SAIC **Annual Report**

Fiscal Year **2006**

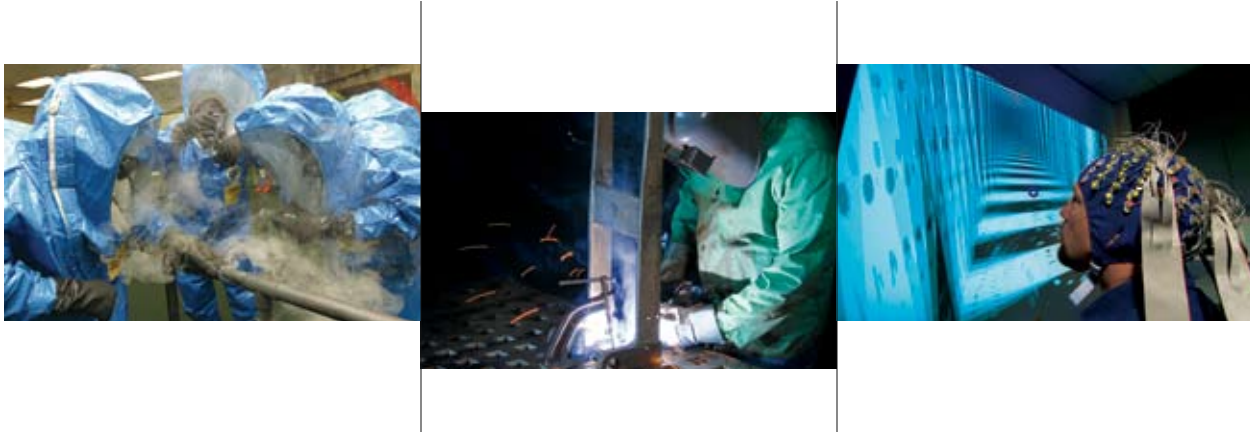Our vision, values and **exceptional people**
contribute to **our success**

SAIC®

From Science to Solutions™

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SAIC – From **Science** to **Solutions**™

SAIC is a leading systems, solutions and technical services company. We solve our customers' mission–critical problems with innovative applications of technology and expertise. In medical labs researching cancer cures, in the desert testing next–generation robotics, in the ocean deploying tsunami warning systems, SAIC people and technologies are there. In crime labs investigating new evidence, in Iraq helping protect and support our men and women in uniform, SAIC is there.

SAIC has a reputation for exceeding customer expectations. Our people are empowered to deliver outstanding value and productivity, and to go the extra mile for our customers.

SAIC is a platform–independent provider of scientific, engineering and systems integration services. We draw on a wealth of technology and integration options to better serve our customers.

SAIC is committed to recruiting, retaining and developing a diverse team of talented professionals. For us, success depends on bringing people together to solve some of the toughest problems facing our nation and the world.

We do all this with the constant and deliberate commitment to ethical performance and integrity that has marked SAIC since its founding.

ON THE COVER:

Across land, sea and space, we are there. Our technical professionals deploy with military forces to develop and test new systems and hardware. (Left) SAIC professional Reginald Howze provides critical technical support for weapons demilitarization.

We develop new technologies for space defense and space intelligence. (Center) SAIC Mechanical Designer Jimmy Wong helps develop a high-resolution earth-observing system for a micro-satellite.

(Right) Program Manager Elizabeth Burch (top) and Software Engineer Stephanie Banaag are helping the next generation of military forces respond to current and emerging threats via new military training technologies.

Message to
Stockholders

CEO Ken Dahlberg

Fiscal Year 2006 was a productive and exciting year, but it was also a challenging one. I'm proud to report that our company and our employees continued to deliver strong performance to our customers and solid value to our shareholders.

Our Performance in FY2006

Dedication and tremendous effort from our people – in the face of difficult challenges – helps explain why SAIC was able to deliver solid financial performance in a year that was anything but business as usual. The U.S. government – our largest customer responsible for 89% of our revenues – was confronted with huge, unexpected operational requirements after Hurricanes Katrina and Rita as well as large ongoing costs to support the war on terrorism. Many government customers – and the SAIC organizations that supported them – faced markedly altered programs, budgets and missions.

The dedication and heroism of our employees in the hurricane-devastated areas deserves special mention. It is this type of commitment and capability that makes SAIC a truly special organization.

Even with all of these events, our revenues grew 8% to reach $7.8 billion. Net income jumped 127% to $927 million. This net income figure includes $582 million of income from discontinued operations, driven primarily by a gain from the sale of our former Telcordia Technologies subsidiary in March 2005. Considering only continuing operations, net income and diluted earnings per share rose 27% and 32%, respectively, compared to FY2005.

We continued to be faced with challenges on our contract with the Greek government to provide security infrastructure for the Athens 2004 Summer Olympics. We are working diligently to have an outcome that is mutually satisfactory to our company and customer.

Our focus on improving our competitiveness continued this fiscal year with initiatives to streamline more of our operations, improve IT resources, and upgrade training programs. We also invested more in research and development and in developing our people.

Cash flow from operations was strong, helping grow the balance sheet to $2.7 billion in cash and marketable securities. We continue to look for ways to deploy cash that generates maximum shareholder value.

Our Strategic Thrusts Should Drive Our Growth

Our strategic focus in our intelligence business area has yielded outstanding revenue growth. We also made two important acquisitions to strengthen our intelligence capabilities: Object Sciences Corporation in FY2006 and Presearch Inc. in FY2005.

In the chemical-biological defense area, we added

to our expertise with the strategic acquisition of GEO-CENTERS, which *Washington Technology* cited in its list of "Top 10 Deals" for 2005.

In the area of logistics transformation, we're well positioned to continue delivering innovative solutions to DoD. And we've seen a resurgence in our transportation business as government agencies look for ways to make the transportation infrastructure more resilient in the face of terrorist attacks or natural disasters.

We also plan to step up and deliver more solutions to the warfighter. We responded to one of the Bush administration's top defense priorities – defeating and defending against improvised explosive devices (IEDs) – with new technology for a multipurpose troop transport.

Blending Public and Private Ownership

While we remain committed to completing an initial public offering, we also remain committed to maintaining significant employee ownership. We believe employee ownership continues to offer a strong value proposition, helping us recruit and retain top talent, and motivating our employees' best efforts for our customers and our shareholders.

Heading into the Future

Having a strong staff of highly qualified people is essential to capture and execute new opportunities. Recruiting and retaining excellent personnel has always been a top priority for SAIC. But as important, we continue to take steps to strengthen our management team and improve our operating efficiency.

This is an exciting time at SAIC. Going forward, we have every reason to be optimistic about our future. We earned this optimism by our strong performance – not just last year, but throughout our 37-year history.

Our employees are passionate about our mission. Working together, we are determined to achieve our company's vision to "be the leading systems, solutions, and technical services company, solving our customers' most important business and mission-critical problems through innovative applications of technology and domain knowledge."
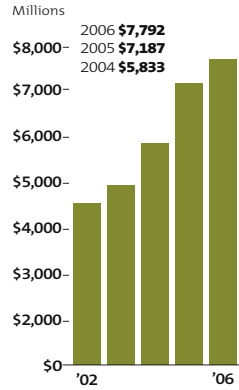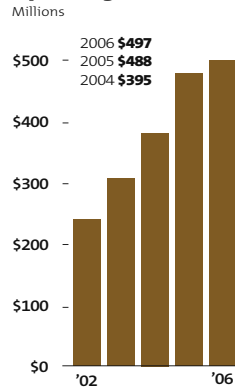
Ken Dahlberg

Ken Dahlberg
CEO and Chairman of the Board

Financial **Highlights**

Revenues
Millions

2006 **$7,792**
2005 **$7,187**
2004 **$5,833**

$8,000–
$7,000–
$6,000–
$5,000–
$4,000–
$3,000–
$2,000–
$0–

'02   '06

Operating Income
Millions

2006 **$497**
2005 **$488**
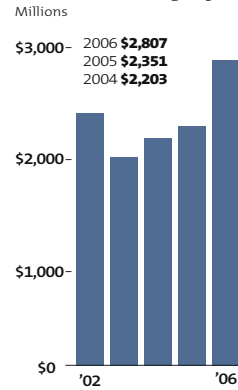2004 **$395**

$500 –
$400 –
$300 –
$200 –
$100 –
$0

'02   '06

For Revenues and
Operating Income,
all years presented
have been restated
to show Telcordia
Technologies, Inc.
as a discontinued
operation

Stockholders' Equity
Millions

2006 **$2,807**
2005 **$2,351**
2004 **$2,203**

$3,000–
$2,000–
$1,000–
$0

'02   '06

**Diluted Earnings
per Share**

2006 **$5.15**
2005 **$2.18**
2004 **$1.86**

$5 –
$4 –
$3 –
$2 –
$1 –
$0

'02   '06

Net Income
Millions

2006 **$927**
2005 **$409**
2004 **$351**

$1000 –
$750 –
$500 –
$250 –
$0

'02   '06
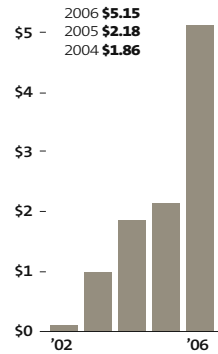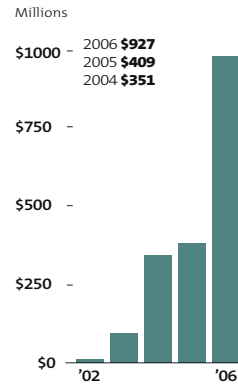
Solutions for
Government and Commercial Customers

Our line management team:

Group Presidents (from left) T.P. Smith III , George Singley III,
Deborah Alderson, Larry Peck, and Lawrence Prior III.
Senior Vice President Charles Koontz (right).

Homeland **Security**

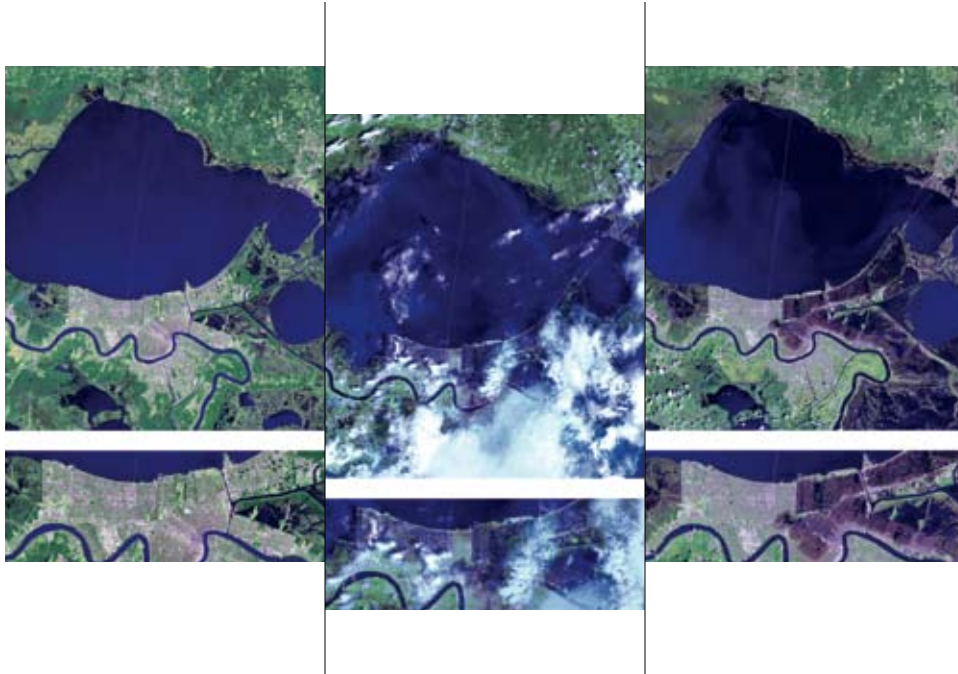*From ground zero to the Gulf Coast, SAIC provided vital situational awareness supporting rescue and recovery efforts. When government agencies arrived to help, SAIC staff reestablished communications and provided emergency operations and IT support. (**Above**) To aid emergency workers after Hurricane Katrina, we helped the U.S. Geological Survey process and deliver nearly 22 terabytes of imagery. (**Right**) At our Public Safety Integration Center, SAIC Professionals William Summers and Julie Hadley integrate and demonstrate new solutions to respond to natural disasters.*

When terrorists attacked in 2001, SAIC answered the call to duty. We answered it again last year when one of the most devastating natural disasters on record struck the Gulf Coast.

Both times, our staff were among the first to respond. When a hijacked Boeing 757 slammed into the Pentagon on September 11, 2001, SAIC staff risked their lives to help others escape the burning, smoke-filled building. Their acts of bravery earned them the highest peacetime medals awarded by the U.S. Army.

When Hurricane Katrina's powerful center crashed into the Gulf Coast near NASA's Michoud facility, an SAIC employee risked his life to stay and protect flight hardware essential to the U.S. space program. That courage would earn Steve Thompson the NASA Medal for Exceptional Bravery.

There were many other examples of quiet heroism by SAIC employees. Not far from NASA Michoud, our employees were on the ride-out crew at the National Data Buoy Center. Although they suffered devastating personal losses, our employees stayed on the job, working quickly and efficiently to get data from critical hurricane early warning systems streaming back out to the public before Hurricane Rita slammed into Texas and Louisiana.

After Katrina wreaked havoc on Mississippi River shipping channels, our staff were among the first to navigate the unknown hazards. Onboard a NOAA research vessel, they worked around the clock to survey and chart

Homeland **Security**

new navigation hazards so that ports and shipping channels could be reopened to Navy relief vessels.

When the U.S. Army Corps of Engineers and the Centers for Disease Control and Prevention (CDC) staff arrived to help, they relied on SAIC to configure new communications links and provide emergency operations support in the disaster-torn area. And when Louisiana State University became the temporary home for displaced or arriving federal agencies and evacuees with special needs, SAIC staff quickly assisted LSU in standing up an emergency operations center to coordinate relief efforts.

The list of SAIC contributions goes on: delivering logistics and maintenance support for military relief operations; assisting in the transfer of electronic medical records and prescription histories to help displaced victims; and capturing lessons learned from disaster and relief efforts.

Through it all, we pressed forward to improve homeland security protection on many other fronts.

Protecting Against CBRN Threats

A wealth of experience went into creating SAIC's new Homeland Protection & Preparedness Business Unit. Respected experts from SAIC and its GEO-CENTERS acquisition joined forces to create this new business unit last year. Headquartered in Abingdon, Maryland, near long-time customers at Aberdeen Proving Grounds, the business unit focuses on protecting first responders, armed forces, and civilians from chemical, biological, radiological and nuclear (CBRN) weapons.

Its centerpiece contract: Lead Systems Integrator for the ground-breaking Guardian Installation Protection Program. SAIC is helping the Joint Project Manager Guardian choose new detection, protection and response capabilities and integrate them with existing force protection measures at installations in the U.S. and overseas. As part of this effort, we identify and evaluate emerging detection and protection technologies at our Integration and Assurance Center (IAC) in Abingdon.

Securing Borders and Ports of Entry

Safeguarding the homeland means working with international trading partners to identify and inspect cargo containers at international ports before they are shipped to U.S. seaports. In a project that holds the promise to reduce the terrorist threat, two of the world's busiest cargo terminals – both in Hong Kong – have been using our Integrated Container Inspection Systems to scan hundreds of thousands of containers during the course of normal traffic flow. One of the core technologies in this system, our proprietary gamma-ray imaging system, has been deployed across the U.S. and around the world to land, sea and air ports of entry.

Not content to rest on its successes, SAIC is exploring new technologies to detect nuclear materials contraband, intrusions into cargo containers, and explosives in containers. We are also developing new technologies to help protect seaports and the Panama Canal from seagoing threats, as well as to help protect airports from runway incursions and aircraft from shoulder-fired missiles.

Defending Against Disease

Whether a disease outbreak is terrorist-driven or naturally occurring, government and public health officials are turning to SAIC for solutions in preparedness and response. We are helping the CDC develop a national biosurveillance infrastructure designed to improve early detection of major disease outbreaks as well as to provide improved "health situational awareness." SAIC is working with hospitals and health care organizations around the country to implement real-time data feeds into this BioSense system. This is a massive, first-of-its-kind effort.

We're designing the system to correlate medical complaints with data from monitors in the DHS BioWatch network. SAIC is developing a system that could make substantial improvements to this biosurveillance network, which was implemented after the anthrax attacks in 2001.

At the same time, we're exploring emerging technologies such as the TIGER biosensor, a revolutionary system for identifying infectious diseases and winner of an R&D 100 Award for 2005. Developed by SAIC and Isis Pharmaceuticals, TIGER shows remarkable promise for identifying both known pathogens and newly evolved or engineered pathogens.

Once pathogens are identified, vaccines need to be available in the right quantities at the right time and place. SAIC is playing a key technology management role in the DHS BioShield program to more effectively stockpile and more rapidly develop vaccines and therapeutics.

*SAIC expertise has benefited some of the largest security operations in U.S. history: Olympic Games, presidential inaugurals, and Super Bowls. To create a safe experience for Super Bowl XL, the City of Detroit and the Detroit Police used a security system integrated by SAIC (**above**) to coordinate more than 100 local, state and federal agencies. At the Center for Domestic Preparedness in Anniston, Alabama, SAIC is the prime contractor for training police (**left**), firefighters and medical personnel how to respond to terrorist incidents, especially those involving chemical, biological and radiological agents.*

Intelligence **Solutions**

U.S. Army Photo taken by George Anderson (SAIC)

United States Marine Corps photo

We help military and intelligence staff access vital intelligence when, where and how they need it. In a deployed combat unit in Iraq, Army analysts use the advanced analytical tools of JIOC-I to extract critical intelligence data (**above left**)*. And soldiers in Iraq can now identify detainees using PDAs and the Biometric Automated Toolset we helped develop* (**above right**)*. Forward-deployed forces and Air Force installations such as Andrews AFB rely on GeoBase technology* (**right**) *to visualize assets and plan for daily and crisis operations. SAIC Project Manager James Shute* (**far right**) *played a key role implementing this successful GeoBase technology and its GeoReach component for deployed forces.*

Whether they're wearing 40 pounds of body armor in the 110-degree Iraqi desert or developing ways to extract intelligence data, SAIC employees work shoulder to shoulder with military and intelligence operatives to help fight the war on terrorism.

Responding to an urgent operational needs statement, SAIC engineers and analysts deployed with combat units to develop an advanced capability in Iraq: the Joint Intelligence Operational Capability-Iraq. JIOC-I provides significantly improved data access and vital intelligence information much lower down the chain of command. Soldiers can now use handheld PDAs to access the network, receive alerts, and send real-time intelligence data.

Embedded with the soldiers, SAIC staff support the JIOC-I system, solve technical problems in this harsh desert environment, and use their on-the-scene knowledge to mentor service members on JIOC-I use and recommend system improvements. JIOC-I also benefits Army analysts who can use the system to search across many intelligence databases with a single query. To quickly extract and interpret from this massive data repository, the analysts also have access to our successful Pathfinder data mining and visualization tool suite.

New Directions in Information Sharing
Our highly skilled employees combine decades of intelligence and national security experience with

(Above) When a Predator prowls above the Afghan mountains or the Iraqi desert, the pilot – sitting at an operations center thousands of miles away – receives critical systems support from SAIC Deputy Program Manager Kevin Reynolds (standing). As the Predator program expands, we're also expanding our systems support under a new contract won last year. From the high-flying Predator and Global Hawk to the tiny Dragon Eye, generations of UAVs have benefited from SAIC's expertise.

Intelligence **Solutions**

fresh ideas to help tackle some of the toughest challenges facing the intelligence community, such as sharing critical information.

Their efforts garnered letters of appreciation from President Bush last year. In response to an Executive Order from the president, two of our systems integration experts – Cheryl Aycock and Barry Fiebert – helped prepare a plan for an information-sharing environment to strengthen the intelligence community's ability to find, track and stop terrorists.

We also strengthened our own capabilities in this critical area with the acquisition of Object Sciences Corporation. OSC provides key technical support to the Information Dominance Center, the premier intelligence test bed for new technologies and concepts developed for the U.S. Army's Intelligence and Security Command. Both the Information Dominance Center and JIOC-I program in Iraq have helped reshape how intelligence, surveillance and reconnaissance (ISR) information is processed and analyzed, and have provided critical assistance to the warfighter, not only in Iraq and Afghanistan but also in Korea and in the overall global war on terrorism.

In the heat of battle, focused intelligence collection is also needed – and needed quickly. Our Web-based PRISM application allows theater users, in various functional roles and at different echelons, to synchronize ISR requirements and support with current military operations and priorities. Originally prototyped and fielded for the U.S. European Command, PRISM is now being used in other theaters such as Iraq.

To improve information sharing and IT support to regional combatant commands, services and agencies, SAIC is playing a key role in transforming the intelligence IT infrastructure. We are helping transform the DoD Intelligence Information System architecture to a centrally managed and regionally delivered IT infrastructure. Regional service centers will provide common mission support capabilities to intelligence users at all levels of command. The benefits of this approach include better access to emerging technologies and tested business practices, and better use of limited resources.

Better Access to Geospatial Intelligence

Shortly before our fiscal year started, a team that included SAIC staff received a prestigious honor: a Meritorious Unit Citation from the Intelligence Community. They were among key personnel recognized for "extraordinary effort and exceptional teamwork" on an important National Geospatial-Intelligence Agency project. Their work made Predator, U-2, and Global Hawk imagery available to a wide range of defense and intelligence users.

Special recognition also came from another source last year – the Vipers attack helicopter battalion in Iraq. The digitized raster maps of Baghdad used for Viper missions had a potentially lethal omission. They didn't show power lines. A special high-resolution product created by our geospatial imagery experts – a digital overlay map of power lines – "greatly enhanced the combat effectiveness of our Attack Battalion," according to the Viper Tactical Operations Officer.

Not content to rest on its laurels, SAIC expanded its geospatial offerings by acquiring IMAPS, a leading developer of geospatial technologies and navigational software products.

New Synergies for Operational Intelligence

A new tool on the front line in Iraq – biometrics – has helped military personnel identify builders of improvised explosive devices (IEDs), potentially saving the lives of civilians and soldiers alike. SAIC played a key role in developing the portable Biometric Automated Toolset (BAT), used by soldiers on patrol and base security personnel to access fingerprint, iris and facial scans. Last fiscal year, SAIC continued to provide operational support for the system, which is now deployed in Iraq and Afghanistan.

Our efforts also helped the U.S. Coast Guard target and track multiple networks of suspected terrorists and smugglers. For the Coast Guard Intelligence Coordination Center, an SAIC team developed a new "holistic" approach to analyzing disparate intelligence information. Those efforts provided actionable intelligence that led to a number of arrests and deportations.

Defense **Transformation**

*At SAIC, we see innovation as the key to successful transformation. (**Above**) SAIC innovation is apparent in our prototype troop transport. An SAIC team led by Chief Engineer Dr. Mike Lowe (kneeling), and including Analyst Jeff Daniels (in back), designed the transport to set new standards in troop protection and adaptability. (**Right**) Program Manager Christopher Hulick led the development of a new real-time strategy video game, aimed at demonstrating the benefits that the Future Combat System – and SAIC and Boeing innovation – will bring to the U.S. Army.*

Military procurement programs don't often get perfect grades – especially when they're as vast and complex as the Army's Future Combat System (FCS). In 2005, FCS did just that under the leadership of SAIC and Boeing.

In late August, FCS completed its System of Systems Functional Review – meeting 100% of the closure criteria – under the guidance of SAIC and Boeing, who are teamed as the Lead Systems Integrator. The review validated that the Army's most technically challenging transformation initiative is meeting its cost, schedule and, most important, performance targets.

The review was also designed to capture the warfighter's needs and establish a functional baseline for the Future Combat System. As a senior Army official noted, "This is the Army's future and we're doing it right."

Successfully completing this review means FCS can move forward with preliminary design and its first major field experiment.

Since the Army wants FCS capabilities just as soon as they're available, key FCS technologies are slated to go to soldiers in 2008. Technologies slated for early fielding include two systems that SAIC is responsible for integrating – the Non-Line-of-Sight Launch System, which consists of 15 Precision Attack Missiles, and the Intelligent Munitions System.

Defense **Transformation**

Emerging Technologies: Protecting Our Troops

To better protect today's military forces, SAIC and Teledyne Brown Engineering developed, built and successfully tested an armored troop carrier system designed to protect soldiers from small arms fire and most fragments from improvised explosive devices. Carried by the Army's standard 5-ton truck, our Multipurpose Troop Transport Carrier System successfully supported numerous transport and convoy missions in Iraq as part of the Army's operational evaluation. Developed with patent-pending SAIC technology, the system is designed to set new standards in protection and adaptability.

The importance of protecting vehicles against shaped-charge threats, such as rocket-propelled grenades, became obvious in the Iraq conflict. SAIC has a 20-year history as a key developer of Electromagnetic Armor (EMA) solutions for multiple classes of military platforms. Our technical improvements in energy storage, power conditioning, and power transmission are designed to improve EMA performance and applicability in future vehicles.

Emerging Technologies: Advanced Projectiles

Working with Lockheed Martin, SAIC successfully completed a series of guided flight tests for the Long Range Land Attack Projectile that demonstrated an impressive firing cadence and repeated performance successes. Gun-launched, rocket-assisted, and GPS-guided, the 155-mm projectile is the primary munition of the Navy's Advanced Gun System being built for the future DD(X) class destroyer. The tests demonstrated record-setting performance: guided flight to 63 nautical miles. SAIC supplied the airframe design, many critical airframe components, aerodynamic analysis, in-flight telemetry, all guided flight algorithms, and flight test leadership.

Advanced Simulation

In the hands of SAIC staff, successes and failures from the Iraq war zone quickly become valuable lessons learned for training. At the Stryker Center for Lessons Learned – which we operate for the U.S. Army – our staff quickly analyze and integrate Iraq experiences into training products and a Web portal, which can then be accessed by the six Stryker brigades, one of which is deployed in Iraq. Our efforts garnered a coveted Army Knowledge Award for the center.

SAIC also operates the Mission Support Training Facility at Fort Lewis, home of the first Stryker brigade, and recently won a contract to operate the Fort's new state-of-the-art Battle Command Training Center. The 67,000-square-foot center will soon include the OneSAF constructive simulation and the Stryker Driver Trainer developed by SAIC.

Advanced Concepts

SAIC laid the groundwork for DoD's transformation initiative, developing much of the conceptual foundation for such capstone concepts as dominant maneuver and long-range precision strike. Recently, SAIC assisted the Office of Force Transformation in defining concepts to deter disruptive technology innovations used by enemies to negate U.S. advantages.

Our policy analysts are also helping the Air Force usher in sweeping change. An SAIC-led team helped develop the original Warfighting Headquarters concept and the updated Air Force Component Headquarters concept for the Air Force Chief of Staff (CSAF). These concepts outline the CSAF's intent to provide each of the eight global and regional combatant commanders an Air Force Component Headquarters dedicated to supporting them across the full range of Air Force military operations. These concepts also form the core of a larger series of Air Force command reengineering initiatives that will enable the Air Force to modernize its forces for the future.

For another important initiative, we are helping NATO assess options to protect its territory, force and population centers against the full range of missile threats. This new effort builds on the NATO Active Layered Theater Ballistic Missile Defense Feasibility Study that SAIC previously conducted. Based on the system study, and on the design, integration, simulation and test efforts, SAIC's team will recommend solutions to meet NATO's defense needs.

*Soldiers now learn to maneuver the eight-wheel, 19-ton Stryker combat vehicle in a Common Driver Trainer developed by SAIC. (**Left**) Major Floyd Chambers from the Army Program Executive Office for Simulation Training and Instrumentation tests the high-fidelity simulators. (**Above**) The simulator's instructor station is manned by SAIC Chief Scientist Darren Law (left), Program Manager Michael Kerrigan (middle), and Chief Engineer Scott Hopkins (right rear).*

Logistics and **Transportation**

*Helping keep the U.S. Navy flying, naval aviation depots rely on SAIC to keep critical parts in stock and available. (**Above**) Inventory Management Specialist Leisa Biddle and other SAIC staff support more than 48,100 parts and more than 120 repair shops servicing F-18 fighter jets, Harrier jets, Huey and Cobra helicopters, and other aircraft. Our SCOPTIMA® software helps us increase supply chain visibility, better anticipate and more quickly respond to requirements, and lower procurement and inventory costs.*

A roadside bombing stops a convoy carrying an emergency load of fuel to a supply depot. Using SAIC technology, the Logistics Commander has the information at hand to find and divert another convoy in time.

This type of dynamic replanning is one of many possible capabilities that SAIC is bringing into reality using adaptive logistics tools. Through the creation and use of intelligent agents (small software programs), commanders can have the logistical information they need when they need it.

These intelligent agents work within existing military systems to mine data and report it to theater planners who can then avert and avoid shortages, readiness degradation, operational impacts, and crises.

Advancing the State of the Art in Logistics Management

Advanced technologies are paving the way for the next generation of logistics. In an impressive demonstration, SAIC previously showed what passive radio frequency identification (RFID) technology could accomplish to speed container inspections and reduce inventories at the Fleet Industrial Supply Center Norfolk. Now the Navy has asked SAIC to investigate other areas within the Navy supply chain where RFID – and other

*AMSEC LLC, a business joint venture between SAIC and Northrop Grumman Newport News, provides a complete range of logistics products and services to keep ships performing to design standards throughout their life cycle. (**Above**) Program Manager Art Kerkau (right) and Senior Logistician Noreen Kirby (left) work to keep an aircraft carrier performing at the right level. AMSEC has experienced staff to support virtually every shipboard system.*

Logistics and **Transportation**

automatic identification technologies – could improve asset visibility and speed operations. For example, we are prototyping different uses for Common Access Cards in inventory tracking.

We are also deploying a passive RFID solution for a key DoD supplier. The National Center for Employment of the Disabled manufactures chemical-protection overgarments, camouflage and desert battle uniforms and other clothing for DoD. Using the latest Generation 2 passive RFID, we've been achieving long read ranges and capturing 100% of the tags in the first phase of this project.

We are also helping a variety of other customers meet the impending RFID tagging mandate from the DoD.

Federal organizations spend billions of dollars on maintenance, repair and operations (MRO) material and services each year. From ordering supplies for Hurricane Katrina relief efforts to equipment in Iraq, more than 200 DoD and federal customers rely on SAIC for procurement support.

Through a Web-based marketplace, our Supply Chain Integration Operation links federal agencies with thousands of suppliers, enables electronic ordering and quoting, and provides inventory visibility and materials tracking. An independent study by BearingPoint showed the benefits of this approach: inventory reductions of more than 50%, significant decreases in supply processing costs, and across-the-board increases in on-time delivery rates.

New Frontiers in Air Logistics

SAIC has been supporting Air Force Air Logistics Centers for more than two decades with a wide range of technical and engineering services and through a variety of contract vehicles.

SAIC provided engineering and analysis for the Air Force F-16 Aircraft Structural Integrity Program. As part of this work, we are developing a new and improved crash survival flight data recorder to eventually replace existing recorders on all F-16 aircraft.

We are also transitioning and upgrading legacy software code used to test the Low Altitude Navigation and Targeting Infrared and Night (LANTIRN) pod, which gives aircraft accurate targeting capability for

the delivery of laser-guided bombs. The legacy code tests the complex optics and the SAIC-developed pattern recognition tools that verify correct operation of LANTIRN components. We previously performed reverse engineering to replace custom LANTIRN instruments that are no longer maintainable.

We also developed three Web-based systems to enable more efficient operations. One system – a joint project with the Air Force, Army and Navy – collects maintenance data for training and test range pod and ground systems. The second system processes and distributes technical orders electronically to some 22 foreign countries in possession of F-16 aircraft.

The third system provides a Web-enabled technical coordination group among the foreign military sales countries for rapid response to technical issues regarding F-16 aircraft. In developing this system, SAIC incorporated numerous features to meet stringent current and evolving security requirements due to the number of foreign countries involved as well as the sensitivity between them.

Advancing the State of the Art in Traffic Management

We have brought our logistics expertise from the battlefield to the home front. SAIC is supporting the Federal Highway Administration (FHWA) in developing and fielding solutions that will reduce congestion and improve motorist safety. For example, we are developing new guidelines for adding interchanges to existing freeways and exploring how different pavement marking systems impact highway safety.

Our ability to blend transportation and national security expertise is a real asset in helping secure the nation's transportation infrastructure against both terrorist attacks and natural disasters. We are developing continuity of operations plans, providing risk assessment training to FHWA staff, and helping disseminate best practices on hurricane evacuation. We are also investigating and developing best practices for improving the efficiency and security of the nation's intermodal freight network.

Systems Engineering and **Integration**

(Right) When medical staff treat the president, members of Congress, and wounded soldiers at Walter Reed Army Medical Center, they rely on Systems Engineer Ken Forner (front) and other SAIC staff for critical IT and network support. Over the past 5 years, SAIC staff developed and integrated new infrastructure and provided information assurance, network engineering, and network security. (Above) For large, complex systems integration programs, customers appreciate our inSTRIDE™ digital environment, which helps them perform, monitor and manage important program activities.

Where a key DoD customer saw a vision for the future, critics saw a program that was overly optimistic, even impossible. At SAIC, we went to work doing what we do best – helping our customer overcome the difficult technical obstacles.

Last year, those efforts paid off. That same program was called "a tremendous success story," winning special recognition from President Bush for our customer.

SAIC is proud of its contributions to the Defense Information Systems Agency (DISA) and the agency's Global Information Grid-Bandwidth Expansion (GIG-BE) program. The GIG-BE program inserted a high-speed, high-capacity fiber backbone into the DoD's worldwide information network, making it one of the largest capacity networks in the world, government or commercial. That transport backbone now carries voice, video, imagery, and data traffic at speeds up to

10 gigabits/second, helping make DoD's vision of network-centric operations a reality.

Achieving full operational capability for the GIG-BE program helped cement SAIC's reputation as a world-class provider of network engineering and systems integration. We broke new ground in engineering optical mesh technology and in integrating never-before-integrated systems to help DISA achieve success with this critical program.

Thanks to contributions like this, SAIC had the honor of being named the top IT prime contractor for the Office of the Secretary of Defense (OSD), according to

Systems Engineering and **Integration**

INPUT, a leader in government market intelligence. That honor was followed by a contract award to assist the Systems Engineering Director in the mission of establishing systems engineering policy, best practices, education and training through collaboration across academia, industry and the government communities.

Network-Centric Operations

Years of world-class systems integration – and our work on one of the most complex systems integration programs ever executed by DoD – give SAIC unmatched credentials in this area. The latter is the U.S. Army's $161-billion, multiyear Future Combat System (FCS) program, designed to make the Army's vision of network-centric operations and future force a reality. SAIC and Boeing are teamed as Lead Systems Integrator, working to integrate the FCS program and its complex family of combat systems.

Last year, the FCS program and the SAIC-Boeing team successfully completed the program's most important technical milestone to date – the System of Systems Functional Review. The review encompassed more than 11,000 systems engineering requirements. Its successful completion meant that the FCS program could move forward with system design and the first major field experiment.

Service-Oriented Architectures

Given our well-deserved reputation for tackling some of the toughest technical problems in the systems integration space, it's no surprise we've also been asked to take on some of the toughest problems involving service-oriented architectures.

We are supporting DoD's transformation to a software services framework to enable information sharing and collaboration by command and control, business, and intelligence systems. For DISA's Net-Centric Enterprise Services (NCES) program, SAIC developed a geographically dispersed laboratory environment at six sites across the U.S. This Enterprise Services Interoperability & Integration Laboratory serves as a technology proving ground for the Web services technologies that can enable the transformation to NCES. Laboratory capabilities are now being used by

mission application developers for command and control, with plans to extend these capabilities to force protection, intelligence, logistics and homeland security.

We are also helping enable one of the National Cancer Institute's key initiatives to accelerate cancer research and collaboration. We helped design and build the software services architecture for NCI's cancer Biomedical Informatics Grid™ (caBIG™) and contributed to semantic interoperability – one of the key elements to enable researchers to share results across different disciplines and terminology.

And we won a major contract to modernize and transition the Federal Motor Carrier Safety Administration (FMCSA) systems to a service-oriented architecture. Part of our mission is to provide better data access to the 600,000 interstate motor carriers that operate 8.6 million trucks and buses on U.S. roads and the 10,000 state and local enforcement staff who help FMCSA oversee the carriers' activities.

Building Our SE&I Business

From SAIC's perspective, the market for large systems engineering and integration business continues to show strong growth. To support our clients, we have developed and invested in leading-edge and best-of-breed processes and tools, such as our inSTRIDE™ digital environment, now being used by several Air Force, Navy, and DHS customers to better monitor, manage and control essential activities.

Another focus is a common approach to developing and delivering large, complex SE&I solutions to customers. Called EngineeringEdge™, this solution leverages CMMI® and other best practices for life-cycle models, processes and engineering techniques.

Some of our most complex systems integration projects are taking advantage of EngineeringEdge. Large SAIC organizations have been appraised at Levels 5, 4 and 3 under the CMMI® – or Capability Maturity Model® Integration – which covers software engineering, system engineering and project management disciplines. Last fiscal year, all the operating business units that comprised one of our largest operating groups achieved a CMMI rating that included the supplier sourcing discipline. This gives our customers greater confidence in our supplier acquisition process.
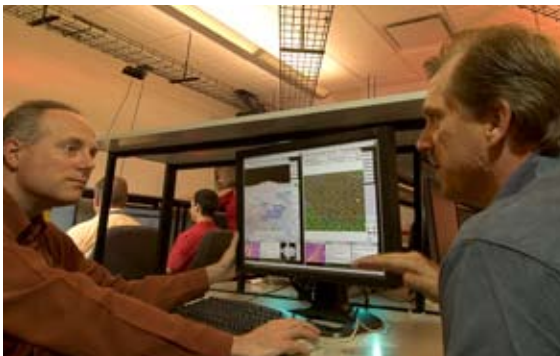
Future Army training systems will be embedded within operational systems and go where soldiers go. We are helping develop the architecture for the Army's Embedded Training System as part of our work for the Future Combat System. To link future embedded training with current forces and simulations, Program Manager Elizabeth Burch **(above** *rear), Software Engineer Stephanie Banaag, and their SAIC team are developing a common virtual environment, called the SE Core.* **(Left)** *Integration Lead John Bray (far left) and Lab Manager Jeffrey Earnest integrate and test these and other advanced FCS architectures in our Embedded Training Systems Integration Laboratory.*

Research and **Development**
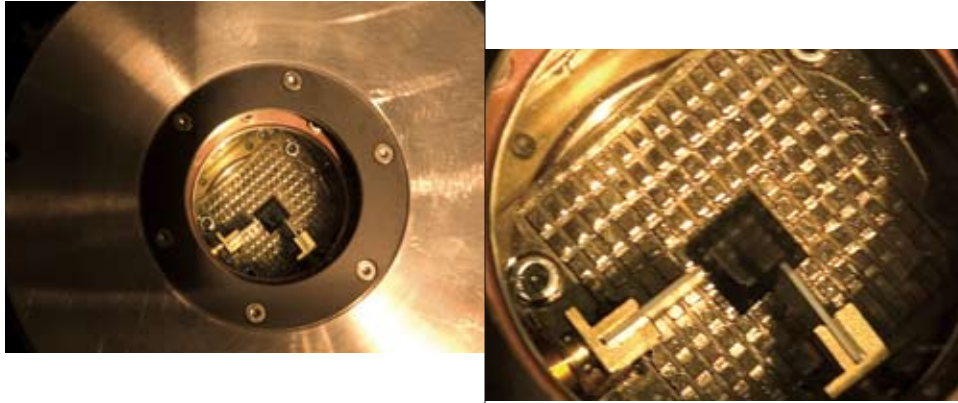
*At SAIC, we work in some of the most exciting frontiers of nanotechnology. We're developing nanocomposite solar cells to power future satellite systems. We enable research into nanodevices to treat cancer. (**Right**) Research Chemist Dr. Clint Jones and other SAIC staff investigate the properties of different molecules that could be used in molecular computers and nanosensors. For the latter, we developed what may be a unique capability to measure the electronic properties of nanoelectric devices at the molecular level.*

Imagine an aircraft so advanced and complex that SAIC engineers had to invent entirely new instruments and experiments to test what the aircraft was capable of. That aircraft was the F-22A Raptor, thought to be the most technologically advanced aircraft in the world.
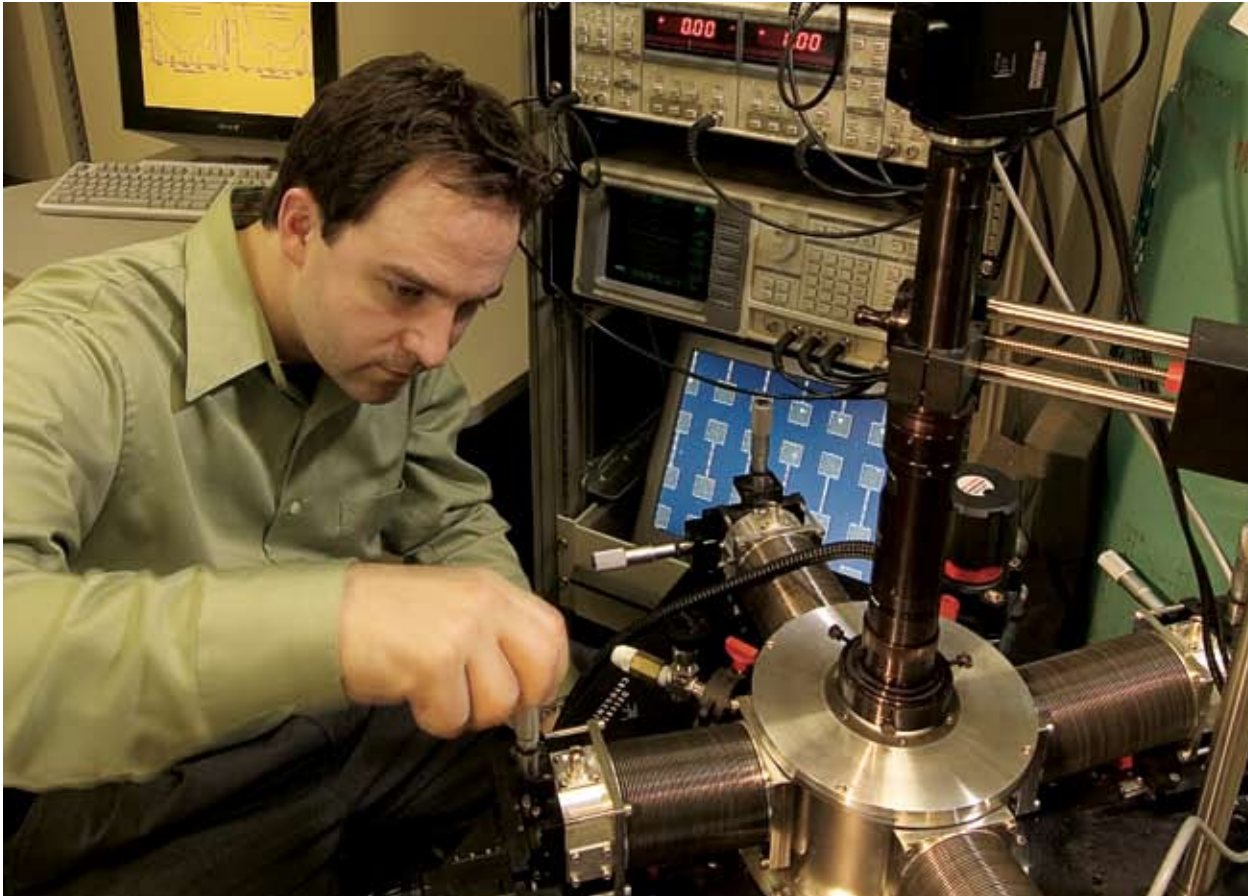
SAIC helped the Air Force Operational Test and Evaluation Center (AFOTEC) perform the most complex operational test ever conducted on a tactical aircraft to challenge the Raptor. In dogfights, two Raptors were pitted against four adversaries while dodging surface-to-air missiles.

What makes the Raptor so formidable in combat scenarios also makes it so challenging to test. Its highly integrated avionics and weapons systems – and millions of lines of software code – boost the aircraft's operational efficiency and combat capability but also greatly increase the complexity of systems testing.

One key SAIC innovation: a new kind of test system able to construct a single, meaningful picture by merging data from many sources. Those included the dogfights (open air testing) as well as constructive simulations, man-in-the-loop testing, and post-test and after-action reviews. Taken together, all these sources generated gigabytes of data, which was then processed into a single picture by SAIC's Modular Analysis and Test Support System (MAnTSS).

Innovation like this is one reason why SAIC won a major follow-on contract to continue providing engineering and technical support to AFOTEC.

(Above) In one of our most exciting and challenging projects, we developed a NIAID-funded Vaccine Pilot Plant at the National Cancer Institute at Frederick. Research professionals Justine Niamke (seated) and James Dykes help manufacture potential vaccines to be tested against such diseases as AIDS, Ebola, influenza, West Nile, SARS and Marburg. (Left) Through their work at this molecular biology laboratory at NCI-Frederick, Analyst Aaron Lucas (front) and Scientist John Klose are helping identify the pathways and genes involved in cancer.

Research and **Development**

Recently, SAIC helped AFOTEC perform an operational assessment and initial test planning for another fifth-generation stealth fighter, the F-35 Joint Strike Fighter.

SAIC also supports AFOTEC with rapid assessments of unmanned aerial vehicles. Our test engineers previously traveled overseas to assess the Predator UAV in combat operations in Bosnia and the Global Hawk UAV in combat operations in Afghanistan.

Medical/Biodetection Research

Since 1995, SAIC has been operating the National Cancer Institute's leading center for cancer and AIDS research, NCI-Frederick. Some of our newest advances – which are generating widespread interest among NCI cancer researchers – allow researchers to better understand how genetic changes inside cell nuclei affect or are affected by cancer's tissue-level changes. One of these advances – novel algorithms for highly accurate identification of cells in a three-dimensional format – enables analysis of whole cells as well as cell nuclei in tissue.

Our deep domain expertise extends to an even tinier universe, that of nanotechnology and nanoscience solutions for the diagnosis and treatment of cancer. We helped NCI implement and manage Centers for Cancer Nanotechnology Excellence around the nation to develop these new technologies. We continue working to help NCI evaluate, leverage and translate the findings into cancer discoveries and therapeutics.

Infectious diseases and engineered bioagents can be detected by an award-winning biosensor developed by SAIC and Isis Pharmaceuticals. Winner of an R&D 100 Award for 2005, the TIGER biosensor uses advanced genomic and signal-processing technologies to detect known, newly emergent, and bioengineered pathogens.

Space Exploration

For more than two years, SAIC worked with the Johnson Space Center to help enable NASA's "Return to Flight" for the Space Shuttle Discovery and continued to help assure the safe flight of the International Space Station. We tested the shuttle's thermal protection system and performed quality engineering and assurance for flight hardware. In addition, SAIC helped develop new video technology – including optics and sensors – that provides better imagery during shuttle launch. Shortly after the

fiscal year closed, SAIC won a major follow-on contract to continue supporting this important safety, reliability, maintainability, and quality work for the Space Shuttle and the International Space Station.

Emerging Technologies for Target Search/ Surveillance

Our long experience developing and deploying sensor networks enabled us to turn wireless technology pioneered by DARPA into deployable surveillance solutions. We integrated wireless sensor nodes into persistent, self-configuring surveillance networks that could protect border areas or infrastructure. We recently deployed a test network for border security at Kirtland Air Force Base, New Mexico, and will deploy a sensor network for perimeter security at a Marine Corps installation.

To better identify large numbers of military targets in very short time frames, SAIC is helping DARPA develop automated target detection algorithms that process large volumes of three-dimensional data from laser detection and ranging (LADAR) sensors.

Emerging Technologies for Directed Energy

SAIC's expertise on high-energy lasers – weapons that can destroy ballistic missiles in flight – spans more than 30 years and every major DoD high-energy laser program, including the Space Based Laser and Airborne Laser.

For the Air Force Research Laboratory (AFRL), SAIC recently applied its adaptive optics technologies to maximize the high laser energy delivered to targets such as ballistic missiles and tactical rockets. We are also helping AFRL design and develop high-power microwave systems, which could stop an enemy vehicle or disrupt enemy command, control and communications by destroying or disrupting its electronic components.

Robotics – Grand Challenge

In 2005, DARPA sponsored the Grand Challenge race across the Mojave Desert to accelerate development of unmanned ground vehicles. Carnegie Mellon's robotic vehicles – Sandstorm and H1ghlander – featured leading-edge SAIC mission planning, navigation and perception software; they finished second and third, a few minutes behind the winner. Only four of 23 contenders were able to meet the 132-mile challenge.

Commercial **Services**

SAIC designs, builds and supports network operations centers to provide a full range of services, from global network and security management to help desk support to solving complex network interoperability issues. Our experienced staff at this center include Information Security Engineer Neil Macasadia, Information Specialist Shay Banerjee, and Network Engineers Pat Coyne, David Abramson, Troy Tate, and Cameron Hansen.

When Hurricanes Katrina and Rita crashed into the Gulf Coast, they destroyed communities and infrastructure. As Entergy Corporation workers struggled to restore vital power, they had a powerful ally in SAIC.

And they needed one. Although an SAIC "away" team was running some of Entergy's most critical applications from a disaster recovery site in Arkansas, it was still necessary to get Entergy's primary data center – across the river from New Orleans – up and running as soon as possible after Katrina. Emergency utility crews needed the center's IT applications – such as utility asset mapping – and communications networks to make repairs. SAIC staff worked hard to get those systems back up quickly. SAIC staff also went into the heart of flooded New Orleans and into the wrecked Entergy headquarters building to recover hard drives and essential data.

At the time of Hurricanes Katrina and Rita, the SAIC services contract in effect had an expiration date of December 31, 2006. SAIC's demonstrated performance and commitment during the storms – coupled with new contract proposals submitted for Entergy's consideration prior to the storms – resulted in an agreement between SAIC and Entergy on a new contract structure that extends the relationship through 2010.

In less dramatic fashion – but again through excellent performance and excellent understanding of our customers' business – SAIC won follow-on IT outsourcing contracts from other important utility customers, among them ScottishPower, Calpine, and the California Independent System Operator.

Next Generation Oilfields

With the digital oilfield of the future becoming reality, SAIC is on the ground floor in this exciting area. Our staff assist three of the supermajors – including Shell and Chevron – in realizing their vision of the Next Generation Oilfield. Our work extends across the oil and gas data life cycle, from managing and analyzing exploration and production (E&P) data to integrating data technologies and processes across the enterprise and developing service-oriented architectures.

Shortly before the start of FY2006, we began work on a contract with a major oil company, helping capture, clean up, load, manage and archive large amounts of E&P data into specialty databases at sites in North America and Europe. The aim is to introduce uniform technologies and processes to more efficiently, consistently and cost-effectively manage this data, which runs to multi-petabyte levels at some sites.

This kind of deep domain expertise in the energy industry makes SAIC much more than an IT company. While SAIC is a major provider of IT outsourcing for leading energy companies, as much as half of our "outsourcing" revenues can come from value-added services such as those mentioned above.

We have also seen strong growth in our environmental services to major energy companies such as Shell and Chevron. These firms – and other FORTUNE 500® companies such as General Electric and Harley-Davidson – rely on SAIC for environmental engineering, consulting and remediation services.

Life Sciences

Like the oil and gas industry, the biopharmaceutical industry is also highly competitive and looking for step-change improvements in business performance. Here again, SAIC's deep domain expertise and IT knowledge are making a difference for Pfizer, Invitrogen, and other clients. Our work ranges from enterprise integration to systems development to business process consulting.

We have also helped improve manufacturing practices for a leading pharmaceutical firm and currently operate a vaccine production plant for the National Cancer Institute. Our knowledge of pharmaceutical processes – particularly R&D and manufacturing processes – is key in helping us develop optimal solutions for our customers in this industry.

Our Company is **SAIC**

*(**Above** left to right) Chief Systems Engineer Dr. Jim Scheimer, Business Process Manager Christen Harris, and Senior Information Systems Manager Arvinder Singh were part of a team that helped SAIC add another important CMMI® rating to its portfolio.*

In Fiscal Year 2006, SAIC announced its intention to pursue an initial public offering (IPO) and transition from a private, employee-owned company to a public company with significant employee ownership.

But no matter what our capital structure, our culture of employee ownership – which began 37 years ago – continues to empower and motivate our people. Ownership is one of our rewards for outstanding performance and contribution to our customers. Ownership helps us to attract and retain talented professionals and to encourage business development in a competitive environment.

Employee Ownership Is in Our DNA

"We continue to encourage the entrepreneurial spirit which drove our success and our can-do attitude," said CEO Ken Dahlberg. "And as owners we will continue to take a long-term view of value creation."

Preserving and reinforcing our core values and ownership culture – which emphasize ethics and integrity, customer satisfaction, technical excellence, respect for our people, empowerment, and entrepreneurship within a culture of discipline – will be critical to our future success, according to Dahlberg.

We intend to continue programs that reward employees who contribute to our success, and we will continue to attract, motivate and retain our employees through equity incentives and cash-based rewards.

Understanding Our Unique Ownership Model

To expand our employee-owners' knowledge and understanding of our strategic objectives, business and the markets that we serve, we developed a number of initiatives, including a C.E.O. (Certified Employee Owner) program, where they also learn about opportunities for increasing their ownership stake in SAIC.

All new employees are encouraged to complete the C.E.O. program in the first 12 months at SAIC. Today 52% of SAIC employees – more than 21,000 worldwide – have completed the program. The C.E.O. program helps employees make informed decisions about participating in stock and retirement plans. We believe the program also helps build work force alignment and reduce turnover. In FY2006, the number of C.E.O.s increased by 38%.

Team **SAIC**

*(**Above** left to right) Dr. Bo-Wen Shen, Atmospheric Scientist;
June Chocheles, Vice President for Science and Technology Strategy;
Dr. Wil Myrick, Senior Signal Processing Analyst and 2006 Black Engineer
of the Year.*

One of the largest science and technology companies in the United States, SAIC brings people of all backgrounds and interests together to work on projects of mission-critical impact – ranging from homeland security to cancer research to space exploration.

To maximize our ability to deliver innovative solutions, to help meet our customers' most challenging needs, to grow our business and to increase shareholder value, we rely on our most valuable asset – our people. Our professional staff is highly educated with approximately 22,000 holding college degrees. Approximately 45% of our degreed professionals hold advanced degrees, including more than 1,500 with doctoral degrees.

But numbers are only part of the SAIC story. Our company has an extra dimension – people work here to make a difference, to do something for our nation, to help others. By turning high-level science into real-world solutions, we make a difference in people's lives.

We do that in a company with the highest ethical standards; we do that as innovators and entrepreneurs; we do that in a culture of employee ownership where those who do the work get the rewards – and those rewards include caring for and helping others.

Professional Growth

Committed to professional development, SAIC offers a wide range of training, education and professional development programs through SAIC University. In addition to classroom training, distance learning, and on-site certificate and advanced degree programs held at key locations, all employees can participate in our e-learning program, which provides certifications and 2,000 of the most in-demand business, leadership and IT courses. In FY2006, we also launched a new curriculum to expand our program manager training.

Diversity

At the core of SAIC's mission and values is our commitment at all levels to recruit, retain and advance a diverse talented team of highly motivated professionals to solve critical challenges to the benefit of our customers, suppliers, employees and the communities in which we live and work.

Benefits

SAIC has a diverse selection of competitive benefits, including comprehensive leave, various health care and insurance plans, and tuition reimbursement. For FY2006, SAIC contributed $732 million to its benefit plans.

Retirement Plans

Many employees view their SAIC retirement plans as a vital part of their benefit packages. At the end of calendar year 2005, SAIC retirement plans held approximately $5 billion in assets after a $121-million company contribution.

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.

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Lockheed Martin Corp. (Ret.)

Two Board Members – Tom Young and John Warner – received special recognition for their contributions to the SAIC Board of Directors. Mr. Young won a 2005 Outstanding Director Award from the prestigious Outstanding Directors Institute. Winners were selected for "demonstrating courage, diligence and leadership in the boardroom," and for being clearly aligned with interests of shareholders. Dr. Warner won a 2006 Director of the Year award from the Corporate Directors Forum in San Diego. As SAIC's longest serving current board member, Dr. Warner received the award for demonstrating leadership during times of major transition.

Exceptional **people.** Exceptional **solutions. SAIC**

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