



FISCAL YEAR 2005

ANNUAL REPORT



FROM SCIENCE TO SOLUTIONS™

SAIC DELIVERS

REAL INNOVATION

REAL INDEPENDENCE

REAL VALUE



In a world where all three are increasingly rare, SAIC delivers the genuine article. The result: better solutions for our customers.

Real innovation often occurs at the intersection of different disciplines, such as information technology and biology. At SAIC, we have a rich diversity of scientific, engineering, and IT experts who excel at cross-disciplinary problem solving. Thanks to their creativity and innovation, we have a well-deserved reputation for solving some of our customers' most difficult and complex problems. And a reputation for delivering genuinely significant – and useful – results.

True platform independence means we can choose the best technologies and integration strategies to meet our customers' needs. We have access to a wealth of software, hardware, and technology options. More importantly, we have the experience and knowledge to help customers make better choices on how to leverage new and existing technologies and resolve technology concerns.

Real value is our promise to our customers. SAIC organizations stay close to their customers, help them anticipate new requirements in a changing world, and respond with speed and agility. And our organizations create highly motivated employees who feel an ownership for the company and its results.

These are just some of the reasons SAIC is a world-class information technology company and a world-class science and engineering company. But the most important reason: We deliver the best solutions for our customers.

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CEO Ken Dahlberg (right) and COO Duane Andrews (left)

MESSAGE TO STOCKHOLDERS

SAIC delivered superb results in both technical and financial performance this past year. I want to thank the two groups responsible for our success – our customers and our employees.

Our customers face some of the most difficult and mission-critical challenges in the United States and even the world. At SAIC, it is our privilege to help meet those challenges. The high-caliber work that our men and women perform every day makes real contributions to the security and defense of our nation, and to cancer research, education, environmental cleanup, robotics, space exploration, and countless other areas.

I am especially proud of the SAIC employees who have made service to country a central part

of their lives. Some of the most admirable are the SAIC employees working in unstable regions of the world, such as Iraq and Afghanistan, in order to protect our freedom.

Most of all, we at SAIC are honored by our customers' trust and confidence in our experience, ability, and integrity. I could talk about our strong ethics program, and the fact that SAIC has been a member of the Defense Industry Initiative on Business Ethics and Conduct since its formation in 1987. But the bottom line is how we execute for our customers. SAIC executes approximately 9,000 contracts annually, and last fiscal year we had a 95% win rate on re-compete contracts.

We earn our customers' trust each time we

execute and innovate, and perform and deliver. We believe this is the best way to thank our customers for their business and support.

Because of our customers' confidence in SAIC, our company revenues were \$7.2 billion in Fiscal Year 2005, a 23% increase for the company as a whole. Operating income rose 24%.

We set records in total contract awards and in funded contract backlog. But the most dramatic move occurred in our cash flow from operating activities, which jumped 61%. Cash flow is the lifeblood of our company, generating free cash to make strategic acquisitions and investments to fuel our growth and create long-term value.

Extraordinary growth in government business

The key driver for our growth was outstanding performance in our government business, led by Duane Andrews, who was recently promoted to Chief Operating Officer. Achieving this extraordinary growth meant capturing market share from determined competitors in an environment where many government budgets were flat or nearly so. Last year, you heard me say we were creating a more streamlined organization with sharper customer and market focus. These outstanding results speak for themselves.

Four of the five operating groups turned in stellar performances. Mark Hughes' systems and network group, Carl Albero's naval engineering group, and George Singley's transformation and logistics group grew 37%, 30%, and 21%, respectively. Don Foley's intelligence and research group grew 32%, becoming the largest in the company. Don accepted a new position as our Chief Engineering & Technology Officer, and in FY06, his organization divided into two new groups, now led by Trey Smith and Larry Prior.

Larry Peck's enterprise infrastructure group also delivered market-beating growth and won one of SAIC's most important contracts – the U.S. Army's Guardian Installation Protection Program.

Most of our growth came from the national security arena, where we continued to find new opportunities and win market share.

Our work with civil agencies also showed solid growth and strong potential. As those agencies upgrade their IT infrastructures, we expect to see

many opportunities for growth in this arena.

Our changing business portfolio

Our business and technology portfolio must reflect changing business realities. Shortly after fiscal year end, we completed the sale of our Telcordia Technologies subsidiary to Providence Equity Partners and Warburg Pincus. The sale – which has a pre-tax value of approximately \$1.35 billion in cash – strengthens SAIC's balance sheet and provides funds to pursue other strategic initiatives. Since Telcordia has now been classified as a discontinued operation, the SAIC revenue, operating income, and cash flow results I cited earlier do not include Telcordia's financial results.

Telcordia's market – the commercial telecom space – has suffered a number of setbacks in recent years. I'm delighted we found two firms that understand Telcordia's market space and strong potential; this improves Telcordia's probability of success within a consolidating industry.

While the commercial telecom market struggled, SAIC's telecom work for government customers grew dramatically. Our government telecom business now generates hundreds of millions of dollars in annual revenues. Our work involves advanced optical networks and satellite communications, management of converged networks, and high-level security.

We remain committed to the commercial space and see many new opportunities emerging. For example, we are well positioned to help the "super majors" in the oil industry transition next-generation digital oil field technology from successful pilots to full-scale deployment. Already, we are helping Shell, ChevronTexaco, and BP develop and deploy the technologies needed to make the next generation oilfield a reality.

Discipline and entrepreneurship – the keys to our future

We are now working to build a stronger SAIC, better able to win and execute larger systems integration contracts. At the same time, we continue to strengthen the parts of our culture that made SAIC a multibillion-dollar engine of growth in professional services and smaller contracts.

To do so, our culture is embracing both discipline and entrepreneurship. The latter has always been in great supply in SAIC. We introduced more of the former when we launched new strategic campaigns in what, we believe, will be our most important growth areas. The experience and insights of our Directors and top managers were crucial in creating these campaigns, which will guide our efforts to capture future key contracts.

Our FY06 operating plan is tightly integrated with our new strategic campaigns and our strategic imperatives for technology development, acquisitions, and improvements to our information technology infrastructure.

Employee diversity and empowerment

Going forward, we must hire, retain and grow the best and brightest from diverse backgrounds and

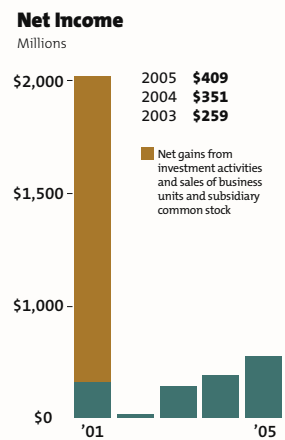
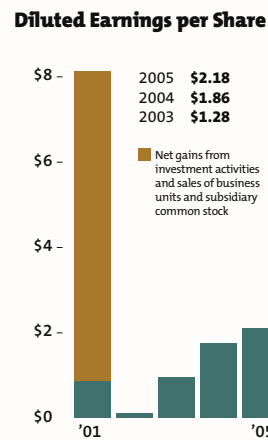
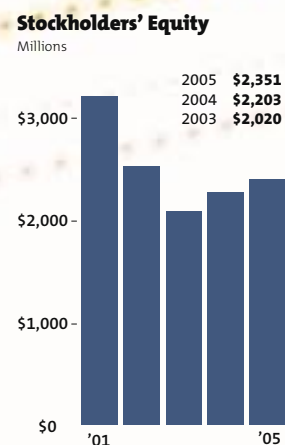
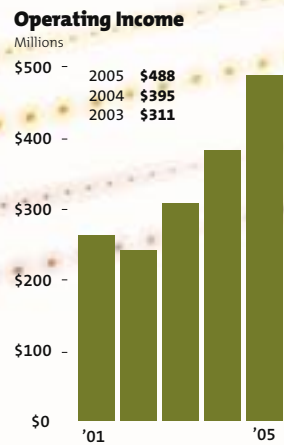
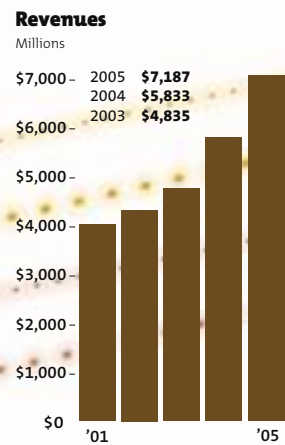
experiences. Our future success depends on it.

To do so, we strengthened initiatives to grow future leaders, improve workforce diversity, and expand training opportunities. We also strengthened our capabilities in pivotal jobs such as “program manager” and “systems engineer.”

And we still believe our employee ownership culture is one of the keys to motivate the best and brightest to perform at top levels for our customers. That’s why we continue to seek ways to strengthen this important part of our heritage – and our future.

Ken Dahlberg

KEN DAHLBERG
CEO, President, and Chairman of the Board



OUR GROUP MANAGEMENT TEAM:

Group Presidents from left to right:
George Singley III, Trey Smith III, Mark Hughes III,
Larry Peck, Carl Albero, and Lawrence Prior III

SOLUTIONS FOR GOVERNMENT
AND COMMERCIAL CUSTOMERS

SYSTEMS ENGINEERING AND INTEGRATION

**How much IT security is enough?
How much more value could you
extract from your data systems
if they were compatible? How
do you know if it's the right time
to innovate? How can you build
more stability and reliability into
an already complex and unwieldy
infrastructure when operational
requirements and technologies
keep changing? At SAIC, we help
customers answer tough questions
like these every day.**

Even more important, we deliver proven performance time and again on some of the U.S. Government's most complex and important systems.

That's why SAIC consistently ranks among the top federal systems integrators year after year. It's also why customers choose SAIC for some of the most difficult systems integration tasks imaginable.

After the Department of Homeland Security opened its doors in 2003, we integrated its first-ever enterprise



SAIC Security Operations Centers, such as this one (above), deliver threat intelligence and managed security services to government and commercial clients worldwide. Our high customer retention rate testifies to the strength of this capability.

architecture and data network linking 22 agencies encompassing 180,000 employees. We did so on an incredibly accelerated schedule and won praise from then DHS CIO Steve Cooper for our work.

We are currently developing the groundbreaking architecture for a networked "system of systems" for the U.S. Army's Future Combat Systems program. The Boeing-SAIC team is the Lead Systems Integrator for this program. This enormously complex undertaking requires a system that is open and flexible to accommodate future needs while simultaneously employing the state of the art today. Since 2003, Boeing and SAIC have developed a common operating environment, launched an integration lab, and delivered a virtual framework and integrated simulations – all while keeping the program on cost and on schedule.

The Joint Project Manager Guardian chose SAIC as Lead Systems Integrator for the Installation Protection Program that started last fiscal year. To help protect DoD installations, we are integrating chemical, biological, radiological, and nuclear protection systems at up to 200 DoD installations worldwide. Installation protection is provided through an integrated family of systems focused on continuity of the military mission.

But the best evidence for our expertise and commitment in integrating major systems comes from our longest-term customers. The Royal Saudi Naval Forces has worked with SAIC for more than a quarter century. As part of our support to the Saudi Navy, we integrated the first operational command and control system in the Persian

FORTUNE magazine has ranked SAIC among America's "Most Admired Computer and Data Service Companies" for three consecutive years.



(Above) SAIC's Integrated Services Management Centers in North America, Europe and Asia help enterprises achieve both short- and long-term strategic goals regardless of their size. Operating under industry standard certifications for our signature IT services, we support global clients in such diverse industries as: healthcare, energy, utilities, academia, entertainment, and telecommunications.

Gulf region. Years later, the Gulf War began and our system dramatically and successfully scaled up and expanded its operations. When Riyadh came under fire, SAIC personnel chose to stay in country and support the system's operations. After hostilities ceased, Saudi authorities were lavish in their praise.

Our support continues today with major new contracts to upgrade this large-scale C4I system – and its communications networks – at the main naval headquarters in Riyadh, at Western Fleet headquarters on the Red Sea, and at Eastern Fleet headquarters on the Persian Gulf.

Enterprise services integration. Large enterprises face increasingly tough challenges to integrate and share massive amounts of data from far flung and disparate databases and legacy systems.

One of the world's largest enterprises – the U.S. Department of Defense – has enlisted SAIC's help.

A new SAIC laboratory evaluates existing and emerging Web service technologies and service-oriented architectures to determine whether they have the "industrial strength" to become enterprisewide DoD solutions.

As impressive as this is, our new Enterprise Services Integration & Interoperability Laboratory is more than a technology proving ground. It also provides a wide range of tools to help DoD application developers build "new" capabilities from legacy systems and data. Tools ranging from Web-service adaptors and inference engines to ontological and semantic models help developers expose and extract data and the business rules embedded within legacy systems. Other tools test for interoperability, deployability, scalability, and maintainability.

Software development. For customers, the benefits of higher software maturity ratings are clear: greater assurance that complex software programs will be on time, within budget, and perform as expected. Add to that greater assurance that project successes will

be repeatable and a higher level of customer satisfaction.

These were also some of the scoring criteria when results were announced for the U.S. Government's Top 5 Quality Software Projects. Simulation software developed by SAIC for the U.S. Army was named a winner – for the second year in a row.

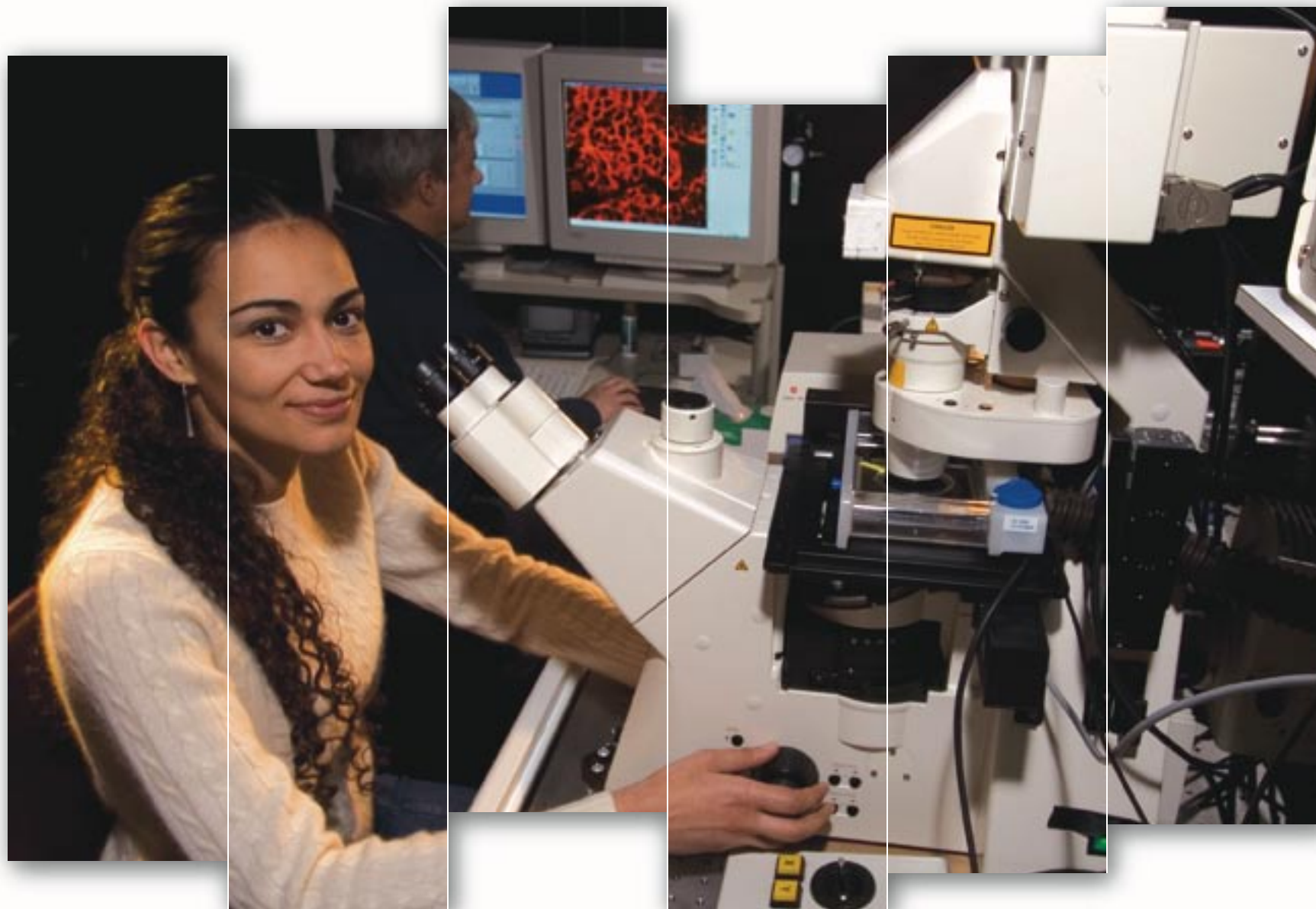
That software was developed by our SAIC Orlando organization, which has been externally assessed at the highest level of software and systems engineering maturity, CMMI® Maturity Level 5, as defined by the Software Engineering Institute of Carnegie Mellon University.

To achieve their success, our Orlando staff combined high-quality CMMI® processes with fast, flexible techniques derived from extreme programming (XP), and spiral development methods. They also facilitated collaboration across a government-industry Integrated Product Team with a Web-based, collaborative, integrated development environment. This winning combination is now recommended by *CrossTalk, the Journal of Defense Software Engineering*, in its tips for success.

All these elements were key to creating "a scalable, flexible, extensible, composable architecture that is technically the best simulation architecture I have seen in several years of working under the hood in military simulations," said Army Project Manager Lt. Col. John Surdu, who was quoted in *CrossTalk*.

SAIC has organizations dedicated to this high level of software and systems engineering quality across the company. Six SAIC organizations – encompassing 6,000 professionals – are rated at CMMI® Maturity Level 5. Ten SAIC organizations have achieved Level 3 maturity and eight have achieved Level 2 maturity. Our staff also help government and commercial organizations learn CMMI® methodology and they appraise other organizations for CMMI® compliance. Year after year, our staff have shown their commitment to bring the benefits of high software maturity ratings to our customers.

RESEARCH AND DEVELOPMENT



(Below left) Understanding how cancer forms from normal cells requires knowledge about the molecular pathways in individual cells while they are in their normal environment. At the National Cancer Institute's Confocal Microscopy Facility, SAIC researchers use living 3D tissue culture models to understand the molecular mechanisms that govern cells' organization, their movement, how they invade within the body and mutate into cancer cells.

As one of the largest science and technology organizations in the United States, SAIC conducts leading-edge research and development from outer space to the ocean depths. Our scientists and engineers move the state of the art forward in cancer and AIDS research, advanced signal processing, and modeling and simulation.

Biopharmaceutical and medical research. For the National Cancer Institute (NCI), we operate NCI-Frederick, one of the world's premier cancer and AIDS research facilities. There we support a wide range of research areas, including development of nanotechnology applications for the diagnosis, prevention, and treatment of cancer.

We work with NCI researchers to develop nanoscale devices (less than 100 nanometers in size) that can deliver cancer therapeutic agents and anticancer vaccines at the cellular level. Smaller than a living cell, these tiny drug delivery devices will likely be able to target only malignant cells, sparing healthy cells and reducing the side effects of today's cancer treatments.

To help expedite development of a next-generation anthrax vaccine, we are working

with the National Institute of Allergy and Infectious Diseases, NCI, and the U.S. Army to produce and test a promising recombinant protective antigen vaccine. We also help develop vaccines to combat other devastating diseases such as malaria and HIV.

To accelerate translational cancer research, the NCI's new cancer Biomedical Informatics Grid (caBIG) is helping with cross-disciplinary sharing of research between more than 600 cancer researchers from over 50 different cancer centers. SAIC is developing important grid-based middleware, applications, and security for this groundbreaking initiative.

Space technology. For decades, SAIC has conducted and supported leading-edge research for space exploration and global climate change. For the U.S. Geological Survey, we operate the EROS Data Center – the world's largest collection of remotely sensed data for customers studying a variety of environmental issues such as land use and global change. We develop and manage multiple database architectures that are critical to the center's mission to make dynamic data products readily accessible to customers worldwide.

We also play a leading role in NASA's human spaceflight program, providing safety, reliability, and quality assurance for the International Space Station, and helping NASA return the Space Shuttle to flight status.

When the Cassini mission's Huygens probe descended through the atmosphere of Titan, Saturn's largest moon, and began transmitting data and striking images of its frozen surface, SAIC engineers and scientists could take pride in the historic event. We

have supported this international research mission since 1988. Among other things, we worked on the environmental and launch safety analyses required because of the radioisotope-fueled devices that provide electrical power and heat for Cassini.

Advanced signal processing. SAIC technologists work on the frontiers of advanced signal and image processing. Over the years, we pioneered breakthroughs in signal detection and direction finding to protect submarines, and automatically analyze synthetic aperture radar images. Our engineers even developed a new field of statistical detection and estimation theory, contributing to adaptive Wiener filter theory and its application to radar and communications.

We have been recognized for advancing the state of the art in adaptive processing algorithms that use multiple degrees of freedom to detect weak signals in complex environments. For example, we work on the leading edge of space-time adaptive processing to detect weak radar echoes from ground targets in the presence of large radar noise (motion-induced spread-Doppler clutter). Our work benefits the next generation of airborne surveillance radar systems.

A leader in underwater signal processing for three decades, SAIC provides critical research and analysis to help the U.S. Navy better detect hostile submarines and better protect friendly submarines. With the rise in regional conflicts and asymmetrical threats, the emphasis has shifted from open-ocean detection to shallow water near coastlines. In these waters, acoustic interference generated by surface ships and complex bottom interacting acoustic propagation pose new challenges. Our new algorithms enable towed sonar arrays to better detect and track ships even as the sub towing the sonar array maneuvers. We are also exploring new acoustic signal processing algorithms and advanced underwater acoustic communications using off-board sensors and unmanned vehicles.

Modeling and simulation. SAIC pioneered state-of-the-art technologies including distributed simulation for training and distributed test and evaluation. Today, our expertise ranges from traditional areas, such as training and analysis simulation, to emerging areas, such as simulation-based acquisition.

Currently, we lead the development of DoD's architecture and middleware for seamlessly integrating live-virtual-constructive simulation for experimentation, training, test and evaluation, and acquisition. In addition, we are the leaders in technology development for entity-based simulation, simulation interconnection, and next-generation entity-based Computer Generated Forces.

Advanced robotics. With the military seeking to integrate unmanned systems into future forces, the DARPA Grand Challenge races provide a demanding environment to develop and test new autonomous ground vehicles.

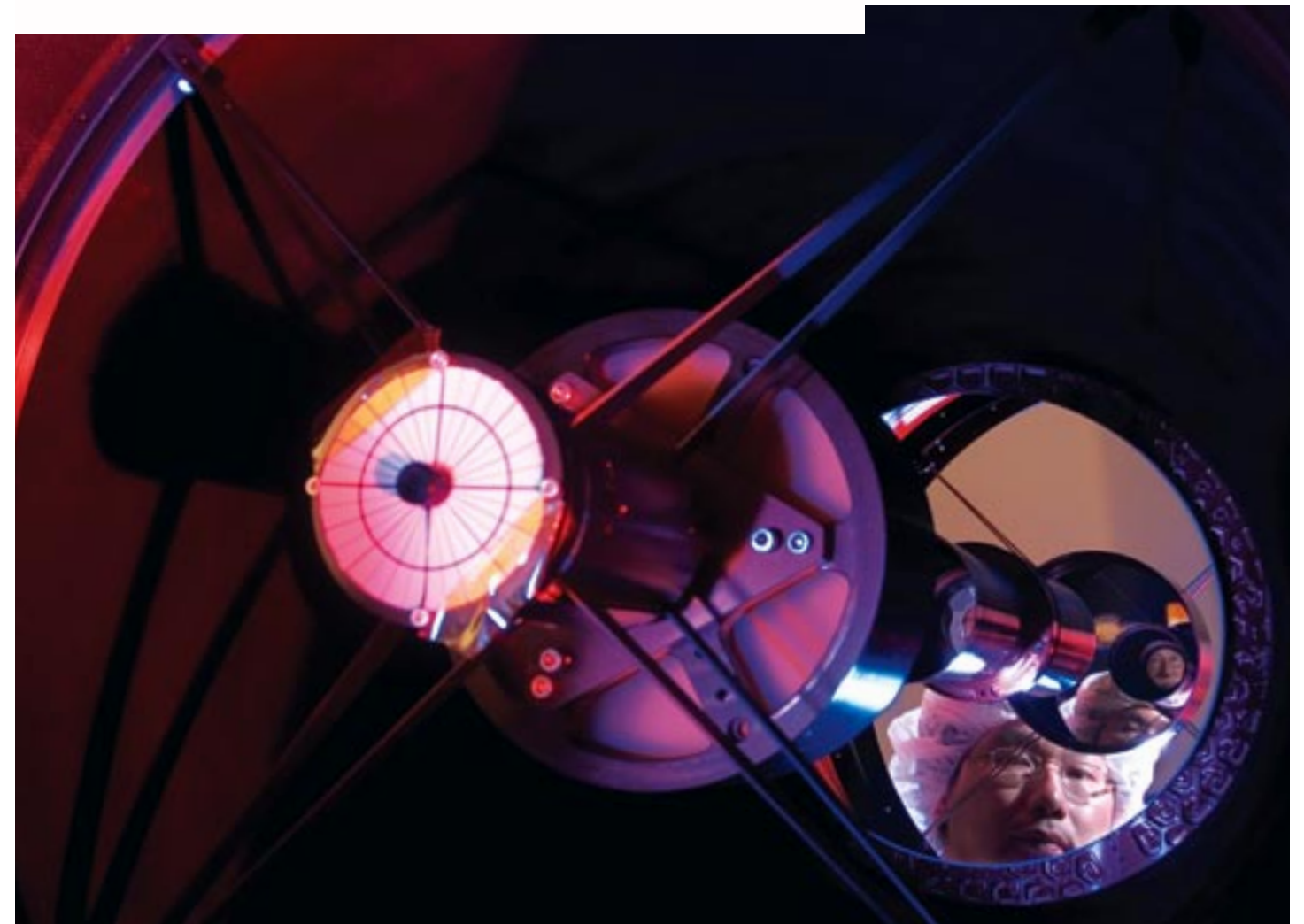
During the 2004 race, the Sandstorm robotic vehicle, developed by Carnegie Mellon University and SAIC, traveled much farther than its competitors – successfully maneuvering across 12 kilometers of desert terrain at an average speed of 36 kilometers per hour and a top speed of 56 km/hour.

The mapping and route planning software we developed for Sandstorm has provided valuable insights that could be used for geospatial intelligence requirements for future military robotic systems.

Other innovative solutions. From advanced radar systems to nonimaging optics, our technology solutions are viewed as important tools for national security, homeland defense, and the global war on terrorism.

SAIC developed an advanced system that uses commercial HDTV broadcast signals to detect and track airborne and ground moving vehicles. Currently deployed as a pilot program, the system is being evaluated as a potential "gap-filler" for airspace and maritime surveillance.

(Right) To better understand oceanic factors in global climate change, we help NASA process, display, and analyze ocean-color data gathered by satellites. Subtle changes in ocean color signify various types and quantities of marine phytoplankton (microscopic marine plants), the knowledge of which has both scientific and practical applications.



(Above) Micro satellites in low earth orbit over a combat zone could provide better reconnaissance for future tactical operations. For the Air Force Research Laboratory's experimental micro satellite program, we are developing a high-resolution earth-observing system that includes a telescope and focal planes covering one panchromatic and three visible bands.

DEFENSE TRANSFORMATION

By putting new strategic thinking into action, SAIC helps the U.S. military and its allies transform the way they will fight future wars. To help ensure our soldiers are better equipped, protected, and trained, we assist our customers in developing new technologies for the future, and spiraling advanced technologies into the current force.

Network-centric operations. As a leader in the emerging area of network-centric operations, we are helping the military achieve a powerful competitive edge through advanced networked capabilities, shared situational awareness, improved collaborative planning, and enhanced speed and agility.

Our work benefits transformational decisions at the highest levels of the Defense Department and what may be the most ambitious and far-reaching program for network-centric operations in the U.S. military services – the Army Future Combat Systems (FCS) program. As the Lead Systems Integrator for FCS, the Boeing-SAIC team is working to speed delivery of crucial network-centric capabilities to the current force.

The FCS program has met with remark-



Providing a full range of more realistic and effective training for Future Combat Systems, our OneSAF system is integrated with the Common Architecture Desktop/Embedded Trainer crew station (below) and a soldier wearing a virtual simulator called DAGGERS during a simulated tactical exercise (right).



able success and has moved from concept and design phase to systems design, development, and demonstration. Today, more than two years into execution, the program has passed numerous reviews and is on cost and on schedule.

Capitalizing on these successes, the Army restructured the program to accelerate procurement of FCS capabilities. This restructure includes a means for spiraling FCS capabilities into the current force as early as 2008.

Getting warfighters the right information at the right place and time requires a worldwide network with enormous bandwidth. The new Global Information Grid envisioned by DoD benefits from important SAIC contributions throughout its architecture. For example, SAIC helps lead integration of the network's cornerstone – the Global Information Grid-Bandwidth Expansion (GIG-BE) program. GIG-BE is bringing an optical mesh network with 10-gigabyte-per-second connectivity to about 100 DoD bases, posts and stations. Moreover, GIG-BE achieved initial operating capability in only 20 months.

To exploit the bandwidth capabilities provided by GIG-BE, SAIC is supporting the DoD Net-Centric Enterprise Service (NCES) initiative. NCES will provide the software services framework to enable information sharing and collaboration by future command and control, business, and intelligence systems. SAIC's team is providing systems architecture, technical integration, and technology deployment support to DISA as the agency pilots capabilities to Defense Computer Centers.

And the lead joint military command and control system that will operate over the GIG

(the Global Command and Control System-Joint) was also previously integrated by SAIC.

All of this gives SAIC absolutely unmatched expertise in command and control and network-centric technologies.

New operational concepts for new threats.

Transformation requires continuous innovation. As a pioneer in the Revolution in Military Affairs, SAIC has been instrumental in developing much of the conceptual foundation for DoD's approach to transformation. For example, we helped develop, test, and refine such capstone concepts as dominant maneuver and long-range precision strike.

SAIC is at the heart of defense transformation at U.S. Joint Forces Command, the "transformation laboratory" for the U.S. military, and at NATO's Allied Command Transformation. Our analysts develop future warfighting concepts, such as Effects Based Operations and Operational Net Assessments, which require a rich systemic understanding of opponents and operational environments. Many of these concepts are being implemented today. For example, our support to joint urban operations includes concept modeling and analysis with the Joint Semi-Automated Forces simulation system, resulting in better understanding of urban operations in Iraq and Afghanistan.

For the Joint National Training Capability, SAIC is helping develop a persistent, global network of live, virtual, and constructive simulation components that serves as a seamless training environment to joint and service forces. This key transformation initiative and others are supported from SAIC's new facility in Suffolk, Virginia, where the Joint System of Systems Collaborative Environment Laboratory serves as a portal to the network. Our analysts also identify and develop new intelligence and C4ISR technologies for joint forces.

Training for the future. Transformational systems of systems rely on well-trained forces and well-designed software, both of which need to perform successfully when called up.

Simulation software developed by SAIC promises to be the new "gold standard" in both areas: training and software design. Designed for the U.S. Army, this OneSAF simulation software has been chosen as the simulation engine for the Army Future Combat Systems, named one of the Top U.S. Government Software Projects, and adapted by the Marine Corps for use in their Combined Arms Staff Trainer.

OneSAF's flexible architecture can meet the full spectrum of simulation needs, from developing new operational concepts and engineering research to mission planning and after-action training reviews.

Technology transformation. We develop leading-edge technologies to solve complex problems facing our forces. For example, we are exploring solutions to better protect combat vehicles from rocket-propelled grenades and other threats. Working with the Army Research Laboratory, we successfully demonstrated an electromagnetic (EM) armor system to protect a combat vehicle's flank.

EM armor and electric weapons require large amounts of pulsed electric power. At the same time, future combat vehicles must be lighter weight, more mobile, and more fuel-efficient. Hybrid electric power systems promise to meet all these requirements once major technical challenges are overcome. We are working to overcome these technical challenges at a systems integration laboratory we helped build and operate for the Army.

Lighter, more efficient power is also the goal for radios, computers, and hand-held GPS units, and for our DARPA-funded research in nanocomposite photovoltaic technology.

Base realignment. Our wide-ranging environmental services support the transformation and realignment of DoD missions, facilities, and systems. We support property remediation through full-service environmental remediation contracts with the Army. And we provide environmental assessment, analysis, and compliance support to the Air Force and Navy.

"SAIC's competitive strategy of knowing their customers, anticipating their needs, and suggesting innovative solutions has made them one of the most trusted and influential high-level systems integrator's in the C4ISR community."

2004 Frost & Sullivan Competitive Strategy Leadership Award presented to SAIC



(Above) Soldiers in combat could soon have important new advantages thanks to two unique SAIC concepts. By riding this all-terrain vehicle to a combat zone, a soldier would be able to flip a switch, convert the vehicle to robot mode, and teleoperate the vehicle as it conducts unmanned missions in dangerous areas. In order to engage quickly and accurately during close combat at night, the night vision goggles import an aligned view from a separate infrared sight on the weapon.

LOGISTICS AND PRODUCT SUPPORT

During Operation Iraqi Freedom, U.S. warfighters had the technology edge but their rapid advances occasionally outran logistics support. To keep up with “lightning-fast” military operations, logisticians need some of the same technology advances that SAIC has delivered to the warfighters: better intelligence sensors, communications networks, and analytics. At the same time, military logisticians need the best supply chain solutions from the commercial sector: demand forecasting, total asset visibility, and just-in-time inventory. At SAIC, we are delivering on all of these and more, as part of our commitment to give logisticians the technical edge.

New ways to “sense and respond” to troop needs. As light-armored vehicles, troop carriers, and combat-equipped Humvees raced toward Baghdad, they sometimes outran fuel supplies. We are working to make fuel shortages a thing of the past by developing new concepts and solutions in “sense and respond” logistics.

For the U.S. Army Logistics Transformation Agency, we are implementing sensors on 5,000-gallon fuel tankers and the 10,000-gallon fuel storage “bladders” and integrating those sensors into a prototype “sense and respond” system. A key feature of the system is our adaptive agents (actually sophisticated software codes) that review sensor data, compare it with data from command and control systems and other sources, and decide what supplies should be ordered and when. In other words, we’re designing the system to receive near real-time information on where the battle is going (from command and control system data), and respond to supply needs “on the fly” as battlefield conditions change. Today’s system responds to fuel needs, but tomorrow’s system potentially could better meet the ammunition needs of troops in the heat of battle.

In the field, not the depot. While our “sense and respond” system is still experimental, our intelligent agent technology has proven its success on major Integrated Prime Vendor programs for the Defense Logistics Agency (DLA). We use this technology to supply more than 127,000 items – ranging from bench stock to aircraft subassemblies and engine and landing gear components – to the Air Force depots and mechanics that maintain

(Below) Our Radio Frequency Identification (RFID) solutions help streamline the movement of materials by improving asset visibility, tracking, and accuracy. At the Fleet and Industrial Supply Center Norfolk, SAIC implemented one of DoD’s first fully integrated passive RFID installations. The system provides real-time visibility for more than 150,000 tagged pieces of material flowing through the terminal annually.



front-line aircraft. The result: Last year we satisfied depot requirements 99.6% of the time, beating the contract requirement for a 98% fill rate and cutting the cycle time to get aircraft back in the field.

We achieved this success thanks to our SCOPTIMA® supply chain management system, which incorporates the intelligent agent technology. SCOPTIMA tracks inventory levels in hundreds of thousands of bins, as parts are consumed, and forecasts when items should be reordered to avoid empty bins. This helps ensure that parts are available, and aircraft needing repairs can be quickly fixed and put back on the flight line, minimizing down-time. With the addition of intelligent agent technology, SCOPTIMA can now automatically trigger replenishment actions, including decisions about replenishment schedule, quantity, manufacturing source, and type of transportation. SCOPTIMA – and our just-in-time inventory support – also helped cut delivery times from 21 days down to an average of five days.

Our SCOPTIMA technology – and our success in supplying Air Force depots faster, better, and at less cost – helped us win another DLA Integrated Prime Vendor contract, this time for Naval Air Depots. Under this 10-year contract, SAIC supplies parts to the depots and mechanics that maintain Navy and Marine aircraft, such as the F/A-18, P-3, EA6B, H-53, H-46, AV-8, E-2, and S-3. Our inventory support of all of the DLA prime vendor programs encompasses approximately 127,000 items stored in 375,000 bins.

We expanded our capabilities with the recent acquisition of ProcureNet of Fairfield, New Jersey, a leading provider of electronic procurement for the U.S. Government. ProcureNet has proprietary applications for online sourcing and procurement, including an electronic catalog that can be used by military clients worldwide to procure a wide range of materials related to the upkeep of military facilities, wheeled and tracked vehicles, naval ships and submarines, and

hazardous material protection equipment. ProcureNet offers a fully integrated system that couples supply chain management and eCommerce. Using these capabilities ProcureNet processes in excess of 300,000 orders per year. We are currently integrating ProcureNet's applications with our SCOPTIMA technology and other SAIC logistics software applications, to create a total end-to-end supply chain solution for our customers

From factory to foxhole. Before “sense and respond” systems can redirect supplies “on the fly,” they have to know what’s available and where, from factory to foxhole. That’s where Radio Frequency Identification (RFID) technology can help by fulfilling the promises of total asset visibility and in-transit visibility. At the Fleet Industrial Supply Center Norfolk, SAIC implemented one of DoD’s first fully integrated passive RFID installations. The system provides real-time visibility for the more than 150,000 tagged pieces of material that flow through this ocean terminal annually.

Collecting broken repairable components, also known as “retrograde material,” from combat areas and returning them to depots is a major logistical challenge. Our staff is using passive RFID technology and an electronic retrograde management system to help solve this problem in Iraq and Afghanistan for the U.S. Navy and Marine Corps. Their achievements in improving asset visibility – while dealing with extremely difficult “in-country” and ship deployment situations – won praise from our customer, the Naval Inventory Control Point.

Our staff also deployed to Iraq to install equipment that is mission-critical for airfield operations: instrument landing systems (ILS) antennas and electronic equipment. As a leading supplier and installer of ILS equipment for the Air Force, we have performed over 100 installations at Air Force bases worldwide. As part of this work, we also perform other depot-level functions, such as upgrading and maintaining these systems.

“Since SAIC came aboard, our parts support has improved 100%. You may have a \$100,000 part to go on the aircraft, but if you don’t have that \$3 bolt to hold that \$100,000 part on, the aircraft is not going anywhere. SAIC has done a fantastic job in furnishing the material to us.”

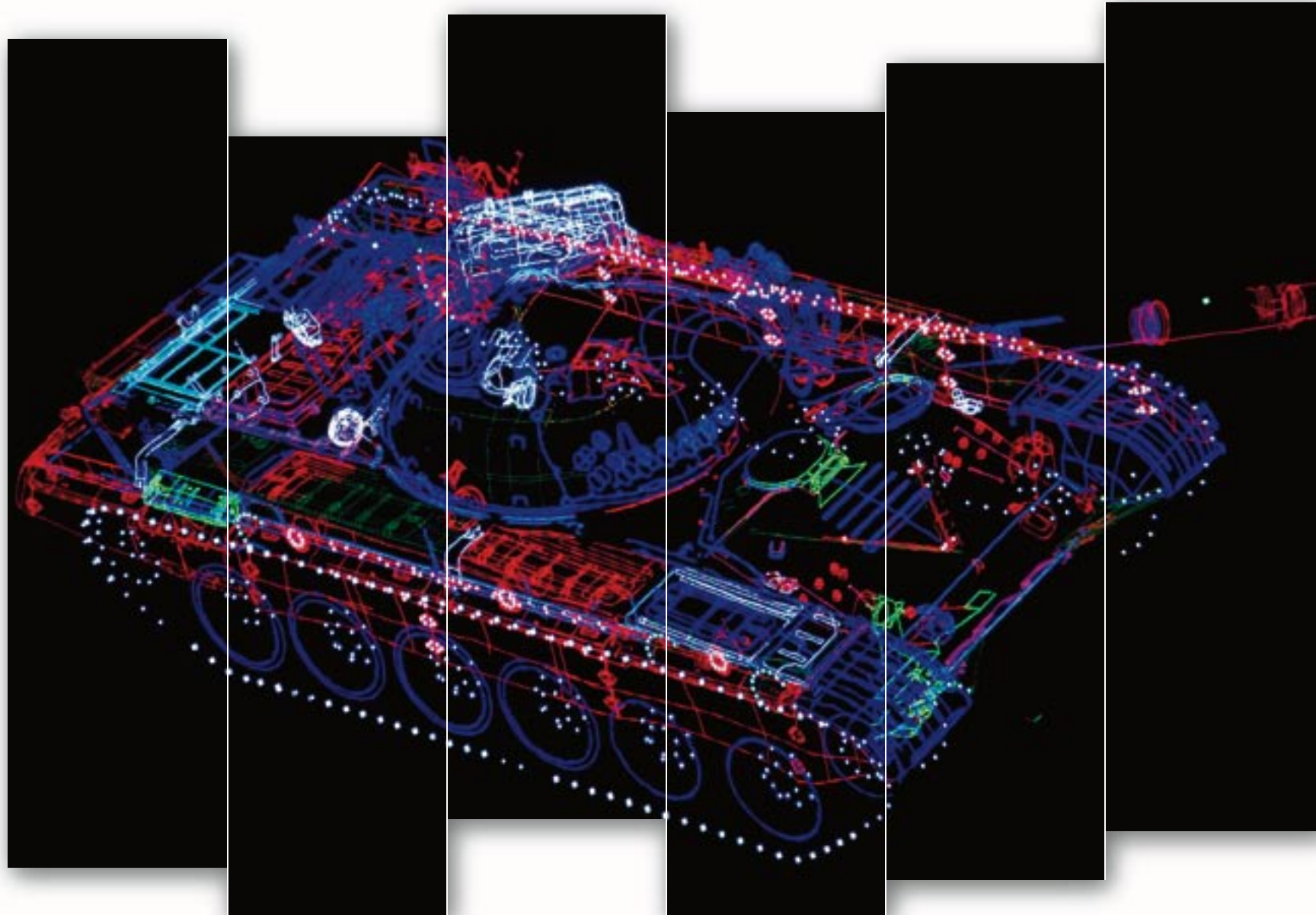
MICKEY SMITH, F-15 Technical Assistant, Warner Robbins Air Logistics Center



(Above) The Air Force’s deployable air traffic control and landing system – AN/TPN-19 – provides precision landing capabilities for forces deployed in tactical environments. SAIC is extending the service life of these important legacy systems – and upgrading their reliability, maintainability, and functionality – by inserting new technologies for communications, computing, and weather sensing and display. Following the development and test of prototype improvements, SAIC is now producing and installing these upgrades on a production basis.

INTELLIGENCE SOLUTIONS

(Below) Simulating how a vehicle, weapon, or missile responds to radar or other signals provides a signature prediction capability to help warfighters automatically recognize the target and accurately discern between friend and foe. To enhance the realism of these complex electromagnetic simulations, SAIC technologists build multimillion element 3D models by scanning foreign and U.S. weapon systems with laser and structured light systems.



As intelligence moves to center stage as a national priority, SAIC remains committed to providing our nation with the intelligence technologies and support necessary to win the war on terror and meet the other challenges of the 21st century.

From deployable technologies to enterprise systems that enable entire intelligence organizations, SAIC solutions help the intelligence and national security communities build an integrated intelligence picture – one that responds to the full range of needs, from joint operations overseas to homeland defense.

We help intelligence enterprises become more agile and dynamic to operate better in chaotic environments. We create new ways to help analysts “connect the dots” and produce actionable intelligence. And we provide understanding of how unconventional enemies think and how U.S. vulnerabilities could be exploited.

We draw on this experience to help transform defense intelligence. In one initiative, we helped create the intelligence “roadmap” for national security decision makers. As part

of this effort, we defined and revised information and intelligence flow requirements within military command centers and subordinate echelons. In another initiative, our analysts helped develop a plan to synchronize and integrate intelligence into the DoD adaptive planning process.

Our technologists also helped the intelligence community take some of the first steps called for by the Intelligence Reform and Terrorism Prevention Act of 2004. Well before this sweeping legislation was signed into law, SAIC’s intelligence leaders were anticipating new requirements and taking action. They marshaled SAIC’s intelligence capabilities into a focused set of offerings, better able to serve national security decision makers and intelligence professionals, extending the impact of intelligence from the field to the highest levels of government.

Protecting assets. SAIC helps safeguard some of the most important infrastructure – and events – in the United States.

Last fiscal year, we developed threat assessments to help NORTHCOM safeguard high-profile events such as the 2004 national political conventions and the 2005 presidential inauguration. We continue to help safeguard shipping ports, military bases, and drinking water supplies in many states.

According to the Department of Defense, casualties and damages to the Pentagon during the September 11, 2001, attacks would have been much worse if the DoD had not made upgrades recommended by a team

“The Vigilante is a highly valued test bed . . . Our activities in arming the Vigilante are providing critical insights that will pay off for the war fighter in the future force.”

RAY WALL, Chief, Systems Integrations Division, U.S. Army



(Left) Vigilante®, our vertical takeoff and landing unmanned aerial vehicle (UAV), is the first unmanned helicopter to fire a rocket while under air-to-air control from a manned UH-1 Huey helicopter. Four successful rocket shots were executed, paving the way for further testing of manned/unmanned team operations and armed unmanned systems.



(Above) Our engineers have developed innovative mission management systems to control and monitor UAVs such as Global Hawk. At the Joint UAV Systems Integration Laboratory in Sterling, VA, we are building systems so a single operator can manage multiple UAV systems using a very small laptop, a tablet PC, and even PDA devices.

that included SAIC. Shortly after September 11, 2001, we assessed vulnerabilities and made recommendations to harden other important Washington, D.C., buildings, including the U.S. Capitol, House and Senate office buildings, and Library of Congress.

We contribute to critical counterintelligence plans and programs on many levels. For NORTHCOM, our intelligence analysts provide valuable “blue-on-red” and “red-on-blue” scenario and vulnerability assessments.

Our “outside-the-box thinking” and approaches to effects-based targeting have proven successful against regional and unconventional threats. Designed to make adversaries react to U.S. forces rather than the other way around, this work supports threat planning for Air Force Headquarters.

Emerging technologies. Some of the most successful unmanned aerial vehicles (UAV) ever developed have benefited from important SAIC technical contributions. Widely and successfully used in Iraq, Predator UAVs can be remotely piloted from ground stations located thousands of miles from the theater. SAIC previously integrated and recently upgraded the Predator Operations Center and ground stations. Our technical staff support operational crews during all Predator missions.

The high-altitude, long-range Global Hawk drew praise for its ability to see through Iraqi sandstorms, stay over a target for hours, and support dynamic, ad hoc retasking. SAIC was involved in almost every phase of Global Hawk’s development from design and integration through testing and operational deployment.

At the other end of the spectrum, the small, experimental Dragon Eye successfully “earned its stripes” in Iraq, giving U.S. Marines snapshots (infrared surveillance videos) of their operating area. SAIC helped develop and test this hand-launched UAV.

Many other experimental unmanned vehicles benefit from our innovations. We are developing robotic ground vehicles for

the Future Combat Systems, and unmanned surface vehicles for coastline surveillance. Our own rotary-wing UAV, Vigilante®, recently demonstrated a new strike capability by firing air-to-ground rockets successfully.

To support leading-edge research for other UAV systems, we helped develop the Joint Technology Center/System Integration Laboratory for the U.S. Army Aviation and Missile Command. Our wide-ranging system, software, and engineering services help the lab test emerging UAV, intelligence, and surveillance and reconnaissance technologies.

And we work on many other technologies that keep U.S. and allied personnel out of harm’s way. For DARPA, we developed a networked system of 100 small robots that are able to intelligently collaborate on missions. Such robots could one day search and map terrorist-occupied or earthquake-damaged buildings, as well as track intruders.

We are also exploring innovative ways to deploy tiny wireless sensors that can self-configure into a network and gather and fuse information into actionable intelligence information. For example, we are researching how these sensors – known as Smart Dust – could improve situational awareness, reconnaissance, surveillance, and target acquisition capabilities in urban areas and help U.S. combat forces deny adversaries opportunities to operate and hide.

Geospatial intelligence. We help NORTHCOM and other agencies provide timely, relevant, and actionable intelligence to homeland defenders. As part of this work, we developed, and now maintain, the geospatial element of NORTHCOM’s intelligence common operating picture.

SAIC is also one of the largest contractor producers of geospatial information working inside the National Geospatial-Intelligence Agency. Last year, the agency’s Meritorious Unit Citation went to an SAIC team. The award cited “outstanding systems integration and leadership” in providing new imagery exploitation capabilities to 15 sites worldwide.

HOMELAND SECURITY

For 36 years, SAIC has worked to make America safer. We work to anticipate and prevent a wide range of growing and evolving terrorist threats. We develop new and better ways to prepare for and respond to terrorist threats, to reduce casualties, and to maintain critical operations. And we help people and organizations recover when terrorist incidents – and natural disasters – occur.

In recognition of our accomplishments, SAIC was honored for the second year in a row by Frost and Sullivan, who awarded us the 2004 Market Leadership Award in Homeland Security, Private Sector Markets. The award honored our achievements in helping stand up the new Department of Homeland Security (DHS) data network, and our technical contributions to state and local governments and to industries concerned with critical infrastructure protection.

Protecting against CBRN threats. We have been helping protect U.S. citizens against weapons of mass destruction from our first contract in 1969. We have worked on critical



(Above) Fallen comrades and “enemy” soldiers alike are given emergency treatment in the field during a simulated chemical attack. SAIC provided this kind of realistic field training to more than 1,400 first responders and medical professionals during 2004 as part our support to the U.S. Army Medical Research Institute of Chemical Defense, Chemical Casualty Care Division training courses.

problems as diverse as the Tokyo subway nerve gas attack, anthrax vaccines, and decontamination of the Hart Senate Office Building. We have advised DoD and NATO on chemical and nuclear countermeasures. And we helped reduce the number of nuclear warheads and delivery systems in the former Soviet; the first line of defense to keep weapons-grade material out of terrorists’ hands.

Our expertise spans the range of chemical, biological, radiological, and nuclear (CBRN) threats – a key reason the Department of Defense chose SAIC to help the Joint Project Manager Guardian (JPMG) improve CBRN protection at up to 200 DoD installations worldwide. Commanders at these installations are facing the full range of CBRN threats and a confusing array of CBRN detection, protection, and response choices.

As Lead Systems Integrator for the groundbreaking Guardian Installation Protection Program, SAIC will help JPMG choose and field the appropriate integrated detection, protection, and response capabilities. As part of this effort, we identify and test emerging detection and protection technologies at our new Integration and Assurance Center (IAC) in Abingdon, Maryland. Designed to represent the overall CBRN market, the center is currently engaged with nearly 200 CBRN-related manufacturers and service providers. The IAC includes a hands-on equipment showroom, a systems integration laboratory where SAIC engineers rapidly configure potential systems and test for interoperability, and a command center to demonstrate complete solutions.

To increase protection against nuclear and radiological threats, we are helping DHS develop comprehensive countermeasure architectures using a system-of-systems

approach that addresses a range of threats from “dirty bombs” to improvised nuclear devices and finally to full-scale nuclear weapons.

We are also working on multiple fronts to attack the toughest problems in bioagent detection. We are developing a system to detect a wide spectrum of human pathogens – possibly thousands simultaneously – and to do so with many samples daily. Able to detect mutated viruses and engineered bio-warfare agents, this patent-pending technology combines a novel application of signal processing with DNA microarrays. Another patent-pending SAIC technology seeks to make false positives a thing of the past. This technology mates DNA microarrays with proprietary SAIC data mining software – Fast Identification of Unique Genomic Regions.

Protecting ports, borders, and transportation.

Right now, millions of cargo containers are moving by ship, road and rail to destinations in the U.S. and around the world – and any of them could contain a weapon of mass destruction. This threat poses an enormous challenge for the shipping industry: improving container security with minimal impact to the flow of cargo.

SAIC’s Integrated Container Inspection System (ICIS) can help meet this challenge by scanning sealed containers at cargo terminals and border crossings in normal traffic flow. In a pilot project, two cargo terminals in Hong Kong are using ICIS to scan containers arriving by land and sea. By being the first to introduce this type of integrated system, we hope to set the standard for scanning operations throughout the shipping industry.

Developed in cooperation with government and industry organizations, ICIS combines three proven SAIC cargo-scanning technologies: our widely used EXPLORANIUM™ detectors for low-level radiation scanning, our optical character recognition technology for automated container identification, and most important, our highly successful VACIS® inspection systems. VACIS systems use our

patented gamma ray imaging technology to help authorities identify a wide range of substances, from weapons and hazardous materials to drugs and stolen automobiles. Nearly 300 VACIS systems are deployed globally. Able to scan an entire container in 10-15 seconds, VACIS systems recently helped Customs officials in Malta seize 17 large containers of counterfeit clothing with brand-name logos, believed destined for Europe.

To help reduce the economic impact of new tracking and monitoring technologies and process changes, SAIC participated in an important initiative with a major port and a national retailer’s distribution center. This initiative to employ and test new and existing tracking technologies through the supply chain was part of the Department of Homeland Security’s Operation Safe Commerce.

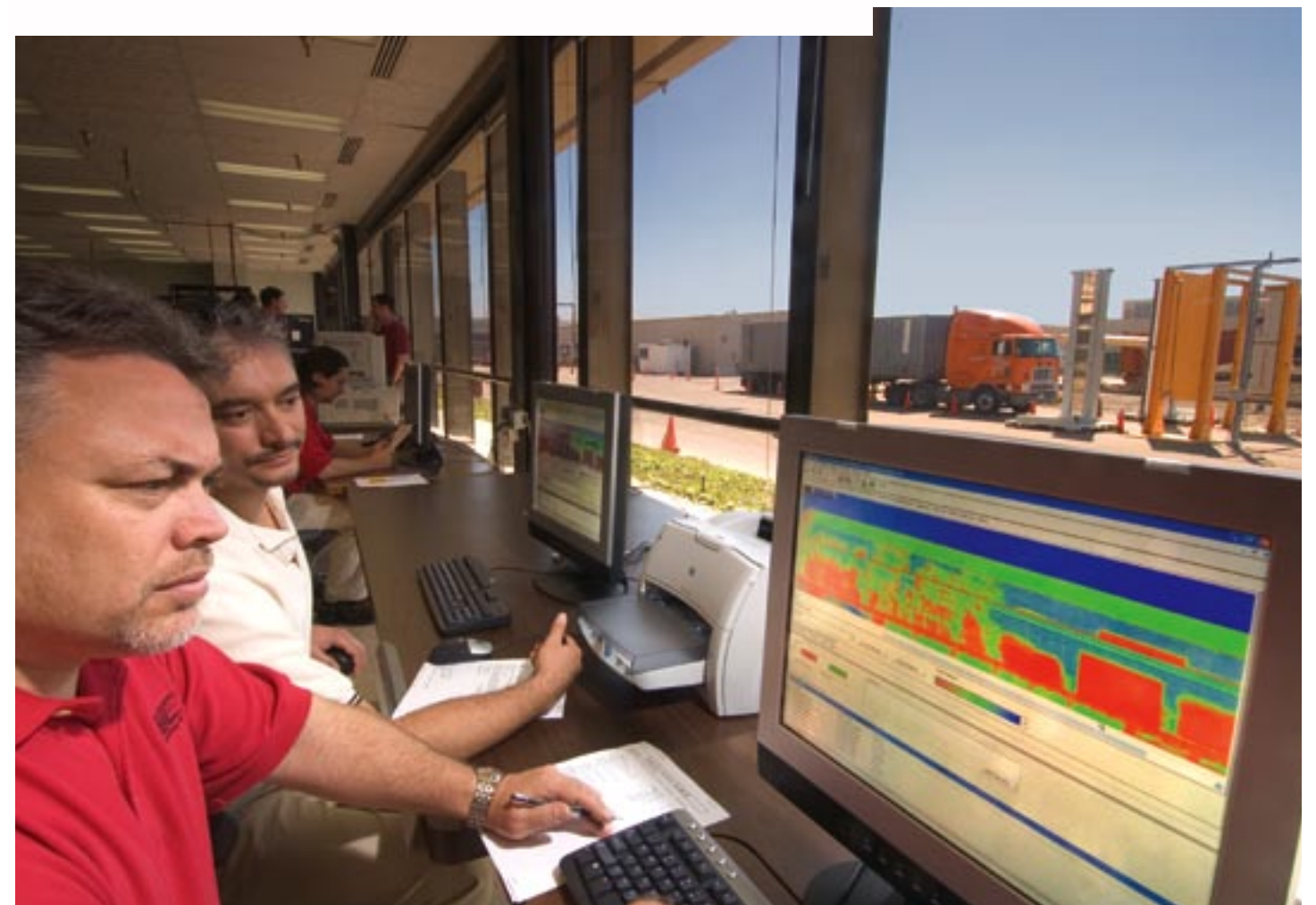
In multiple ways, our products and services have been working to secure 20 major ports in multiple countries. These include some of the world’s largest container ports in Los Angeles, New York, North Carolina, Seattle, New Jersey, Greece, and Hong Kong.

We also work in many ways to make air travel safer. For example, we are helping the Transportation Security Administration develop next-generation systems for faster, more accurate screening of checked baggage and detection of explosives.

Transportation security also means knowing the best ways to respond when a natural disaster or terrorist incident threatens to shut down vital transportation routes. To better identify and protect critical highway, rail and waterway choke points, SAIC developed a tool to help security officials prioritize transportation choke points by economic impact on U.S. commerce.

To help secure the boundaries of the largest active duty armored post in the U.S. – Fort Hood in Killeen, Texas – an SAIC team designed 21 access control points and a visitor control center to handle the more than 100,000 vehicles and hundreds of visitors who travel to the installation daily. Our design also provides for infrastructure to

(Right and below) To help port authorities identify suspect containers, our Integrated Container Inspection System (ICIS) combines several SAIC cargo-scanning technologies, including our VACIS® gamma ray inspection systems, Exploranium™ radiation portal monitors, and optical character recognition solutions. ICIS can also integrate data from other sources, including terminal information systems.



“In the PSIC, you’ve done things others aren’t doing. Your focus on the ‘lines’ in a system design flowchart – integration rather than the products and technologies alone – shows the creativity and thought leadership that is so needed today in both Homeland Security and Defense.”

MAJ. GEN. DALE MEYERROSE, Director of Architectures and Integration, U.S. Northern Command

support a security network, two structures to house SAIC VACIS systems, and 10 miles of security fencing, among other features.

Systems integration for homeland security.

As a leading systems integrator, we play a key role in helping the Department of Homeland Security fulfill its missions. We also provide integrated, end-to-end solutions to help foster collaboration among civilian first-responders, law enforcement, health workers, and other emergency providers.

After integrating the data network connecting the formerly separate 22 DHS agen-

cies, SAIC led a team that developed the first enterprise architecture for DHS in just four months. By laying this foundation, we helped the department map its IT systems to specific business functions, identify overlapping systems, and more effectively identify what IT programs it needed. SAIC is now supporting the next phase to implement a more detailed enterprise architecture to better share data across DHS, and to develop the wireless and geospatial components of the architecture.

Building on this success, we won a major recompetition contract to provide IT engineering support to the Bureau of Immigra-

(Below) To better respond to natural, technological, and terrorist incidents, customers use our emergency operations center simulator to test interoperable homeland security solutions at our Public Safety Integration Center (PSIC). In the past year, federal agencies such as the Departments of Homeland Security and Energy, the Secret Service, and all branches of the U.S. military, as well as many states and even international organizations have visited the PSIC.



Global humanitarian support and disaster response

At SAIC, we see “homeland security” as more than responding to acts of terrorism; we work to protect people and resources from natural disasters as well. Through our work in early warning systems, risk assessments, and crisis management tools, we help nations and communities deal with disasters.

First used for crisis management when Hurricane Andrew struck in 1992, our Consequences & Assessment Tool Set (CATS) has helped emergency managers respond to disasters as diverse as the 1994 Northridge earthquake, the 2001 World Trade Center attack, and the 2003 San Diego County wildfires.

We were recently brought in to upgrade the deep undersea system that provides early warning of tsunamis for the United States. To help other countries receive better tsunami warnings, our scientists are exploring a new possibility: expanding the use of a worldwide seismic monitoring network we built to detect nuclear testing (under the Comprehensive Test Ban Treaty) to now support tsunami warning.

After the December 26 tsunami struck South Asia, SAIC helped in many other ways. We provided funds to help victims. We helped officials manage critical water resources. We helped doctors and nurses access important medical data while treating tsunami victims onboard the USNS *Mercy* hospital ship. And we set up critical communications links to help coordinate aid efforts.

tion and Customs Enforcement. ICE is undergoing a significant business transformation to better accomplish its law enforcement mission. Our support will help ICE improve data quality and consolidate infrastructure to enable better collaboration and information sharing inside and outside the agency.

Emergency preparedness and response.

Effective emergency response requires state and federal emergency operations centers to be able to communicate with local firefighters, police and other first responders.

More than 200 emergency management organizations from all levels of government have visited our Public Safety Integration Center (PSIC) in McLean, Virginia, to understand the importance of interoperability between new equipment and legacy responder systems. The PSIC is a premier showcase for SAIC’s systems integration capabilities, featuring incident management and collaboration systems, wireless voice, video and data, and best operational practices.

A premier supplier of military and civilian centers for decision-support, SAIC has designed more than a dozen emergency operations centers across the country. An emergency management system developed by SAIC for the State of Michigan recently won a national award for the system’s

outstanding performance during a massive power blackout. The Michigan State Emergency Operations Center’s evolution was based on an SAIC-developed GIS and Critical Incident Management System that became the first GIS emergency management system in the nation to be deployed statewide.

Interactive incident management can also help officials in Illinois respond more quickly and effectively to threats of agroterrorism. Working with the Illinois Department of Agriculture, we developed the Interactive Livestock Emergency Response Tool (ILert), a GIS application that provides 2-D and 3-D visual representations of agricultural assets such as livestock and food processing facilities, as well as data on testing labs, hospitals, transportation networks, and topography.

Managing critical infrastructure information is crucial for ensuring continuity of operations following a disaster. This ability to provide authoritative decision support information in time of crisis is the goal of SAIC’s work with the Naval Oceanographic Office (NAVOCEANO). SAIC is supporting the National Center for Critical Information Processing and Storage initiative at NAVOCEANO to enhance mission-critical disaster recovery, continuity of operations, and data processing and storage capabilities.

COMMERCIAL SERVICES

(Below) Helping clients become more competitive in the commercial environment, SAIC India provides collaborative sourcing, domain knowledge, and process, technology and application expertise, all at a globally competitive cost to many industries such as energy, manufacturing, automotive, finance, transportation, and health care.



“SAIC offers the expertise and a broad knowledge base that will give Marathon additional efficiency and flexibility to focus on our core businesses. This agreement continues the steps we have taken during the past two years to improve our competitiveness and enhance our shareholder value.”

THOMAS K. SNEED, CIO, Marathon

By using our deep domain and industry expertise, SAIC has generated new value and built very successful client relationships in the global energy industry. Our high levels of customer satisfaction and loyalty are tightly linked to the stability and commitment of our company culture.

IT outsourcing. This commitment to excellence explains why we have a 13-year relationship with BP, a five-year relationship with ScottishPower, and a six-year relationship with Entergy. In fact, SAIC and Entergy were awarded a “2004 Outsourcing Excellence Award” from the Sourcing Interests Group, in which the relationship was honored for its ongoing flexibility and facilitating corporate agility. And when Entergy staff received Gartner’s annual TOP award, based on their commitment to measurement and results achieved, they asked us to stand on the podium with them.

Our IT outsourcing support extends to “majors” and “super majors” in the oil and gas industry. For Marathon Oil, our recent seven-year contract integrates capabilities from across SAIC into a seamless service delivery model and will be managed from our Integrated Service Center based in Houston.

The digital oilfield. The exploration and production (E&P) industry is no stranger to exploiting digital technology. Top analysts have stated that the industry is on the crest of the digital oilfield of the future. SAIC assists three of the super majors in realizing their vision of the Next Generation Oilfield and Refinery.

BP describes it as “Field of the Future.” For ChevronTexaco, it’s “*i-field*.” And for Shell, it’s “Smart Fields®.” The names are different but the goals are the same: improved efficiency and productivity.

Our work extends across the field, from the development and deployment of novel technologies that enable real-time drilling information, real-time architecture development, and real-time remote control of offshore E&P assets, to faster and better reservoir simulations. The benefit is total asset awareness, which leads to improved decision making.



(Left) SAIC leads the development of advanced systems and software for unmanned vehicles. This technology can provide first responders with safe options for surveying the site of a natural disaster such as an earthquake or large fire.



(Above) Regal Cinemas innovates new ways to see the movies, with their customer activation terminal (CAT). SAIC supports their cutting edge, Web-based technologies around the clock.

COMMERCIAL SERVICES

Systems integration success in biopharmaceutical arena. In January 2003, Pfizer made a strategic decision to engage SAIC's assistance with the post-acquisition integration of Pharmacia. The idea was to leverage SAIC's client intimacy and program management capabilities in the effort to integrate the cultures, applications, staff, and operations of Pfizer and Pharmacia.

Since then, over 90 simultaneous integration projects have been completed on schedule; more than 1,000 protocols for active human drug compounds transitioned; 2.8 terabytes of data archived; 5,000 servers eliminated at a cost saving of \$10 million; 25,000 new users integrated into the R&D IT architecture; 900 systems integrated, and 20 sites closed.

For both Pfizer and Pharmacia knowledge management and program transparency were critical to the success of the whole. To achieve this, we developed Integrated Project Teams to work as part of Pfizer's R&D organization, and used a customer-integrated Program Management Office methodology initially developed and tested by the defense team at SAIC, which reduced Pfizer's consolidation risk and ensured a smooth transition.

Environmental excellence. Harley-Davidson recently received Pennsylvania Gov. Edward G. Rendell's 2004 Award for Environmental Excellence, and SAIC contributed to this recognition by our ongoing comprehensive remediation services at their final assembly motorcycle manufacturing plant in York, Pennsylvania.

In fact, SAIC's commercial environmental business has grown significantly over the past two years as manufacturing and other industrial customers have consolidated their national vendor lists in the area of compliance, remediation, and risk portfolio management. SAIC is working with ChevronTexaco to achieve operational excellence, cost synergy, and technical innovation at sites nationwide.

We also provide environmental

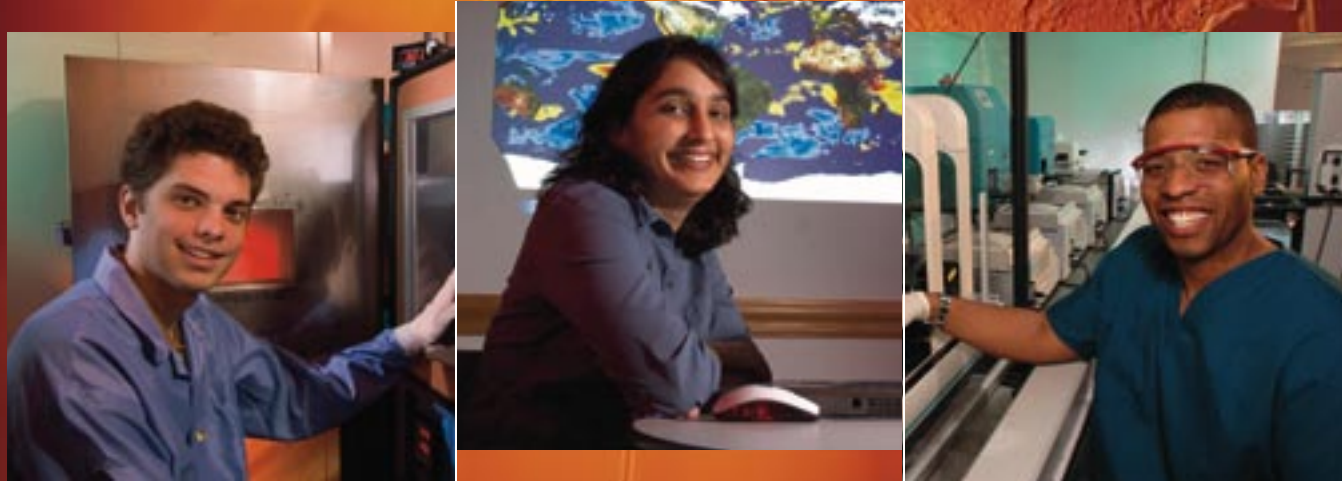
engineering, operation and maintenance, and site closure support to Shell Oil and Valero Energy, and environmental compliance support to General Electric and Koch Mineral Services LLC, among numerous others. And last fiscal year, SAIC was issued a patent for its innovative and efficient enhancement to waste treatment technology. A full-scale plant using our patented "Ozinox" process has been operating successfully at a commercial site.

Telecommunications. When BP Digital Communications & Technology wanted to migrate from a sole-provider frame relay and ATM environment to a resilient multi-provider Multiprotocol Label Switching (MPLS), Internet telephony, and virtual private network solution, they called on SAIC.

SAIC designed, engineered, and managed the successful deployment of a global MPLS next-generation network in the United Kingdom, Europe, and Asia and has begun its roll out in North America. This new MPLS network promises to provide BP significant savings as well as the ability to offer its internal users differentiated quality of service for different types of network traffic – voice, video and data. Gartner highlighted the program in a case study published in 2004, to show how the MPLS network offers the best solution for large enterprises' networking goals.

Emerging new business. Our AMSEC LLC subsidiary now provides the cruise ship industry the same kinds of services that it has traditionally provided to Navy, Coast Guard, and Marine Safety Center customers. These include naval architecture, marine engineering, information technology, shipboard technical services, and ship and port security. AMSEC LLC personnel delivered designs to upgrade ships' youth facilities; IT products to improve various management and operational systems; and technical services to solve problems in a new vessel's gas turbine propulsion control system.

EMPLOYEE OWNERSHIP CULTURE



More than 36 years of continuous revenue growth have made SAIC the largest employee-owned research and engineering firm in the United States.

“Employee ownership has been a major discriminator and reason for our success. Today, the same principles are continuing to govern and guide our company as we embark upon the journey to reach the next plateau in the company’s evolution,” says CEO, President, and Chairman of the Board Ken Dahlberg.

Because employees are rewarded for outstanding performance with ownership, SAIC employees possess an entrepreneurial spirit. We take initiative, make suggestions for solving problems, look for new and better ways to serve our customers, and express our opinions on how to make SAIC a better place for all.

And, because we are not publicly traded, we take a long-term view. At SAIC, employee ownership is a responsibility as well as a privilege. By actively participating in employee committees, company-wide “town hall” meetings, and other forums, our employees gain a greater understanding of SAIC’s business, its customers, and markets.

With SAIC continuing to grow and new employees joining our talented team, we developed a number of initiatives, including a C.E.O. (Certified Employee

Owner) program, to expand our employee-owners’ knowledge and understanding of our business and the markets that we serve, and the opportunities for increasing their ownership stake in SAIC.

The C.E.O. training program has been delivered to more than 19,800 employees worldwide. In FY05, the number of C.E.O.s increased by 75%. Group and business unit managers played a big role in that accomplishment.

To provide all employees with the opportunity to become owners, the company has established several ways for employees to acquire stock – including the Employee Stock Purchase Plan through payroll deductions, performance-based stock incentives, and direct purchases in SAIC’s quarterly market. Employees also gain ownership through the company’s 401(k) and retirement plans.

SAIC stock is not traded on a national securities exchange; however, our wholly owned broker-dealer subsidiary, Bull, Inc., operates a quarterly internal market. The company’s Board of Directors determines the fair market value of SAIC’s stock with the assistance of a nationally recognized independent appraisal firm.

Stockholders who understand that our company is managed for the long term saw a 10-year annualized stock price growth of 26.3% on their stock.

TEAM SAIC



OCCUPATIONAL CATEGORY

Professional Technical	71%
Professional Managerial	15%
Administrative	14%

ACADEMIC DEGREE LEVEL*

Ph.D.	7%
Master's Degree	37%
Bachelor's Degree	56%

* These represent 75% of the professional staff (excluding international entities and subsidiaries with one exception).

YEARS OF INDUSTRY EXPERIENCE*

More than 10 years	77%
5-10 years	14%
Less than 5 years	9%

ACADEMIC DEGREE DISCIPLINE*

Sciences	46%
Engineering	19%
Business/Economics/Law	21%
Humanities	14%

As the largest employee-owned research and engineering company in the United States, SAIC offers the unique opportunity to become an employee owner and to work on nationally significant programs and cutting-edge research in an entrepreneurial environment.

SAIC takes pride in having highly skilled and talented employees. In today's increasingly diverse and competitive global marketplace, it is vital that we continue to attract and retain talented individuals from different backgrounds and experiences. This diversity of talent enhances the creative and innovative solutions we provide to nationally important programs in homeland security, health care, energy, and space, among many others.

We are focusing energy and investments on strengthening initiatives for talent development that promote the inclusive environment necessary for such creativity and innovation.

Professional Growth. Top people want opportunities to continue growing and developing. For its impressive offering of learning options, SAIC University was named one of *Training Magazine's* top 100 Corporate Learning Organizations in 2005. Those learning options include instructor-led courses, East Coast and West Coast university certificate and degree programs, and access to 2,000 e-learning courses spanning business, leadership, and technical topics.

To further strengthen our capabilities as a learning organization, we are making investments to expand SAIC University and its educational offerings.

Rewards and Benefits. Our choices are designed to suit the varied needs of employees and family members, including eligible domestic partners.

Eligible employees have the flexibility to choose from a variety of health care plans, including PPO, HMO, and catastrophic medical plans, as well as dental and vision care programs. The company also offers eligible employees disability, life, accidental death, and business travel coverages.

Other benefits include comprehensive leave, paid holidays, and tuition reimbursement.

In Fiscal Year 2005, SAIC contributed \$672 million to these benefit plans.

Retirement Plans. SAIC retirement plans are a vital part of our employee benefit packages. At the end of calendar year 2004, SAIC Retirement Plans held approximately \$4.9 billion in assets, after a \$95-million Company contribution.

Eligible employees can take advantage of our Employee Stock Retirement Plan and our 401(k) Profit Sharing Plan. The latter has a simpler 401(k) formula that provides a higher Company matching contribution for most employees.

Employees have the ability to invest their retirement assets in a spectrum of investment vehicles. A portion of the Company contributions are invested in a non-exchangeable SAIC company stock fund.

To help employees make the right investment choices, SAIC and Vanguard offer financial investment seminars, and e-meetings, Web classes, and tools for retirement planning.

BOARD OF DIRECTORS



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Corp. (Ret.)

C.B. Malone
President, Financial &
Management Consulting
Inc.

STRATEGIC LOCATIONS

United States

SAIC has employees in all 50 states and the District of Columbia. The largest concentrations of employees are in San Diego, the greater Washington, D.C. area, and the greater Hampton Roads area of Virginia.

International

SAIC has employees in 33 countries, including:
Europe: Belgium, Bosnia, Czech Republic, England, France, Germany, Ireland, Scotland, Italy, Spain
North America: Canada, Cuba
Middle East: Egypt, Saudi Arabia, Turkey
Asia/Pacific Rim: Guam, India, Japan, South Korea

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP, San Diego, California



SAIC offices in Orlando, McLean, and San Diego

Produced by: SAIC Communications
Project Director: Nola Smith
Art Director: Dave Pohlman
Principal Photographer: Wilson North
Principal Writers: Bruce Hasley, Nola Smith
Coordinator/Photo Editor: Susan Harrington
Printer: Neyenesch Printers

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