	\$ 108	10%	\$ 98
As a percentage of related revenues	4.8%		5.2%
Commercial segment SG&A	25	14	22
As a percentage of related revenues	19.1%		17.2%
Corporate and Other segment SG&A	10	11	9
Total SG&A	\$ 143	11	\$ 129
As a percentage of revenues	6.0%		6.4%

Government segment SG&A increased \$10 million, or 10%, for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to businesses acquired since April 30, 2007, increased professional services and B&P spending offset by decreases in internal research and development spending.

Commercial segment SG&A expenses increased \$3 million, or 14%, for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to a business acquired since April 30, 2007 and increased labor rates.

Corporate and Other segment SG&A expenses represent corporate costs that are unallowable under U.S. Government Cost Accounting Standards and the net effect of various items related to operating business units that are excluded from the evaluation of a business unit's operating performance in the Government or Commercial segments. Corporate and Other segment SG&A remained relatively consistent for the three months ended April 30, 2008 as compared to the same period in the prior year.

*Operating Income.* The following table summarizes changes in segment operating income for the periods noted:

	Three Months Ended April 30		
	2008	Percent change (dollars in millions)	2007
Government segment operating income	\$ 174	29%	\$ 135
As a percentage of related revenues	7.8%		7.2%
Commercial segment operating income	4	(20)	5
As a percentage of related revenues	3.1%		3.9%
Corporate and Other segment operating loss	(5)	(25)	(4)
Total operating income	\$ 173	27	\$ 136
As a percentage of revenues	7.3%		6.8%

Total operating income increased \$37 million, or 27%, for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to increased Government segment operating income.

Government segment operating income increased \$39 million, or 29%, for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to a decrease in selling, general and administrative expenses as a percentage of revenues reflecting management's efforts to control general and administrative spending and improved fee rates on several large programs.

Commercial segment operating income for the three months ended April 30, 2008 remained relatively consistent as compared to the same period in the prior year.

Corporate and Other segment operating loss remained relatively consistent for the three months ended April 30, 2008 as compared to the same period in the prior year.

*Interest Income.* Interest income decreased by \$6 million, or 43%, for the three months ended April 30, 2008 as compared to the same period in the prior year due to declines in the amount of cash and cash equivalents and interest rates paid on those cash and cash equivalents.

*Interest Expense.* Interest expense reflects interest on our outstanding debt securities and notes payable. Interest expense declined by \$3 million, or 14%, for the three months ended April 30, 2008 as compared to the same period in the prior year due to the scheduled payment of \$100 million to settle the 6.75% notes at maturity on February 1, 2008.



*Other Income, Net.* The components of other income, net for the periods noted were as follows:

	Three Months Ended April 30	
	2008	2007
	(in millions)	
Net gain on sale of investments	\$ 3	\$ —
Equity interest in earnings of unconsolidated affiliates	3	—
Other	2	—
Total other income, net	\$ 8	\$ —

There were no impairment losses on investments for the three months ended April 30, 2008 and 2007. The carrying value of our cost and equity method investments as of April 30, 2008 was \$50 million.

*Provision for Income Taxes.* The provision for income taxes as a percentage of income from continuing operations before income taxes was 38.8% for the three months ended April 30, 2008 as compared to 40.5% for the same period in the prior year. The lower effective tax rate for the three months ended April 30, 2008 as compared to the same period in the prior year is primarily due to the reduction in non-deductible expense for income taxes due to changes to the employee stock purchase plan (ESPP) discount effective January 1, 2008.

*Income from Continuing Operations.* Income from continuing operations increased \$29 million, or 39%, for the three months ended April 30, 2008, as compared to the same period in the prior year. The increase in income from continuing operations is primarily a result of an increase in operating income of \$37 million caused by increased revenues and improved operating margins, and an \$8 million increase in other income, net caused by increased equity interest in earnings of unconsolidated affiliates and gains on sales of investments offset by an increase in the provision for income taxes of \$15 million and a \$6 million decrease in interest income for the three months ended April 30, 2008.

*Earnings per Share (EPS) from Continuing Operations.* Diluted EPS from continuing operations increased \$.07 per share, or 39%, as compared to the same period in the prior year primarily due to a \$29 million, or 39%, increase in income from continuing operations.

*Discontinued Operations.* On July 13, 2007, we completed a reorganization transaction resulting in the disposition of our 55% interest in our consolidated majority-owned subsidiary, AMSEC LLC, in exchange for our acquisition of certain divisions and subsidiaries of AMSEC LLC. The results of operations of AMSEC LLC (other than the divisions and subsidiaries that we 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, our 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. and the divested portion of AMSEC LLC.

*Net Income and EPS.* Net income increased \$20 million, or 25%, for the three months ended April 30, 2008 as compared to the same period in the prior year. The increase reflects a \$29 million increase in income from continuing operations and a \$9 million decrease in income from discontinued operations. Diluted EPS increased \$.05 per share, or 26%, for the three months ended April 30, 2008 as compared to the same period in the prior year primarily due to an increase in net income of \$20 million for the three months ended April 30, 2008 as compared to the same period in the prior year.

## Liquidity and Capital Resources

We anticipate our principal source of liquidity for the next 12 months and beyond will be cash flows from operations. We may also borrow under our revolving credit facility. We anticipate our principal uses of cash will be for operating expenses, capital expenditures, working capital requirements, acquisitions, stock repurchases, and funding of pension obligations. We anticipate that our operating cash flows, existing cash and cash equivalents and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

### Cash Flows

The following table summarizes cash flow information for the periods noted:

	Three Months Ended April 30	
	2008	2007
	(in millions)	
Total cash flows provided by (used in) operations	\$ 13	\$ (129)
Total cash flows used in investing activities	(141)	(7)
Total cash flows used in financing activities	(306)	(32)
Decrease in cash and cash equivalents from discontinued operations	—	(2)
<b>Total decrease in cash and cash equivalents</b>	<b>\$ (434)</b>	<b>\$ (170)</b>

**Cash Provided by (Used in) Operations.** The \$142 million increase in cash flows from operations for the three months ended April 30, 2008 as compared to the same period in the prior year was primarily due to an increase in the relative amount of payables outstanding and a decrease in cash paid for income taxes offset by an increase in inventories primarily related to increased activity in our logistics and products support business area.

**Cash Used in Investing Activities.** We used \$141 million of cash in support of investing activities during the three months ended April 30, 2008, including \$135 million to acquire a business and \$12 million to purchase property, plant and equipment. We used \$7 million of cash in support of investing activities during the three months ended April 30, 2007, including \$12 million to purchase property, plant and equipment.

**Cash Used in Financing Activities.** We used \$306 million of cash in support of financing activities during the three months ended April 30, 2008, including \$259 million to repurchase shares of our stock, \$102 million to redeem notes payable and long-term debt offset by \$28 million in proceeds from the sale of stock under our ESPP and the exercise of stock options and \$27 million in excess tax benefits associated with stock-based compensation. We used cash in support of financing activities of \$32 million during the three months ended April 30, 2007, including \$94 million to repurchase shares of our stock, offset by \$35 million in proceeds from the sale of stock under our ESPP and the exercise of stock options and \$27 million in excess tax benefits associated with stock-based compensation.

### Stock Repurchase Program

In December 2006, our board of directors authorized a stock repurchase program under which we could repurchase up to 40 million shares of our common stock. In March 2008, our board authorized the repurchase of an additional number of shares to bring the shares authorized to be repurchased under the program back to 40 million shares. Stock repurchases under this program may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, other market conditions and regulatory requirements. As of April 30, 2008, there were 31 million shares remaining authorized for repurchase under this program.

### Underfunded Pension Obligation

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

### Outstanding Indebtedness

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

	April 30, 2008	January 31, 2008
	(in millions)	
6.25% notes due fiscal 2013	\$ 549	\$ 549
5.5% notes due fiscal 2034	296	296
7.125% notes due fiscal 2033	248	248
6.75% notes due fiscal 2009	—	100
Other notes payable	35	35
	<b>1,128</b>	1,228
Less current portion	30	130
Total	<b>\$1,098</b>	\$ 1,098

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

All of the notes described above contain customary restrictive covenants, including, among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions. We were in compliance with such covenants as of April 30, 2008. For additional information on our notes payable and long-term debt, see Note 7 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 31, 2008.

*Credit Facility.* We have a revolving credit facility providing for \$750 million in unsecured borrowing capacity at interest rates determined, at our option, based on either LIBOR plus a margin or a defined base rate through fiscal 2013. As of April 30, 2008, \$744 million of the revolving credit facility was available, due to \$6 million of outstanding standby letters of credit issued in connection with our contract with the Greek government. The terms of the standby letters of credit require them to remain outstanding until the customer formally accepts the system pursuant to the contract. See Note 8 of the notes to the unaudited condensed consolidated financial statements.

The facility contains various customary restrictive covenants, including financial covenants. As of April 30, 2008, we were in compliance with all covenants under the credit facility.

### Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain of our unconsolidated joint venture investments as described in Note 18 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 31, 2008. These off-balance sheet arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition.

### Commitments and Contingencies

We are subject to a number of reviews, investigations, claims, lawsuits and other uncertainties related to our business. See Note 8 of the notes to the unaudited condensed consolidated financial statements for a discussion of these items.

### Critical Accounting Policies

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

We have several critical accounting policies, which were described in our Annual Report on Form 10-K for the fiscal year ended January 31, 2008, that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments complex and difficult have to do with making estimates about the effect of matters that are inherently uncertain. There were no significant changes to our critical accounting policies during the three months ended April 30, 2008.

#### **Effects of Inflation**

Approximately 50% of our revenues are derived from cost-reimbursement type contracts, which are generally completed within one year. Bids for longer-term FFP and T&M contracts typically include sufficient provisions for labor and other cost escalations to cover anticipated cost increases over the period of performance. Consequently, revenues and costs have generally both increased commensurate with the general economy. As a result, net income as a percentage of total revenues has not been significantly impacted by inflation.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

During the three months ended April 30, 2008, there were no material changes in our market risk exposure. For a discussion of our market risk associated with interest rate risk and foreign currency risk as of January 31, 2008, see "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A, of our Annual Report on Form 10-K for the year ended January 31, 2008.

#### **Item 4. Controls and Procedures.**

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

Our management, with the participation of our principal executive officer (our Chairman and Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the quarterly period covered by this report, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities Exchange Commission. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### **Changes In Internal Control Over Financial Reporting**

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

During the three months ended April 30, 2008, our corporate operations and two of our twenty operating business units (representing approximately 10% of total consolidated revenues on a full year basis) used the new system. Accordingly, our system of internal control over financial reporting for the corporate operations and impacted business units has been updated. There were no additional operations that migrated to the new system during the three months ended April 30, 2008.

There have been no changes in our internal control over financial reporting that occurred in the quarterly period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II  
OTHER INFORMATION****Item 1. Legal Proceedings.*****Telkom South Africa***

As previously disclosed in our Annual Report on Form 10-K for the year ended January 31, 2008, after finding that Telkom South Africa repudiated the contract, the arbitrator is in the process of determining the damages to be recovered by Telcordia Technologies, Inc. (Telcordia), a former subsidiary of ours. Due to the scope and complexity of 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, we are 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 we will be entitled to receive, net of applicable taxes, are not presently determinable. We do not have any assets or liabilities recorded related to this contract and related legal proceedings as of April 30, 2008.

***Nuclear Regulatory Commission***

The U.S. Department of Justice filed a lawsuit against us in September 2004 in the U.S. District Court for the District of Columbia alleging False Claims Act violations and breach of contract by us on two contracts that we had with the Nuclear Regulatory Commission (NRC). The complaint alleges that our performance of several subcontracts on separate Department of Energy (DOE) programs, the involvement of an employee of ours 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 our two NRC contracts. We dispute 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 we performed for the NRC. Discovery in the case was completed in September 2006. In 2007, we 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 our 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 we could be liable are estimated to be between \$5 million and \$8 million. We are currently unable to determine the outcome of this matter.

***Other***

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

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

**Item 1A. Risk Factors.**

There were no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended January 31, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****(c) Purchases of Equity Securities by the Company**

In December 2006, our board of directors authorized a stock repurchase program under which we could repurchase up to 40 million shares of our common stock as part of our overall strategy for capital allocation. In March 2008, our board authorized the repurchase of an additional number of shares to bring the shares authorized to be repurchased under the program back to 40 million shares. Stock repurchases under this program may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased will depend on a variety of factors including price, other market conditions and regulatory requirements.

The following table presents repurchases of our stock during the quarter ended April 30, 2008:

Period	(a) Total Number of Shares (or Units) Purchased <sup>(1)</sup>	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
February 1, 2008 – February 29, 2008	2,960,644	\$ 18.71	2,003,300	23,331,439
March 1, 2008 – March 31, 2008	4,686,572	18.69	2,425,000	39,050,000
April 1, 2008 – April 30, 2008	9,041,864	19.00	8,069,000	30,981,000
<b>Total</b>	<b>16,689,080</b>	<b>18.86</b>	<b>12,497,300</b>	

(1) Includes shares purchased as follows:

	February	March	April
Under publicly announced plans or programs	2,003,300	2,425,000	8,069,000
Upon surrender by stockholders of previously owned shares in payment of the exercise price of non-qualified stock options	908,596	1,711,599	964,798
Upon surrender by stockholders of previously owned shares to satisfy statutory tax withholding obligations related to vesting of stock awards	48,748	549,973	8,066
<b>Total</b>	<b>2,960,644</b>	<b>4,686,572</b>	<b>9,041,864</b>

(2) Stock repurchase program under which we could repurchase up to 40 million shares of our common stock was publicly announced on December 12, 2006. In March 2008, our board authorized the repurchase of an additional number of shares to bring the shares authorized to be repurchased under the program back to 40 million shares.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

(a) Our 2006 Equity Incentive Plan provides for the grant to our employees, directors, and consultants of stock options, stock appreciation rights, stock awards (including restricted stock, restricted stock units, deferred stock, performance shares and other similar types of awards, including other awards under which recipients are not required to pay any purchase or exercise price, such as phantom stock rights) and cash awards. All equity awards granted under the plan will be granted with respect to shares of our common stock and/or class A preferred stock.

The plan was initially adopted by our board of directors in November 2005 and approved by our stockholders in September 2006. In June 2007, the material terms of and certain amendments to the plan were approved by our stockholders. In March 2008, the compensation committee of our board of directors approved an amendment to the plan to expand the list of “objectively determinable performance conditions” upon which performance-based compensation may be based. At the Annual Meeting of Stockholders on May 30, 2008, our stockholders approved this amendment to the plan.

The amendment to the plan adds a number of measures commonly used in establishing short and long term incentive plans to the plan definition of “objectively determinable performance condition” in Section 2.1(ee) of the plan. The full text of the plan is filed as Exhibit 10.1 to this report and is incorporated into this report by reference. A summary description of the plan and the amendment is also set forth under the caption “Proposal II—Approval of an Amendment to our 2006 Equity Incentive Plan” in our 2008 Proxy Statement filed with the U.S. Securities and Exchange Commission on April 18, 2008.

**Item 6. Exhibits.**

- 10.1 Registrant's 2006 Equity Incentive Plan (as amended May 30, 2008)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: June 3, 2008

SAIC, Inc.

/s/ MARK W. SOPP

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**Mark W. Sopp**  
**Executive Vice President and Chief Financial Officer and**  
**as a duly authorized officer**



**Exhibit Index**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.1	Registrant's 2006 Equity Incentive Plan (as amended May 30, 2008)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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**2006 EQUITY INCENTIVE PLAN**

(as amended May 30, 2008)

**1. Purpose of this Plan**

The purpose of this 2006 Equity Incentive Plan is to enhance the long-term stockholder value of SAIC, Inc. and its affiliated companies by offering opportunities to eligible individuals to participate in the growth in value of the equity of SAIC, Inc.

**2. Definitions and Rules of Interpretation****2.1 Definitions.**

This Plan uses the following defined terms:

- (a) “**Administrator**” means the Board or the Committee, or any officer or Employee of the Company to whom the Board or the Committee delegates authority to administer this Plan.
- (b) “**Affiliate**” means a “parent” or “subsidiary” (as each is defined in Section 424 of the Code) of the Company and any other entity that the Board or Committee designates as an “Affiliate” for purposes of this Plan.
- (c) “**Applicable Law**” means any and all laws of whatever jurisdiction, within or without the United States, and the rules of any stock exchange or quotation system on which Shares are listed or quoted, applicable to the taking or refraining from taking of any action under this Plan, including the administration of this Plan and the issuance or transfer of Awards or Award Shares.
- (d) “**Award**” means a Stock Award, SAR, Cash Award, or Option granted in accordance with the terms of this Plan.
- (e) “**Award Agreement**” means the document, which may be in paper or electronic form, evidencing the grant of an Award and its terms and conditions.
- (f) “**Award Shares**” means Shares covered by an outstanding Award or purchased under an Award.

- (g) "**Awardee**" means: (i) a person to whom an Award has been granted, including a holder of a Substitute Award or (ii) a person to whom an Award has been transferred in accordance with all applicable requirements of Sections 6.5, 7(h), 8.1(c), 8.2(d) and 17.
- (h) "**Board**" means the Board of Directors of the Company.
- (i) "**Cash Award**" means the right to receive cash as described in Section 8.3.
- (j) "**Cause**" means employment related dishonesty, fraud, misconduct or disclosure or misuse of confidential information, or other employment related conduct that is likely to cause significant injury to the Company, an Affiliate, or any of their respective employees, officers or directors (including, without limitation, commission of a felony or similar offense), in each case as determined by the Administrator. "Cause" shall not require that a civil judgment or criminal conviction has been entered against or guilty plea shall have been made by the Awardee regarding any of the matters referred to in the previous sentence. Accordingly, the Administrator shall be entitled to determine "Cause" based on the Administrator's good faith belief. If the Awardee is criminally charged with a felony or similar offense that shall be a sufficient, but not a necessary, basis for such belief.
- (k) "**Change in Control**" means any transaction or event that the Board specifies as a Change in Control under Section 10.4.
- (l) "**Code**" means the Internal Revenue Code of 1986, as amended.
- (m) "**Committee**" means a committee or subcommittee of the Board of Directors of the Company composed of one or more Company Directors appointed in accordance with the Company's charter documents and Section 4. As referenced in Section 4.1(a), from time to time throughout this Plan, the term "Committee" is used to refer to both the Board and the Committee.
- (n) "**Company**" means SAIC, Inc., a Delaware corporation.
- (o) "**Company Director**" means a member of the Board.
- (p) "**Consultant**" means an individual who, or an employee of any entity that, provides bona fide services to the Company or an Affiliate not in connection with the offer or sale of securities in a capital-raising transaction, but who is not an Employee.

(q) “**Director**” means a member of the Board of Directors of the Company or an Affiliate.

(r) “**Divestiture**” means any transaction or event that the Board or the Committee specifies as a Divestiture under Section 10.6.

(s) “**Effective Date**” means October 16, 2006.

(t) “**Employee**” means a regular employee of the Company or an Affiliate, including an officer or Director, who is treated as an employee in the personnel records of the Company or an Affiliate, but not individuals who are classified by the Company or an Affiliate as: (i) leased from or otherwise employed by a third party, (ii) independent contractors, or (iii) intermittent or temporary workers. The Company’s or an Affiliate’s classification of an individual as an “Employee” (or as not an “Employee”) for purposes of this Plan shall not be altered retroactively even if that classification is changed retroactively for another purpose as a result of an audit, litigation or otherwise. An Awardee shall not cease to be an Employee due to transfers between locations of the Company, or between the Company and an Affiliate, or to any successor to the Company or an Affiliate that assumes the Awardee’s Options under Section 10. Neither service as a Director nor receipt of a director’s fee shall be sufficient to make a Director an “Employee.”

(u) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(v) “**Executive**” means, if the Company has any class of any equity security registered under Section 12 of the Exchange Act, an individual who is subject to Section 16 of the Exchange Act or who is a “covered employee” under Section 162(m) of the Code, in either case because of the individual’s relationship with the Company or an Affiliate. If the Company does not have any class of any equity security registered under Section 12 of the Exchange Act, “Executive” means any (i) Director, (ii) officer elected or appointed by the Board, or (iii) beneficial owner of more than 10% of any class of the Company’s equity securities.

(w) “**Expiration Date**” means, with respect to an Award, the date stated in the Award Agreement as the expiration date of the Award or, if no such date is stated in the Award Agreement, then the last day of the exercise period for the Award, disregarding the effect of an Awardee’s Termination or any other event that would shorten that period.

- (x) "**Fair Market Value**" means the value of a share of the stock of Company as determined under Section 18.2.
- (y) "**Fundamental Transaction**" means any transaction or event described in Section 10.3.
- (z) "**Good Reason**" means (i) a material diminution in responsibility or compensation, or (ii) requiring Awardee to work in a location (other than normal business travel) which is more than 50 miles from Awardee's place of employment before the change.
- (aa) "**Grant Date**" means the date the Administrator approves the grant of an Award. However, if the Administrator specifies that an Award's Grant Date is a future date or the date on which a condition is satisfied, the Grant Date for such Award is that future date or the date that the condition is satisfied.
- (bb) "**Incentive Stock Option**" means an Option intended to qualify as an incentive stock option under Section 422 of the Code and designated as an Incentive Stock Option in the Award Agreement for that Option.
- (cc) "**Involuntary Termination**" means termination by the Company or an Affiliate, as applicable, without Cause or termination by the Awardee for Good Reason.
- (dd) "**Nonstatutory Option**" means any Option other than an Incentive Stock Option
- (ee) "**Objectively Determinable Performance Condition**" shall mean a performance condition (i) that is established (A) at the time an Award is granted or (B) no later than the earlier of (1) 90 days after the beginning of the period of service to which it relates, or (2) before the elapse of 25% of the period of service to which it relates, (ii) that is uncertain of achievement at the time it is established, and (iii) the achievement of which is determinable by a third party with knowledge of the relevant facts. Measures that may be used in Objectively Determinable Performance Conditions are: net revenue dollars; revenue growth; earnings per share; earnings per share growth; return on assets; return on equity; net order dollars; net profit dollars; net profit growth; operating cash flow dollars; operating cash flow growth; operating income; number of contract bookings; number of contract awards; profits before tax; profits before tax growth; earnings before interest, depreciation and taxes (EBITDA); EBITDA growth; return on invested capital; return on invested capital growth; days working capital; total shareholder return; share price growth;

free cash flow dollars; free cash flow growth; return on sales; return on sales growth; operating margin; bookings dollars; book-to-bill; headcount; employee retention; new hires; backlog dollars; backlog growth; objective customer satisfaction indicators; efficiency measures; individual performance goals; and other similar objectives, each with respect to the Company and/or an Affiliate or individual business unit.

(ff) “**Officer**” means an officer of the Company as defined in Rule 16a-1 adopted under the Exchange Act.

(gg) “**Option**” means a right to purchase Shares of the Company granted under this Plan.

(hh) “**Option Price**” means the price payable under an Option for Shares, not including any amount payable in respect of withholding or other taxes.

(ii) “**Option Shares**” means Shares covered by an outstanding Option or purchased under an Option.

(jj) “**Plan**” means this 2006 Equity Incentive Plan, as amended.

(kk) “**Prior Plans**” mean the Science Application International Corporation 1999 Stock Incentive Plan, 1998 Stock Option Plan and 1984 Bonus Compensation Plan.

(ll) “**Purchase Price**” means the price payable under a Stock Award for Shares, not including any amount payable in respect of withholding or other taxes.

(mm) “**Qualified Domestic Relations Order**” means a “qualified domestic relations order” as defined in, and otherwise meeting the requirements of, Section 414(p) of the Code, except that reference to a “plan” in that definition shall be to this Plan.

(nn) “**Restricted Stock Award**” has the meaning set forth in Section 8.2(d).

(oo) “**Rule 16b-3**” means Rule 16b-3 adopted under Section 16(b) of the Exchange Act.

(pp) “**SAR**” or “**Stock Appreciation Right**” means a right to receive cash and/or Shares based on a change in the Fair Market Value of a specific number of Shares pursuant to an Award Agreement, as described in Section 8.1.

(qq) "**Securities Act**" means the Securities Act of 1933, as amended.

(rr) "**Share**" means a share of the Class A Preferred Stock or Common Stock of the Company, as determined by the Board or Committee, or other securities substituted for the Class A Preferred Stock or Common Stock under Section 10.

(ss) "**Stock Award**" means an offer by the Company to sell or issue shares subject to certain restrictions pursuant to the Award Agreement as described in Section 8.2 or, as determined by the Board or Committee, a notional account representing the right to be paid an amount based on Shares. Types of Awards which may be granted as Stock Awards include such awards as are commonly known as restricted stock, deferred stock, restricted stock units, performance shares, phantom stock or similar types of awards as determined by the Administrator.

(tt) "**Substitute Award**" means a Substitute Option, Substitute SAR or Substitute Stock Award granted in accordance with the terms of this Plan.

(uu) "**Substitute Option**" means an Option granted in substitution for, or upon the conversion of, an option granted by another entity to purchase equity securities in the granting entity.

(vv) "**Substitute SAR**" means a SAR granted in substitution for, or upon the conversion of, a stock appreciation right granted by another entity with respect to equity securities in the granting entity.

(ww) "**Substitute Stock Award**" means a Stock Award granted in substitution for, or upon the conversion of, a stock award granted by another entity to purchase equity securities in the granting entity.

(xx) "**Ten Percent Stockholder**" is any person who, directly or by attribution under Section 424(d) of the Code, owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or of any Affiliate on the Grant Date.

(yy) "**Termination**" means that the Awardee has ceased to be, with or without any cause or reason, an Employee, Director or Consultant. However, unless so determined by the Administrator, or otherwise provided in this Plan, "Termination" shall not include a change in status from an Employee, Consultant or Director to another such status. An event that causes an Affiliate to cease being an Affiliate shall be treated as the "Termination" of that Affiliate's Employees, Directors, and Consultants.

**2.2 Rules of Interpretation.** Any reference to a “Section,” without more, is to a Section of this Plan. Captions and titles are used for convenience in this Plan and shall not, by themselves, determine the meaning of this Plan. Except when otherwise indicated by the context, the singular includes the plural and vice versa. Any reference to a statute is also a reference to the applicable rules and regulations adopted under that statute. Any reference to a statute, rule or regulation, or to a section of a statute, rule or regulation, is a reference to that statute, rule, regulation, or section as amended from time to time, both before and after the Effective Date and including any successor provisions.

### **3. Shares Subject to This Plan; Term of This Plan**

**3.1 Number of Award Shares.** The Shares issuable under this Plan shall be authorized but unissued or reacquired Shares, including Shares repurchased by the Company on the open market. The number of Shares initially available for issuance over the term of this Plan shall be 75,000,000 (subject to adjustment pursuant to Section 10.2). Except as required by Applicable Law, Shares subject to an outstanding Award shall not reduce the number of Shares available for issuance under this Plan until the earlier of the date such Shares are vested pursuant to the terms of the applicable Award or the actual date of delivery of the Shares to the Awardee. Those Shares (i) that are issued under the Plan that are forfeited or repurchased by the Company at the original purchase price or less or that are issuable upon exercise of awards granted under the Plan that expire or become unexercisable for any reason after their Grant Date without having been exercised in full, (ii) that are withheld from an Option or Stock Award pursuant to a Company-approved “net exercise” provision, including (without limitation) pursuant to Section 6.4(b), (iii) that are retained upon exercise of a Stock Appreciation Right pursuant to Section 8.1(b), or (iv) that are not delivered to or are Award Shares surrendered by a holder in consideration for applicable tax withholding will continue to be available for issuance under this Plan. The repurchase of Shares by the Company shall not increase the maximum number of Shares that may be issued under this Plan to the extent the Company repurchases Shares that were originally acquired or purchased with other previously owned Shares. The maximum number of Shares shall be cumulatively increased on February 1, 2007, after the Effective Date and each February 1 thereafter for nine more years, by the least of: (i) a number of Shares determined by the Committee; (ii) 30,000,000 Shares (subject to adjustment pursuant to Section 10.2), or (iii) 5% of the Company’s outstanding shares of Common Stock as of the preceding January 31 (measured on an as-converted basis with respect to outstanding shares of Class A Preferred Stock).

**3.2 Source of Shares.** Award Shares may be: (a) Shares that have never been issued, (b) Shares that have been issued but are no longer outstanding, or (c) Shares that are outstanding and are acquired to discharge the Company’s obligation to deliver Award Shares.



### 3.3 Term of this Plan.

(a) This Plan shall become effective on the Effective Date (with any amendments to the Plan being effective on and after the date thereof), and Awards may be granted under this Plan on and after, the Effective Date. Upon effectiveness of this Plan, no additional awards will be made under the Prior Plans.

(b) Subject to the provisions of Section 14, Awards may be granted under this Plan until October 15, 2016.

## 4. Administration

### 4.1 General.

(a) The Board shall have ultimate responsibility for administering this Plan. To the extent permitted by Applicable Law, the Board may delegate certain of its responsibilities to a Committee. In addition, to the extent permitted by Applicable Law, the Board or the Committee may further delegate its responsibilities to any Employee of the Company or any Affiliate. Where this Plan specifies that an action must be taken or a determination made by the Committee, only the Board or the Committee may take that action or make that determination; *provided* that Section 5.2 includes reference to actions that only the Committee may perform. Where this Plan references the "Administrator," the action may be taken or determination made by the Board, the Committee, or other administrator to whom the Board or Committee has delegated specified powers, including those powers set forth in Section 4.2. However, only the Board or a Committee consisting solely of independent directors as defined in the Company's Corporate Governance Guidelines may approve grants of Awards to Executives, and an Administrator other than the Board or the Committee may grant Awards only within the guidelines established by the Board or Committee. Moreover, all actions and determinations by any Administrator are subject to the provisions of this Plan.

(b) So long as the Company has registered and outstanding a class of equity securities under Section 12 of the Exchange Act and to the extent necessary or helpful to comply with Applicable Law with respect to officers subject to Section 16 of the Exchange Act and/or others, a Committee shall consist of two or more Company Directors who are "Non-Employee Directors" as defined in Rule 16b-3 and who are "outside directors" as defined in Section 162(m) of the Code.

**4.2 Authority of the Board or the Committee.** Subject to the other provisions of this Plan, the Board or the Committee shall have the authority to:

- (a) grant Awards, including Substitute Awards;
- (b) determine the Fair Market Value of Shares;
- (c) determine the Option Price and the Purchase Price of Awards;
- (d) select the Awardees;
- (e) determine the times Awards are granted;
- (f) determine the number of Shares subject to each Award;
- (g) determine the type of Shares subject to each Award;
- (h) determine the methods of payment that may be used to purchase Award Shares;
- (i) determine the methods of payment that may be used to satisfy withholding tax obligations;
- (j) determine the other terms of each Award, including but not limited to the time or times at which Awards may be exercised, whether and under what conditions an Award is assignable, whether an Option is a Nonstatutory Option or an Incentive Stock Option and automatic cancellation of the Award if certain objective requirements determined by the Administration are not met;
- (k) modify or amend any Award;
- (l) authorize any person to sign any Award Agreement or other document related to this Plan on behalf of the Company;
- (m) determine the form of any Award Agreement or other document related to this Plan, and whether that document, including signatures, may be in electronic form;
- (n) interpret this Plan and any Award Agreement or document related to this Plan;
- (o) correct any defect, remedy any omission, or reconcile any inconsistency in this Plan, any Award Agreement or any other document related to this Plan;

- (p) adopt, amend, and revoke rules and regulations under this Plan, including rules and regulations relating to sub-plans and Plan addenda;
- (q) adopt, amend, and revoke special rules and procedures which may be inconsistent with the terms of this Plan, set forth (if the Administrator so chooses) in sub-plans regarding (for example) the operation and administration of this Plan and the terms of Awards, if and to the extent necessary or useful to accommodate non-U.S. Applicable Laws and practices as they apply to Awards and Award Shares held by, or granted or issued to, persons working or resident outside of the United States or employed by Affiliates incorporated outside the United States;
- (r) determine whether a transaction or event should be treated as a Change in Control, a Divestiture or neither;
- (s) determine the effect of a Fundamental Transaction and, if the Board determines that a transaction or event should be treated as a Change in Control or a Divestiture, then the effect of that Change in Control or Divestiture;
- (t) appoint such additional administrators as are necessary to perform various administrative acts and determine the duties of such administrators; and
- (u) make all other determinations the Administrator deems necessary or advisable for the administration of this Plan.

**4.3 Scope of Discretion.** Subject to the provisions of this Section 4.3, on all matters for which this Plan confers the authority, right or power on the Board, the Committee, or other Administrator to make decisions, that body may make those decisions in its sole and absolute discretion. Those decisions will be final, binding and conclusive. In making its decisions, the Board, Committee or other Administrator need not treat all persons eligible to receive Awards, all Awardees, all Awards or all Award Shares the same way. Notwithstanding anything herein to the contrary, and except as provided in Section 14.3, the discretion of the Board, Committee or other Administrator is subject to the specific provisions and specific limitations of this Plan, as well as all rights conferred on specific Awardees by Award Agreements and other agreements.

## **5. Persons Eligible to Receive Awards**

**5.1 Eligible Individuals.** Awards (including Substitute Awards) may be granted to, and only to, Employees, Directors and Consultants, including to prospective Employees, Directors and Consultants conditioned on the beginning of their service for the Company or an Affiliate. However, Incentive Stock Options may only be granted to Employees, as provided in Section 7(g).

## 5.2 Section 162(m) Limitation.

(a) **Options and SARs.** Subject to the provisions of this Section 5.2, for so long as the Company is a “publicly held corporation” within the meaning of Section 162(m) of the Code: (i) no Employee may be granted within any fiscal year of the Company under this Plan Options to purchase, and SARs to receive compensation calculated with reference to, more than an aggregate of 3,000,000 Shares, subject to adjustment pursuant to Section 10 and considered without regard to any number of Stock Awards or the dollar amount of any Cash Awards that may have been granted or awarded to such Employee during the applicable fiscal year, and (ii) with respect to any Option or SAR that is granted with the intent of having it qualify as “qualified performance-based compensation” under Code Section 162(m), Options and SARs may be granted to an Executive only by the Committee (and, notwithstanding anything to the contrary in Section 4.1(a), not by the Board). If an Option or SAR is cancelled without being exercised, that cancelled Option or SAR shall continue to be counted against the limit on Awards that may be granted to any individual under this Section 5.2(a).

(b) **Cash Awards and Other Stock Awards.** Subject to the provisions of this Section 5.2, so long as the Company is a “publicly held corporation” within the meaning of Code Section 162(m): (i) no Employee may be granted one or more Stock Awards within any single fiscal year of the Company to purchase more than 2,000,000 Shares, subject to adjustment pursuant to Section 10 and considered without regard to any number of Option or SAR Shares or the dollar amount of any Cash Awards that may have been granted or awarded to such Employee during the applicable fiscal year, and (ii) no Employee may be granted one or more Cash Awards within a single fiscal year of the Company having an aggregate amount of more than \$5,000,000, considered without regard to any number of Options, SARs or Stock Awards that may have been granted or awarded to such Employee during the applicable fiscal year. With respect to any Stock Award or Cash Award that is granted with the intent of having it qualify as “qualified performance-based compensation” under Code Section 162(m), such Awards may be granted to an Executive only by the Committee (and, notwithstanding anything to the contrary in Section 4.1(a), not by the Board).

(c) Any Cash Award or Stock Award intended as “qualified performance-based compensation” within the meaning of Section 162(m) of the Code must be awarded, vest or become exercisable contingent on the achievement of one or more Objectively Determinable Performance Conditions. The Committee shall have the discretion to determine the time and manner of compliance with Section 162(m) of the Code.

(d) Nothing in this Section 5.2 shall prevent the Committee from making any type of Award authorized for grant under this Plan outside of this Plan. In addition, nothing in this Section 5.2 shall prevent the Committee from granting Awards under this Plan that are not intended to qualify as “qualified performance-based compensation” under Code Section 162(m).

(e) Notwithstanding satisfaction, achievement or completion of any Objectively Determinable Performance Conditions, that may be specified at the time of grant of an Award to a “covered employee” within the meaning of Section 162(m) of the Code, the number of Awards, Shares, or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Objectively Determinable Performance Condition(s) may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

## 6. **Terms and Conditions of Options**

Options will be evidenced by an Award Agreement. In addition, the following rules apply to all Options:

6.1 **Price.** No Option may have an Option Price less than the Fair Market Value of the underlying Share on the Grant Date.

6.2 **Term.** No Option shall be exercisable after its Expiration Date. No Option may have an Expiration Date that is more than ten years after its Grant Date. Additional provisions regarding the term of Incentive Stock Options are provided in Sections 7(a) and 7(e).

6.3 **Vesting.** Options shall be exercisable: (a) on the Grant Date, or (b) in accordance with a schedule related to the Grant Date, the date the Awardee’s directorship, employment or consultancy begins, or a different date specified in the Award Agreement. Additional provisions regarding the vesting of Incentive Stock Options are provided in Section 7(c). No Option granted to an individual who is subject to the overtime pay provisions of the Fair Labor Standards Act may be exercised before the expiration of six months after the Grant Date.

#### 6.4 Form and Method of Payment.

- (a) In accordance with Section 4.2, the Administrator shall have the authority to determine the acceptable form and method of payment for exercising an Option. Acceptable forms of payment that the Administrator may permit with respect to the exercise of Options include:
- (i) cash, check or wire transfer, denominated in U.S. dollars except as specified by the Administrator for non-U.S. Employees or non-U.S. sub-plans;
  - (ii) other shares of stock of the Company, or the designation of other shares of stock of the Company, which have a Fair Market Value on the date of surrender greater than or equal to the Option Price of the Shares as to which the Option is being exercised;
  - (iii) provided that a public market exists for the Common Stock, consideration received by the Company under a procedure under which a licensed broker-dealer advances funds on behalf of an Awardee or sells shares of Common Stock issued upon conversion of the Option Shares on behalf of an Awardee (a "Cashless Exercise Procedure"), provided that if the Company extends or arranges for the extension of credit to an Awardee under any Cashless Exercise Procedure, no Officer or Director may participate in that Cashless Exercise Procedure;
  - (iv) cancellation of any debt owed by the Company or any Affiliate to the Awardee by the Company (including, without limitation, waiver of compensation due or accrued for services previously rendered to the Company);
  - (v) payment pursuant to any "cashless net exercise" procedures approved by the Committee; provided that the difference between the full number of Shares covered by the exercised portion of the Award and the number of Shares actually delivered shall be restored to the amount of Shares reserved for issuance under Section 3.1; and
  - (vi) any combination of the methods of payment permitted by any paragraph of this Section 6.4(a).

The Committee may also permit any other form or method of payment for Option Shares permitted by Applicable Law. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company and the Administrator may, in its sole discretion, refuse to accept a particular form of consideration at the time of any Option exercise.

(b) Notwithstanding the foregoing Section 6.4(a), the Committee may require the delivery in Shares for the value of the net appreciation of the Shares at the time of exercise over the exercise price. The difference between the full number of Shares covered by the exercised portion of the Award and the number of Shares actually delivered shall be restored to the amount of Shares reserved for issuance under Section 3.1.

**6.5 Nonassignability of Options.** Except as otherwise determined by the Administrator and subject to Section 17, no Option shall be assignable or otherwise transferable by the Awardee. Incentive Stock Options may only be assigned in compliance with Section 7(h).

**6.6 Substitute Options.** The Committee may cause the Company to grant Substitute Options in connection with the acquisition by the Company or an Affiliate of equity securities of any entity (including by merger, tender offer, or other similar transaction) or of all or a portion of the assets of any entity. Any such substitution shall be effective on the effective date of the acquisition. Substitute Options may be Nonstatutory Options or Incentive Stock Options. Unless and to the extent specified otherwise by the Committee, Substitute Options shall have the same terms and conditions as the options they replace, except that (subject to the provisions of Section 10) Substitute Options shall be Options to purchase Shares rather than equity securities of the granting entity, shall have an Option Price determined by the Committee and shall be on terms that, as determined by the Committee in its sole and absolute discretion, properly reflect the substitution.

**6.7 Certain Adjustments to Exercise Prices.** Subject to Section 14.3, the Committee may cancel and regrant or otherwise adjust the exercise price of Options previously granted under the Plan without the approval of the Company's stockholders, provided that the Committee may not reprice, reduce the exercise price of or make similar adjustments with the effect of lowering the exercise price of Options previously granted under the Plan without the approval of the Company's stockholders other than in connection with a change in the Company's capitalization pursuant to Section 10 of the Plan.

## **7. Incentive Stock Options**

The following rules apply only to Incentive Stock Options and only to the extent these rules are more restrictive than the rules that would otherwise apply under this Plan. With the consent of the Awardee, or where this Plan provides that an action may be taken notwithstanding any other provision of this Plan, the Administrator may deviate from the requirements of this Section, notwithstanding that any Incentive Stock Option modified by the Administrator will thereafter be treated as a Nonstatutory Option.

(a) The Expiration Date of an Incentive Stock Option shall not be later than ten years from its Grant Date, with the result that no Incentive Stock Option may be exercised after the expiration of ten years from its Grant Date.

(b) No Incentive Stock Option may be granted after October 15, 2016.

(c) Options intended to be incentive stock options under Section 422 of the Code that are granted to any single Awardee under all incentive stock option plans of the Company and its Affiliates, including incentive stock options granted under this Plan, may not vest at a rate of more than \$100,000 in Fair Market Value of stock (measured on the grant dates of the options) during any calendar year. For this purpose, an option vests with respect to a given share of stock the first time its holder may purchase that share, notwithstanding any right of the Company to repurchase that share. Unless the administrator of that option plan specifies otherwise in the related agreement governing the option, this vesting limitation shall be applied by, to the extent necessary to satisfy this \$100,000 rule, treating certain stock options that were intended to be incentive stock options under Section 422 of the Code as Nonstatutory Options. The stock options or portions of stock options to be reclassified as Nonstatutory Options are those with the highest option prices, whether granted under this Plan or any other equity compensation plan of the Company or any Affiliate that permits that treatment. This Section 7(c) shall not cause an Incentive Stock Option to vest before its original vesting date or cause an Incentive Stock Option that has already vested to cease to be vested.

(d) In order for an Incentive Stock Option to be exercised for any form of payment other than those described in Section 6.4(a), that right must be stated at the time of grant in the Award Agreement relating to that Incentive Stock Option; provided that Section 6.4(b) shall apply to all Options from the Grant Date thereof.

(e) Any Incentive Stock Option granted to a Ten Percent Stockholder, must have an Expiration Date that is not later than five years from its Grant Date, with the result that no such Option may be exercised after the expiration of five years from the Grant Date.

(f) The Option Price of an Incentive Stock Option shall never be less than the Fair Market Value of the Shares at the Grant Date. The Option Price for the Shares covered by an Incentive Stock Option granted to a Ten Percent Stockholder shall never be less than 110% of the Fair Market Value of the Shares at the Grant Date.



(g) Incentive Stock Options may be granted only to Employees. If an Awardee changes status from an Employee to a Consultant, that Awardee's Incentive Stock Options become Nonstatutory Options if not exercised within the time period described in Section 7(i) (determined by treating that change in status as a Termination solely for purposes of this Section 7(g)).

(h) No rights under an Incentive Stock Option may be transferred by the Awardee, other than by will or the laws of descent and distribution. During the life of the Awardee, an Incentive Stock Option may be exercised only by the Awardee. The Company's compliance with a Qualified Domestic Relations Order, or the exercise of an Incentive Stock Option by a guardian or conservator appointed to act for the Awardee, shall not violate this Section 7(h).

(i) An Incentive Stock Option shall be treated as a Nonstatutory Option if it remains exercisable after, and is not exercised within, the three-month period beginning with the Awardee's Termination for any reason other than the Awardee's death or disability (as defined in Section 22(e) of the Code). In the case of Termination due to death, an Incentive Stock Option shall continue to be treated as an Incentive Stock Option if it remains exercisable after, and is not exercised within, the three month period after the Awardee's Termination provided it is exercised before the Expiration Date. In the case of Termination due to disability, an Incentive Stock Option shall be treated as a Nonstatutory Option if it remains exercisable after, and is not exercised within, one year after the Awardee's Termination.

(j) An Incentive Stock Option may only be modified by the Committee.

## 8. **Stock Appreciation Rights, Stock Awards and Cash Awards**

### 8.1 **Stock Appreciation Rights.** The following rules apply to SARs:

(a) **General.** SARs may be granted either alone, in addition to, or in tandem with other Awards granted under this Plan. The Administrator may grant SARs to eligible participants subject to terms and conditions not inconsistent with this Plan and determined by the Administrator. The specific terms and conditions applicable to the Awardee shall be provided for in the Award Agreement. SARs shall be exercisable, in whole or in part, at such times as the Administrator shall specify in the Award Agreement. The grant or vesting of a SAR may be made contingent on the achievement of Objectively Determinable Performance Conditions.

(b) **Exercise of SARs.** Upon the exercise of an SAR, in whole or in part, an Awardee shall be entitled to a payment in an amount equal to the excess of the Fair Market Value of a fixed number of Shares covered by the exercised portion of the SAR on the date of exercise, over the Fair Market

Value of the Shares covered by the exercised portion of the SAR on the Grant Date. The amount due to the Awardee upon the exercise of a SAR shall be paid in cash, Shares or a combination thereof as, and over the period or periods specified, in the Award Agreement. An Award Agreement may place limits on the amount that may be paid over any specified period or periods upon the exercise of a SAR, on an aggregate basis or as to any Awardee. Subject to Section 9.2, a SAR shall be considered exercised when the Company receives written notice of exercise in accordance with the terms of the Award Agreement from the person entitled to exercise the SAR. If a SAR has been granted in tandem with an Option, upon the exercise of the SAR, the number of Shares that may be purchased pursuant to the Option shall be reduced by the number of Shares with respect to which the SAR is exercised.

(c) **Nonassignability of SARs.** Except as determined by the Administrator and subject to Section 17, no SAR shall be assignable or otherwise transferable by the Awardee.

(d) **Substitute SARs.** The Committee may cause the Company to grant Substitute SARs in connection with the acquisition by the Company or an Affiliate of equity securities of any entity (including by merger, tender offer, or other similar transaction) or of all or a portion of the assets of any entity. Any such substitution shall be effective on the effective date of the acquisition. Unless and to the extent specified otherwise by the Committee, Substitute SARs shall have the same terms and conditions as the SARs they replace, except that (subject to the provisions of Section 10) Substitute SARs shall be exercisable for Shares rather than equity securities of the granting entity and shall be on terms that, as determined by the Committee in its sole and absolute discretion, properly reflects the substitution.

(e) **Certain Adjustments to Exercise Prices.** Subject to Section 14.3, the Committee may cancel and regrant or otherwise adjust the exercise price of SARs previously granted under the Plan without the approval of the Company's stockholders, provided that the Committee may not reprice, reduce the exercise price of or make similar adjustments with the effect of lowering the exercise price of SARs previously granted under the Plan without the approval of the Company's stockholders other than in connection with a change in the Company's capitalization pursuant to Section 10 of the Plan.

**8.2 Stock Awards.** The following rules apply to all Stock Awards:

(a) **General.** The specific terms and conditions of a Stock Award applicable to the Awardee may be provided for in the Award Agreement. The Award Agreement shall state the number of Shares that the Awardee shall be entitled to receive or purchase, the terms and conditions on which the Shares shall vest (Stock Awards may be made in fully vested Shares when appropriate in the discretion of the Administrator), the price to be paid, whether Shares are to be delivered at the time of grant or at some deferred date specified in the Award Agreement, whether the Award is payable solely in Shares, cash or either and, if applicable, the time within which the Awardee must accept such offer. The offer may be accepted by execution or acknowledgement of the Award Agreement. The Administrator may require that all Shares subject to a right of repurchase or risk of forfeiture be held in escrow until such repurchase right or risk of forfeiture lapses. The grant or vesting of a Stock Award may be made contingent on the achievement of Objectively Determinable Performance Conditions.

(b) **Right of Repurchase.** If so provided in the Award Agreement, Award Shares acquired pursuant to a Stock Award may be subject to repurchase by the Company or an Affiliate if not vested in accordance with the Award Agreement.

(c) **Form of Payment.** The Administrator shall determine the acceptable form and method of payment for exercising a Stock Award, which may include any or all of the forms of payment set forth in Section 6.4.

(d) **Nonassignability of Stock Awards.** Except as otherwise determined by the Administrator and subject to Section 17, no Stock Award subject by its terms to any conditions or restrictions on the issuance or ownership rights of Shares pursuant to such Award, including without limitation any vesting or similar conditions or any deferral elections (any such Stock Awards, "**Restricted Stock Awards**"), shall be assignable or otherwise transferable by the Awardee.

(e) **Substitute Stock Award.** The Committee may cause the Company to grant Substitute Stock Awards in connection with the acquisition by the Company or an Affiliate of equity securities of any entity (including by merger, tender offer, or other similar transaction) or of all or a portion of the assets of any entity. Unless and to the extent specified otherwise by the Committee, Substitute Stock Awards shall have the same terms and conditions as the stock awards they replace, except that (subject to the provisions of Section 10) Substitute Stock Awards shall be Stock Awards to purchase Shares rather than equity securities of the granting entity and shall have a Purchase Price and other terms that, as determined by the Committee in its sole and absolute discretion, properly reflects the substitution. Any such Substitute Stock Award shall be effective on the effective date of the acquisition.

**(f) Forfeiture and Repurchase Rights.**

(i) **General.** In the event of the Awardee's termination, any unvested Shares shall be forfeited, or if the Awardee paid a purchase price to acquire the Stock Award, the Company shall have the right, during the seven months after the Awardee's Termination, to repurchase any or all of the Award Shares that were unvested as of the date of that Termination. The repurchase price shall be determined by the Administrator in accordance with this Section 8.2(f) which shall be either (i) the Purchase Price for the Award Shares (minus the amount of any cash dividends paid or payable with respect to the Award Shares for which the record date precedes the repurchase) or (ii) the lower of (A) the Purchase Price for the Shares or (B) the Fair Market Value of those Award Shares as of the date of the Termination. The repurchase price shall be paid in cash. The Company may assign this right of repurchase.

(ii) **Procedure.** The Company or its assignee may choose to give the Awardee a written notice of exercise of its repurchase rights under this Section 8.2(f). However, the Company's failure to give such a notice shall not affect its rights to repurchase Award Shares. The Company must, however, tender the repurchase price during the period specified in this Section 8.2(f) for exercising its repurchase rights in order to exercise such rights.

**8.3 Cash Awards.** Cash Awards may be granted either alone, in addition to, or in tandem with other Awards granted under this Plan. After the Administrator determines that it will offer a Cash Award, it shall advise the Awardee, by means of an Award Agreement or otherwise, of the terms, conditions and restrictions related to the Cash Award. The grant or vesting of a Cash Award may be made contingent on the achievement of Objectively Determinable Performance Conditions.

**9. Exercise of Awards**

**9.1 In General.** An Award shall be exercisable in accordance with this Plan and the Award Agreement under which it is granted.

**9.2 Time of Exercise.** Options and Stock Awards shall be considered exercised when the Company or its designee receives: (a) written (including electronically pursuant to Section 18.4 below) notice of exercise from the person entitled to exercise the Option or Stock Award, (b) full payment, or provision for payment, in a form and method

approved by the Administrator, for the Shares for which the Option or Stock Award is being exercised, and (c) with respect to any Award the exercise of which triggers any withholding obligation, payment, or provision for payment, in a form and method approved by the Administrator, of all applicable withholding and similar taxes and/or (if applicable) transaction costs due upon exercise. An Award may not be exercised for a fraction of a Share. SARs shall be considered exercised when the Company receives written notice of the exercise from the person entitled to exercise the SAR.

**9.3 Issuance of Award Shares.** Subject to Sections 12.1 and 13, the Company shall issue Award Shares in the name of the Awardee (or to such other person as to whom the Award Shares may be appropriately and legally issued under procedures and rules, if any, established from time to time by the Administrator). The Company shall endeavor to issue Award Shares promptly after an Award is exercised or after the Grant Date or settlement date of a Stock Award, as applicable. Until Award Shares are actually issued, as evidenced by the appropriate entry on the stock register of the Company or its transfer agent, the Awardee will not have the rights of a stockholder with respect to those Award Shares, even though the Awardee has completed all the steps necessary to exercise the Award. No adjustment shall be made for any dividend, distribution, or other right for which the record date precedes the date the Award Shares are issued, except as provided in Section 10.

**9.4 Termination.**

(a) **In General.** Except as provided in an Award Agreement or in writing by the Administrator, including in an Award Agreement, and as otherwise provided in Sections 9.4(b), (c), (d) and (e) after an Awardee's Termination for other than Cause, the Awardee's Awards shall be exercisable to the extent (but only to the extent) they are vested on the date of that Termination and only during the ninety (90) days after the Termination, but in no event after the Expiration Date. Unless otherwise provided in the Award Agreement, in the event of termination for Cause the Award may not be exercised after the date of Termination. To the extent the Awardee does not exercise an Award within the time specified for exercise, the Award shall automatically terminate.

(b) **Leaves of Absence.** If an Awardee is an employee of the Company or an Affiliate and is on a leave of absence pursuant to the terms of the Company's Administrative Policy No. SH-1 "Unpaid Leave" or similar policy maintained by an Affiliate, as such policies may be revised or replaced from time to time, the Awardee shall not, during the period of such absence be deemed, by virtue of such absence alone, to have terminated the Awardee's employment. The Awardee shall continue to vest in the Award during any approved medical or military leave of absence. Medical leave shall include family or medical leaves, workers'

compensation leave, or pregnancy disability leave. For all other leaves of absence, the Award will fully vest only during active employment and shall not vest during a leave of absence, unless required under local law. However, if an Awardee returns to active employment with the Company or an Affiliate following such a leave, the Award will be construed to vest as if there had been no break in active employment. During any leave of absence, an Awardee shall have the right to exercise the vested portion of the Award.

(c) **Death or Disability.** Unless otherwise provided in the Award Agreement or determined by the Administrator, if an Awardee's Termination is due to death or disability (as determined by the Administrator with respect to all Awards other than Incentive Stock Options and as defined by Section 22(e) of the Code with respect to Incentive Stock Options), the unvested portion of all Awards of that Awardee shall be accelerated and become fully exercisable upon the Termination, and all Awards of the Awardee shall be exercisable until the Expiration Date. In the case of Termination due to death, an Award may be exercised as provided in Section 17. In the case of Termination due to disability, if a guardian or conservator has been appointed to act for the Awardee and been granted this authority as part of that appointment, that guardian or conservator may exercise the Award on behalf of the Awardee. Unless otherwise provided in the Award Agreement, death or disability occurring after an Awardee's Termination shall not cause the Termination to be treated as having occurred due to death or disability. To the extent an Award is not so exercised within the time specified for its exercise, the Award shall automatically terminate.

(d) **Divestiture.** If an Awardee's Termination is due to a Divestiture, the Committee may take any one or more of the actions described in Section 10.3 or 10.4 with respect to the Awardee's Awards.

(e) **Administrator Discretion.** Notwithstanding the provisions of Section 9.4 (a)-(d), the Administrator shall have complete discretion, exercisable either at the time an Award is granted or at any time while the Award remains outstanding, to:

- (i) Extend the period of time for which the Award is to remain exercisable, following the Awardee's Termination, from the limited exercise period otherwise in effect for that Award to such greater period of time as the Administrator shall deem appropriate, but in no event beyond the Expiration Date; and/or

(ii) Permit the Award to be exercised, during the applicable post-Termination exercise period, not only with respect to the number of vested Shares for which such Award may be exercisable at the time of the Awardee's Termination but also with respect to one or more additional installments in which the Awardee would have vested had the Awardee not been subject to Termination.

(f) **Consulting or Employment Relationship.** Nothing in this Plan or in any Award Agreement, and no Award or the fact that Award Shares remain subject to repurchase rights or risk of forfeiture, shall: (A) interfere with or limit the right of the Company or any Affiliate to terminate the employment or consultancy of any Awardee at any time, whether with or without cause or reason, and with or without the payment of severance or any other compensation or payment, (B) confer upon any employee any right to continue in the employ of, or affiliation with, the Company or a Subsidiary nor constitute any promise or commitment by the Company or a Subsidiary regarding future positions, future work assignments, future compensation or any other term or condition of employment or affiliation or (C) interfere with the application of any provision in any of the Company's or any Affiliate's charter documents or Applicable Law relating to the election, appointment, term of office, or removal of a Director.

## 10. Certain Transactions and Events

10.1 **In General.** Except as provided in this Section 10, no change in the capital structure of the Company, merger, sale or other disposition of assets or of a subsidiary, change in control, issuance by the Company of shares of any class of securities or securities convertible into shares of any class of securities, exchange or conversion of securities, or other transaction or event shall require or be the occasion for any adjustments of the type described in this Section 10.

10.2 **Changes in Capital Structure.** In the event of any stock split, reverse stock split, recapitalization, combination or reclassification of stock, stock dividend, spin-off, extraordinary cash dividend or similar change to the capital structure of the Company (not including a Fundamental Transaction or Change in Control), the Committee shall make such adjustments as it concludes are appropriate in order to preserve the proportionate value of Awards before and after the change in capital structure of the Company to: (a) the number and type of Awards and Award Shares that may be granted under this Plan, including (without limitation) to the number of Shares available for issuance over the term of this Plan as set forth in Section 3.1 above, (b) the number and type of Options, SARs and Stock Awards that may be granted to any individual under this Plan, (c) the terms of any SAR, (d) the Purchase Price and repurchase price of any Stock Award or other Award Shares, (e) the Option Price and number and class of securities issuable under each outstanding Option, and (f) the repurchase price of any

securities substituted for Award Shares that are subject to repurchase rights. The specific adjustments shall be determined by the Committee. Unless the Committee specifies otherwise, any securities issuable as a result of any such adjustment shall be rounded down to the next lower whole security. The Committee need not adopt the same rules for each Award or each Awardee.

**10.3 Fundamental Transactions.** In the event of (a) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the Awards granted under this Plan are assumed, converted or replaced by the successor corporation, which assumption shall be binding on all participants), (b) a merger in which the Company is the surviving corporation but after which the stockholders of the Company immediately prior to such merger (other than any stockholder that merges, or which owns or controls another corporation that merges, with the Company in such merger) cease to own their shares or other equity interest in the Company, (c) the sale of all or substantially all of the assets of the Company, or (d) the acquisition, sale, or transfer of more than 50% of the outstanding shares of the Company by tender offer or similar transaction (each, a **“Fundamental Transaction”**), any or all outstanding Options, SARs and Restricted Stock Awards may be assumed, converted or replaced by the successor corporation (if any), which assumption, conversion or replacement shall be binding on all participants under this Plan. In the alternative, the successor corporation may substitute equivalent Options, SARs and Restricted Stock Awards or provide substantially similar consideration to participants as was provided to stockholders (after taking into account the existing provisions of the Awards). The successor corporation may also issue, in place of outstanding Shares held by the participants, substantially similar shares or other property subject to repurchase restrictions no less favorable to the participant. In the event such successor corporation (if any) does not assume or substitute Options, SARs and Restricted Stock Awards, as provided above, pursuant to a transaction described in this Subsection 10.3, the vesting with respect to such Awards shall fully and immediately accelerate or the repurchase rights of the Company shall fully and immediately terminate, as the case may be, so that the Awards may be exercised or the repurchase rights shall terminate before, or otherwise in connection with the closing or completion of the Fundamental Transaction or event and the Award shall then terminate. Notwithstanding anything in this Plan to the contrary, the Committee may, in its sole discretion, provide that the vesting of any or all Award Shares subject to vesting or right of repurchase shall accelerate or lapse, as the case may be, upon a transaction described in this Section 10.3. If the Committee exercises such discretion with respect to Options, such Options shall become exercisable in full prior to the consummation of such event at such time and on such conditions as the Committee determines, and if such Options are not exercised prior to the consummation of the Fundamental Transaction, the Committee may specify that they terminate at such time as determined by the Committee. Subject to any greater rights



granted to participants under the foregoing provisions of this Section 10.3, in the event of the occurrence of any Fundamental Transaction, any outstanding Awards shall be treated as provided in the applicable agreement or plan of merger, consolidation or sale of assets.

**10.4 Changes in Control.** The Board may also, but need not, specify that other transactions or events constitute a “*Change in Control*.” The Board may do that either before or after the transaction or event occurs. Examples of transactions or events that the Board may treat as Changes in Control are: (a) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act, acquires securities holding 25% or more of the total combined voting power or value of the Company, or (b) as a result of or in connection with a contested election of Company Directors, the persons who were Company Directors immediately before the election cease to constitute a majority of the Board. In connection with a Change in Control, notwithstanding any other provision of this Plan, the Board may, but need not, take any one or more of the actions described in Section 10.3. In addition, the Board may extend the date for the exercise of exercisable Awards (but not beyond their original Expiration Date).

**10.5 Additional Rules and Benefits related to Fundamental Transactions and Changes in Control.** The Committee need not adopt the same rules for each Award or each Awardee. Notwithstanding anything in this Plan to the contrary, in the event of an Involuntary Termination of services for any reason other than death, disability or Cause, within 18 months following the consummation of a Fundamental Transaction or Change in Control, any Options, SARs and Restricted Stock Awards assumed or substituted in a Fundamental Transaction or Change in Control, which are subject to vesting conditions and/or the right of repurchase in favor of the Company or a successor entity, shall fully accelerate for vesting so that such Award Shares are immediately exercisable upon Termination or, if subject to the right of repurchase in favor of the Company, such repurchase rights shall lapse as of the date of Termination. Any such Awards having an exercisability feature shall be exercisable for a period of six months following Termination.

**10.6 Divestiture.** If the Company or an Affiliate sells or otherwise transfers equity securities of an Affiliate to a person or entity other than the Company or an Affiliate, or leases, exchanges or transfers all or any portion of its assets to such a person or entity, then the Committee may specify that such transaction or event constitutes a “Divestiture”. In connection with a Divestiture, notwithstanding any other provision of this Plan, the Committee may, but need not, take one or more of the actions described in Section 10.3, 10.4 or 10.5 with respect to Awards or Award Shares held by, for example, Employees, Directors or Consultants for whom that transaction or event results in a Termination. The Committee need not adopt the same rules for each Award or Awardee.

**10.7 Dissolution.** If the Company adopts a plan of dissolution, the Committee may cause Awards to be fully vested and exercisable (but not after their Expiration Date) before the dissolution is completed but contingent on its completion and may cause the

Company's repurchase rights on Award Shares to lapse upon completion of the dissolution. The Committee need not adopt the same rules for each Award or each Awardee. Notwithstanding anything herein to the contrary, in the event of a dissolution of the Company, to the extent not exercised before the earlier of the completion of the dissolution or their Expiration Date, Awards shall terminate immediately prior to the dissolution.

**10.8 Cut-Back to Preserve Benefits.** If the Administrator determines that the net after-tax amount to be realized by any Awardee, taking into account any accelerated vesting, termination of repurchase rights, or cash payments to that Awardee in connection with any transaction or event set forth in this Section 10 would be greater if one or more of those steps were not taken or payments were not made with respect to that Awardee's Awards or Award Shares, then, at the election of the Awardee, to such extent, one or more of those steps shall not be taken and payments shall not be made.

## **11. Grants to Non-Employee Directors**

### **11.1 Certain Transactions and Events.**

(a) In the event of a Fundamental Transaction while the Awardee remains a non-Employee Director, the Shares at the time subject to each outstanding Award held by such Awardee pursuant to this Plan, but not otherwise vested, shall automatically vest in full and become exercisable for all Shares as fully vested Shares and all repurchase rights shall automatically terminate in full immediately prior to the effective date of the Fundamental Transaction. Immediately following the consummation of the Fundamental Transaction, each Award shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or Affiliate thereof).

(b) In the event of a Change in Control while the Awardee remains a non-Employee Director, the Shares at the time subject to each outstanding Award held by such Awardee pursuant to this Plan, but not otherwise vested, shall automatically vest in full and become exercisable for all the Shares as fully vested Shares and all repurchase rights shall automatically terminate in full immediately prior to the effective date of the Change in Control. Each such Award shall remain exercisable for such fully vested Shares until the expiration or sooner termination of the Award term in connection with a Change in Control.

(c) Each Award which is assumed in connection with a Fundamental Transaction shall be appropriately adjusted, immediately after such Fundamental Transaction, to apply to the number and class of securities which would have been issuable to the Awardee in consummation of such

Fundamental Transaction had the Award been exercised immediately prior to such Fundamental Transaction. Appropriate adjustments shall also be made to the Option Price or Purchase Price payable per share under each outstanding Award, provided the aggregate Option Price or Purchase Price payable for such securities shall remain the same. To the extent the actual holders of the Company's outstanding Shares receive cash consideration for their Shares in consummation of the Fundamental Transaction, the successor corporation may, in connection with the assumption of the outstanding Awards granted to non-Employee Directors under this Plan, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per Share in such Fundamental Transaction.

## 12. **Withholding and Tax Reporting**

### 12.1 **Tax Withholding Alternatives.**

(a) **General.** Whenever Awards are granted or exercised, or Award Shares are issued or become free of restrictions, as applicable, the Company may require the Awardee to remit to the Company an amount sufficient to satisfy any applicable tax withholding requirement, whether the related tax is imposed on the Awardee or the Company. The Company shall have no obligation to deliver Award Shares or release Award Shares from an escrow or permit a transfer of Award Shares until the Awardee has satisfied those tax withholding obligations. Whenever payment in satisfaction of Awards is made in cash, the payment will be reduced by an amount sufficient to satisfy all tax withholding requirements.

(b) **Method of Payment.** The Awardee shall pay any required withholding using such forms of consideration as are described in Section 6.4(a) and determined appropriate by the Administrator. The Administrator, in its sole discretion, may also permit Award Shares to be withheld or surrendered to pay required withholding. If the Administrator permits Award Shares to be withheld or surrendered, the Fair Market Value of the Award Shares withheld or surrendered, as determined as of the date of withholding, shall not exceed the amount determined by the applicable minimum statutory withholding rates to the extent the Administrator determines such limit is necessary or advisable in light of generally accepted accounting principles.

**12.2 Reporting of Dispositions.** Any holder of Option Shares acquired under an Incentive Stock Option shall promptly notify the Administrator, following such procedures as the Administrator may require, of the sale or other disposition of any of those Option Shares if the disposition occurs during: (a) the longer of two years after the Grant Date of the Incentive Stock Option and one year after the date the Incentive Stock Option was exercised, or (b) such other period as the Administrator has established.

### 13. **Compliance With Law**

The grant of Awards and the issuance and subsequent transfer of Award Shares shall be subject to compliance with all Applicable Law, including all applicable securities laws. Awards may not be exercised, and Award Shares may not be transferred, in violation of Applicable Law. Thus, for example, Awards may not be exercised unless: (a) a registration statement under the Securities Act is then in effect with respect to the related Award Shares, or (b) in the opinion of legal counsel to the Company, those Award Shares may be issued in accordance with an applicable exemption from the registration requirements of the Securities Act and any other applicable securities laws. The failure or inability of the Company to obtain from any regulatory body the authority considered by the Company's legal counsel to be necessary or useful for the lawful issuance of any Award Shares or their subsequent transfer shall relieve the Company of any liability for failing to issue those Award Shares or permitting their transfer. As a condition to the exercise of any Award or the transfer of any Award Shares, the Company may require the Awardee to satisfy any requirements or qualifications that may be necessary or appropriate to comply with or evidence compliance with any Applicable Law.

### 14. **Amendment or Termination of this Plan or Outstanding Awards**

**14.1 Amendment and Termination.** The Board or the Committee may at any time amend, suspend, or terminate this Plan.

**14.2 Stockholder Approval.** The Company shall obtain the approval of the Company's stockholders for any amendment to this Plan if stockholder approval is necessary or desirable to comply with any Applicable Law or with the requirements applicable to the grant of Awards intended to be Incentive Stock Options. The Board may also, but need not, require that the Company's stockholders approve any other amendments to this Plan.

**14.3 Effect.** No amendment, suspension, or termination of this Plan, and no modification of any Award even in the absence of an amendment, suspension, or termination of this Plan, shall impair any existing contractual rights of any Awardee unless the affected Awardee consents to the amendment, suspension, termination, or modification. Notwithstanding anything herein to the contrary, no such consent shall be required if the Committee determines that the amendment, suspension, termination, or modification (including an amendment of the designation of the class of securities to be issued under Awards): (a) is required or advisable in order for the Company, this Plan or the Award to satisfy Applicable Law, to meet the requirements of any accounting standard or to avoid any adverse accounting treatment, or (b) in connection with any transaction or event described in Section 10, is in the best interests of the Company or its

stockholders. The Committee may, but need not, take the tax or accounting consequences to affected Awardees into consideration in acting under the preceding sentence. Those decisions shall be final, binding and conclusive. Termination of this Plan shall not affect the Administrator's ability to exercise the powers granted to it under this Plan with respect to Awards granted before the termination of this Plan or with respect to Award Shares issued under such Awards even if those Award Shares are issued after the termination of this Plan.

#### 15. **Reserved Rights**

15.1 **Nonexclusivity of this Plan.** This Plan shall not limit the power of the Company or any Affiliate to adopt other incentive arrangements including, for example, the grant or issuance of stock options, stock, other equity-based rights or cash bonuses or awards under other plans.

15.2 **Unfunded Plan.** This Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Awardees, any such accounts will be used merely as a convenience. The Company shall not be required to segregate any assets on account of this Plan, the grant of Awards, or the issuance of Award Shares. The Company and the Administrator shall not be deemed to be a trustee of stock or cash to be awarded under this Plan. Any obligations of the Company to any Awardee shall be based solely upon contracts entered into under this Plan, such as Award Agreements. No such obligations shall be deemed to be secured by any pledge or other encumbrance on any assets of the Company. Neither the Company nor the Administrator shall be required to give any security or bond for the performance of any such obligations.

15.3 **Compensation.** The value of Options, SARs and Stock Awards granted pursuant to the Plan will not be included as compensation, earnings, salary or other similar terms used when calculating an Awardee's benefits under any other employee benefit plan sponsored by the Company or any Affiliate except as such other plan otherwise expressly provides.

#### 16. **Escrow of Stock Certificates**

To enforce any restrictions on Award Shares, the Administrator may require the holder to deposit any certificates (or indicia of ownership) representing Award Shares, with stock powers or other transfer instruments approved by the Administrator endorsed in blank, with the Company or an agent of the Company to hold in escrow until the restrictions have lapsed or terminated. The Administrator may also cause a legend or legends referencing the restrictions to be placed on any such certificates.

## 17. **Treatment of Awards upon Death of Awardee; Limited Transferability**

17.1 **Treatment of Awards upon Death of Awardee.** The Company may from time to time establish procedures under which the Company may make certain determinations required with respect to Awards in the event of an Awardee's death. The Company's determinations and decisions in this regard shall be final and binding on all parties.

17.2 **Limited Transferability.** Options, SARs and Stock Awards and Restricted Stock Awards shall generally be nontransferable; provided however that the Administrator may in its discretion (and as reflected in the applicable Award Agreement or an amendment thereto) make an Option, SAR or Restricted Stock Award transferable to an Awardee's family or entities affiliated with the Awardee's family if and to the extent permitted under the rules and instructions applicable to Form S-8 (or any successor form or other securities laws under which the issuance and sale of Awards and Award Shares hereunder are registered or exempted). If the Administrator makes an Option, SAR or Restricted Stock Award transferable, either at the time of grant or thereafter, such Award shall contain such additional terms and conditions as the Administrator deems appropriate, and any transferee shall be deemed to be bound by such terms upon acceptance of such transfer.

## 18. **Miscellaneous**

18.1 **Governing Law.** This Plan, the Award Agreements and all other agreements entered into under this Plan, and all actions taken under this Plan or in connection with Awards or Award Shares, shall be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law.

18.2 **Determination of Value.** The "Fair Market Value" of a Share shall be determined as follows:

(a) **Listed Stock.** If Shares are traded on any established stock exchange or quoted on a national market system, Fair Market Value shall be the closing sales price as quoted on that stock exchange or system for the day before the date the value is to be determined (the "Value Date") as reported in The Wall Street Journal or a similar publication. If no sales are reported as having occurred on the day before the Value Date, Fair Market Value shall be that closing sales price for the last preceding trading day on which sales of Shares are reported as having occurred. If no sales are reported as having occurred during the five trading days before the Value Date, Fair Market Value shall be the closing bid for the Shares on the day before the Value Date. If the Shares of the Company are listed on multiple exchanges or systems, Fair Market Value shall be based on sales or bid prices on the primary exchange or system on which Shares of the Company are traded or quoted.

(b) **Stock Quoted by Securities Dealer.** If Shares are regularly quoted by a recognized securities dealer but selling prices are not reported on any established stock exchange or quoted on a national market system, Fair Market Value shall be the mean between the high bid and low asked prices on the day before the Value Date. If no prices are quoted for the day before the Value Date, Fair Market Value shall be the mean between the high bid and low asked prices on the last preceding trading day on which any bid and asked prices were quoted.

(c) **No Established Market.** If Shares are not traded on any established stock exchange or quoted on a national market system and are not quoted by a recognized securities dealer, the Administrator (following guidelines established by the Board or Committee) will determine Fair Market Value of the Shares in good faith.

(d) **Class A Preferred Stock.** If shares of the Company's Common Stock are traded on any established stock exchange or quoted on a national market system, the Fair Market Value of shares of the Company's Class A Preferred Stock shall be equal to the Fair Market Value of the Company's Common Stock, as of the relevant valuation date, for all purposes under this Plan.

18.3 **Reservation of Shares.** During the term of this Plan, the Company shall at all times keep available such number of Shares as are still issuable under this Plan.

18.4 **Electronic Communications.** Any Award Agreement, notice of exercise of an Award, or other document required or permitted by this Plan may be delivered in writing or, to the extent determined by the Administrator, electronically. Signatures or acknowledgements may also be electronic if permitted by the Administrator.

18.5 **Notices.** Unless the Administrator specifies otherwise, any notice to the Company under any Award Agreement or with respect to any Awards or Award Shares shall be in writing (or, if so authorized by Section 18.4, communicated electronically), shall be addressed to the Secretary of the Company, and shall only be effective when received by the Secretary of the Company.

## SAIC, INC.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth C. Dahlberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ending April 30, 2008 of SAIC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2008

/s/ KENNETH C. DAHLBERG

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**Kenneth C. Dahlberg**  
Chief Executive Officer



## SAIC, INC.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark W. Sopp, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ending April 30, 2008 of SAIC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2008

/s/ MARK W. SOPP

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**Mark W. Sopp**  
Chief Financial Officer

SAIC, INC.

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SAIC, Inc. (the Company) on Form 10-Q for the period ending April 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Kenneth C. Dahlberg, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 3, 2008

/s/ KENNETH C. DAHLBERG

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**Kenneth C. Dahlberg**  
Chief Executive Officer

SAIC, INC.

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SAIC, Inc. (the Company) on Form 10-Q for the period ending April 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Mark W. Sopp, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 3, 2008

/s/ MARK W. SOPP

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**Mark W. Sopp**  
Chief Financial Officer