

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33072

**SAIC, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**1710 SAIC Drive, McLean, Virginia**  
(Address of principal executive offices)

**20-3562868**  
(I.R.S. Employer  
Identification No.)

**22102**  
(Zip Code)

**(703) 676-4300**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and  
former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of August 13, 2010, the registrant had 371,687,345 shares of common stock, \$.0001 par value per share, issued and outstanding.

## Item 1. Financial Statements.

SAIC, INC.  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
 (UNAUDITED)

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
	(in millions, except per share amounts)			
Revenues	<b>\$2,794</b>	\$2,749	<b>\$5,479</b>	\$5,398
Costs and expenses:				
Cost of revenues	<b>2,388</b>	2,369	<b>4,740</b>	4,664
Selling, general and administrative expenses	<b>133</b>	159	<b>259</b>	309
Operating income	<b>273</b>	221	<b>480</b>	425
Non-operating income (expense):				
Interest income	<b>1</b>	—	<b>1</b>	1
Interest expense	<b>(19)</b>	(19)	<b>(37)</b>	(38)
Other income (expense), net	<b>(2)</b>	—	<b>(2)</b>	3
Income from continuing operations before income taxes	<b>253</b>	202	<b>442</b>	391
Provision for income taxes	<b>(95)</b>	(77)	<b>(159)</b>	(149)
Income from continuing operations	<b>158</b>	125	<b>283</b>	242
Discontinued operations (Note 1):				
Income (loss) from discontinued operations before income taxes	<b>53</b>	(3)	<b>51</b>	(4)
Benefit (provision) for income taxes	<b>(22)</b>	1	<b>(20)</b>	1
Income (loss) from discontinued operations	<b>31</b>	(2)	<b>31</b>	(3)
Net income	<b>\$ 189</b>	\$ 123	<b>\$ 314</b>	\$ 239
Earnings per share (Note 2):				
Basic:				
Income from continuing operations	<b>\$ .42</b>	\$ .32	<b>\$ .74</b>	\$ .60
Income (loss) from discontinued operations	<b>.08</b>	(.01)	<b>.08</b>	—
	<b>\$ .50</b>	\$ .31	<b>\$ .82</b>	\$ .60
Diluted:				
Income from continuing operations	<b>\$ .42</b>	\$ .31	<b>\$ .74</b>	\$ .60
Income (loss) from discontinued operations	<b>.08</b>	—	<b>.08</b>	(.01)
	<b>\$ .50</b>	\$ .31	<b>\$ .82</b>	\$ .59

See accompanying notes to condensed consolidated financial statements.

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

	July 31, 2010	January 31, 2010
(in millions)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 604	\$ 861
Receivables, net	2,032	2,044
Inventory, prepaid expenses and other current assets	320	288
Total current assets	2,956	3,193
Property, plant and equipment (less accumulated depreciation and amortization of \$394 million and \$383 million at July 31, 2010 and January 31, 2010, respectively)	382	389
Intangible assets, net	130	106
Goodwill	1,548	1,434
Deferred income taxes	87	103
Other assets	71	70
	\$5,174	\$ 5,295
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,118	\$ 1,191
Accrued payroll and employee benefits	484	512
Income taxes payable	14	—
Notes payable and long-term debt, current portion	3	3
Total current liabilities	1,619	1,706
Notes payable and long-term debt, net of current portion	1,102	1,103
Other long-term liabilities	173	195
Commitments and contingencies (Notes 9 and 10)		
Stockholders' equity:		
Common stock, \$.0001 par value, 2 billion shares authorized, 372 million and 388 million shares issued and outstanding at July 31, 2010 and January 31, 2010, respectively	—	—
Additional paid-in capital	2,077	2,096
Retained earnings	241	239
Accumulated other comprehensive loss	(38)	(44)
Total stockholders' equity	2,280	2,291
	\$5,174	\$ 5,295

See accompanying notes to condensed consolidated financial statements.

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

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss  (in millions)	Total	Comprehensive income
Balance at January 31, 2010	388	\$ 2,096	\$ 239	\$ (44)	\$2,291	
Net income	—	—	314	—	314	\$ 314
Other comprehensive income, net of tax	—	—	—	6	6	6
Issuances of stock	8	56	—	—	56	—
Repurchases of stock	(24)	(139)	(312)	—	(451)	—
Excess tax benefits from stock-based compensation	—	13	—	—	13	—
Stock-based compensation	—	51	—	—	51	—
Balance at July 31, 2010	<b>372</b>	<b>\$ 2,077</b>	<b>\$ 241</b>	<b>\$ (38)</b>	<b>\$2,280</b>	<b>\$ 320</b>

See accompanying notes to condensed consolidated financial statements.

**SAIC, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Six Months Ended July 31	
	2010	2009
	(in millions)	
Cash flows from operations:		
Net income	\$ 314	\$ 239
Loss (income) from discontinued operations	(31)	3
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	51	44
Stock-based compensation	51	51
Excess tax benefits from stock-based compensation	(13)	(14)
Impairment losses	—	1
Other items	2	1
Increase (decrease) in cash and cash equivalents, excluding effects of acquisitions and divestitures, resulting from changes in:		
Receivables	16	(70)
Inventory, prepaid expenses and other current assets	(16)	11
Deferred income taxes	(4)	1
Other assets	2	4
Accounts payable and accrued liabilities	(99)	(13)
Accrued payroll and employee benefits	(24)	(8)
Income taxes payable	2	18
Other long-term liabilities	(2)	4
Total cash flows provided by operations	249	272
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(35)	(28)
Acquisitions of businesses, net of cash acquired of \$1 million in fiscal 2011	(140)	(9)
Net receipts for purchase price adjustments related to prior year acquisitions	—	8
Other	1	10
Total cash flows used in investing activities	(174)	(19)
Cash flows from financing activities:		
Payments on notes payable and long-term debt	(1)	(16)
Sales of stock and exercises of stock options	22	34
Repurchases of stock	(445)	(276)
Excess tax benefits from stock-based compensation	13	14
Total cash flows used in financing activities	(411)	(244)
Increase (decrease) in cash and cash equivalents from continuing operations	(336)	9
Cash flows from discontinued operations:		
Cash used in operating activities of discontinued operations	—	(1)
Cash provided by investing activities of discontinued operations	81	2
Increase in cash and cash equivalents from discontinued operations	81	1
Effect of foreign currency exchange rate changes on cash and cash equivalents	(2)	5
Total increase (decrease) in cash and cash equivalents	(257)	15
Cash and cash equivalents at beginning of period	861	936
Cash and cash equivalents at end of period	\$ 604	\$ 951

See accompanying notes to condensed consolidated financial statements.

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

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**Note 1—Summary of Significant Accounting Policies:**

***Nature of Operations and Basis of Presentation***

SAIC, Inc. is a provider of scientific, engineering, systems integration and technical services and solutions to all branches of the U.S. military, agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, state and local government agencies, foreign governments and customers in select commercial markets.

The condensed consolidated financial statements include the accounts of SAIC, Inc. and all majority-owned and 100%-owned subsidiaries (collectively referred to as the Company), including Science Applications International Corporation. All intercompany transactions and accounts have been eliminated in consolidation. The Company recognized revenues of \$1 million on sales to unconsolidated affiliates during the six months ended July 31, 2010. The Company recognized revenues of \$6 million and \$11 million on sales to unconsolidated affiliates during the three and six months ended July 31, 2009, respectively.

The accompanying financial information has been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Estimates have been prepared by management on the basis of the most current and best available information at the time of estimation and actual results could differ from those estimates.

In the opinion of management, the financial information as of July 31, 2010 and for the three and six months ended July 31, 2010 and 2009 reflects all adjustments, which consist of normal recurring adjustments, necessary for a fair presentation thereof. Operating results for the three and six months ended July 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2011, or any future period.

Unless otherwise noted, references to years are for fiscal years ended January 31. For example, the fiscal year ending January 31, 2011 is referred to as "fiscal 2011" in these notes to condensed consolidated financial statements.

***Discontinued Operations***

The Company's results of discontinued operations for the three and six months ended July 31, 2010 reflect an after-tax net gain of \$31 million related to the settlement of an arbitration proceeding brought against Telkom South Africa by the Company's former subsidiary, Telcordia Technologies, Inc. (Note 9).

***Revenue Recognition Accounting Change***

The Company's revenues are generated primarily from contracts with the U.S. Government, commercial customers, and various international, state and local governments or from subcontracts with other contractors engaged in work with such customers. The Company performs under various types of contracts, which include firm-fixed-price, time-and-materials, fixed-price-level-of-effort, cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee contracts.

***Accounting Change.*** Prior to February 1, 2010, the Company recognized revenues on cost-plus-fixed-fee, time-and-materials and fixed-price-level-of-effort contracts with the U.S. Government primarily based on contract costs incurred to date compared with total estimated costs at completion (cost-to-cost method), which is an input method of percentage-of-completion that relied heavily on management's estimates of contract revenues and contract costs at completion. Effective February 1, 2010, the Company changed its method of revenue recognition for cost-plus-fixed-fee, time-and-materials and fixed-price-level-of-effort contracts with the U.S. Government to the methods described below. Contract costs will continue to be expensed as incurred under these contracts.

**Cost-plus-fixed-fee contracts—**Revenue is recognized on the basis of partial performance as costs are incurred plus an estimate of applicable fees as the Company becomes contractually entitled to reimbursement of costs and the applicable fees pursuant to the guidance in Accounting Standards Codification (ASC) 912-605-25 Contractors-Federal Government—Recognition of Fees Under Cost-Plus-Fixed-Fee Contracts.

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Time-and-materials contracts—Revenue is recognized using the percentage-of-completion method of accounting utilizing an output measure to measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

Fixed-price-level-of-effort contracts—These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, the Company recognizes revenue in a manner similar to time-and-materials contracts whereby the Company uses the percentage-of-completion method of accounting utilizing an output measure. The Company measures progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

The revenue recognition change impacts contracts accounting for approximately two-thirds of the Company's revenues. The Company believes the change is to an alternative accounting principle that is preferable because it better reflects the economic substance and earnings process under these arrangements. This change was facilitated by the implementation of a new information technology system.

Although this change impacts contracts accounting for approximately two-thirds of the Company's revenues, the result of the accounting change was immaterial to the Company's consolidated financial position and results of operations for all periods presented because the resulting measurement of the progress toward completion under the two methods is not significantly different. Accordingly, the cumulative effect of the accounting change was recognized in the consolidated statement of income in the first quarter, rather than retrospectively applied to the prior period consolidated financial statements.

*Revenue Recognition.* Cost-plus-fixed-fee contracts—Revenue is recognized on cost-plus-fixed-fee contracts with the U.S. Government on the basis of partial performance equal to costs incurred plus an estimate of applicable fees earned as the Company becomes contractually entitled to reimbursement of costs and the applicable fees.

Time-and-materials contracts—Revenue is recognized on time-and-materials contracts with the U.S. Government using the percentage-of-completion method of accounting utilizing an output measure of progress. Revenue is recognized on time-and-materials contracts with non-U.S. Government customers using a proportional performance method. Under both of these methods, revenue is recognized based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

Fixed-price-level-of-effort contracts (FP-LOE)—These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, the Company recognizes revenue on FP-LOE contracts with the U.S. Government in a manner similar to time-and-materials contracts whereby the Company measures progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

Cost-plus-award-fee/cost-plus-incentive fee contracts—Revenues and fees on these contracts with the U.S. Government are primarily recognized using the percentage-of-completion method of accounting, most often based on the cost-to-cost method. The Company includes an estimate of the ultimate incentive or award fee to be received on the contract in the estimate of contract revenues for purposes of applying the percentage-of-completion method of accounting.

Firm-fixed-price contracts—Revenues and fees on these contracts that are system integration or engineering in nature are primarily recognized using the percentage-of-completion method of accounting utilizing the cost-to-cost method.

Revenues from services and maintenance contracts, notwithstanding contract type, are recognized over the term of the respective contracts as the services are performed and revenue is earned. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. Revenues from the sale of manufactured products are recorded upon passage of title and risk of loss to the customer, which is generally upon delivery, provided that all other requirements for revenue recognition have been met.

The Company also uses the efforts-expended method of percentage-of-completion using measures such as labor dollars for measuring progress toward completion in situations in which this approach is more representative of the progress on the contract. For example, the efforts-expended method is utilized when there are significant amounts of materials or hardware

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procured for the contract that is not representative of progress on the contract. Additionally, the Company utilizes the units-of-delivery method under percentage-of-completion on contracts where separate units of output are produced. Under the units-of-delivery method, revenue is generally recognized when the units are delivered to the customer, provided that all other requirements for revenue recognition have been met.

The Company also evaluates its contracts for multiple elements, and when appropriate, separates the contracts into separate units of accounting for revenue recognition.

The Company provides for anticipated losses on contracts by recording an expense during the period in which the losses are determined. Amounts billed and collected but not yet recognized as revenues under certain types of contracts are deferred. Contract costs incurred for U.S. Government contracts, including indirect costs, are subject to audit and adjustment through negotiations between the Company and government representatives. The Company has agreed upon and settled indirect contract costs through fiscal 2004. Revenues on U.S. Government contracts have been recorded in amounts that are expected to be realized upon final settlement.

The Company's accounts receivable include unbilled receivables, which consist of costs and fees billable upon contract completion or the occurrence of a specified event, the majority of which is expected to be billed and collected within one year. Unbilled receivables are stated at estimated realizable value. Contract retentions are billed when the Company has negotiated final indirect rates with the U.S. Government and, once billed, are subject to audit and approval by government representatives. Consequently, the timing of collection of retention balances is outside the Company's control. Based on the Company's historical experience, the majority of retention balances are expected to be collected beyond one year.

Contract claims are unanticipated additional costs incurred but not provided for in the executed contract price that the Company seeks to recover from the customer. Such costs are expensed as incurred. Additional revenue related to contract claims is recognized when the amounts are awarded by the customer.

In certain situations, primarily where the Company is not the primary obligor on certain elements of a contract such as the provision of administrative oversight and/or management of government-owned facilities or logistical support services related to other vendors' products, the Company recognizes as revenue the net management fee associated with the services and excludes from its income statement the gross sales and costs associated with the facility or other vendors' products.

***Selling, General and Administrative Expenses***

The Company classifies indirect costs incurred within or allocated to its Government segment as overhead (included in cost of revenues) and general and administrative expenses in the same manner as such costs are defined in the Company's disclosure statements under U.S. Government Cost Accounting Standards. Effective with the beginning of fiscal 2011, the Company updated its disclosure statements with the Defense Contract Management Agency, resulting in certain costs being classified differently either as overhead or as general and administrative expenses on a prospective basis. This change has caused a net increase in reported cost of revenues and a net decrease in reported SG&A expenses in fiscal 2011 as compared to fiscal 2010; however, total operating costs were not affected by this change.

***Supplementary Cash Flow Information***

Supplementary cash flow information, including non-cash investing and financing activities, for the periods noted was as follows:

	Six Months Ended July 31	
	2010	2009
	(in millions)	
Stock exchanged upon exercise of stock options	\$ 30	\$ 68
Stock issued for settlement of accrued employee benefits	\$ 4	\$ 3
Decrease in accrued stock repurchases	\$ (24)	\$ —
Fair value of assets acquired in acquisitions	\$ 167	\$ 9
Less: cash paid in acquisitions, net of cash acquired of \$1 million in fiscal 2011	(140)	(9)
Liabilities assumed in acquisitions	\$ 27	\$ —
Cash paid for interest	\$ 35	\$ 35
Cash paid for income taxes	\$ 157	\$ 108



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**Accounting Standards Updates Issued But Not Yet Adopted**

In October 2009, the Financial Accounting Standards Board (FASB) issued an update to “Revenue Recognition—Multiple-Deliverable Revenue Arrangements.” This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to “fair value” with “selling price” to distinguish from the fair value measurements required under the “Fair Value Measurements and Disclosures” guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. This update is effective for the Company beginning February 1, 2011 and can be applied prospectively or retrospectively. The Company is currently evaluating the effect that adoption of this update will have, if any, on the Company’s consolidated financial position and results of operations when it is adopted.

In October 2009, the FASB issued an update to “Software—Multiple-Deliverable Revenue Arrangements.” This update amends the existing accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product’s essential functionality are excluded from the scope of software revenue guidance. In addition, this update provides guidance on how a vendor should allocate consideration to deliverables in an arrangement that includes both tangible products and software and enhances the disclosure requirements related to these arrangements. This update is effective for arrangements entered into or materially modified by the Company after January 31, 2011 and can be applied prospectively or retrospectively. The Company is currently evaluating the effect that adoption of this update will have, if any, on the Company’s consolidated financial position and results of operations when it is adopted.

Other new accounting standards and updates issued but not effective until after July 31, 2010, are not expected to have a significant effect on the Company’s consolidated financial position or results of operations.

**Note 2—Earnings Per Share (EPS):**

In calculating EPS using the two-class method, the Company is required to allocate a portion of its earnings to its unvested stock awards containing nonforfeitable rights to dividends or dividend equivalents. Basic EPS is computed by dividing income less earnings allocable to unvested stock awards by the basic weighted average number of shares outstanding. Diluted EPS is computed similar to basic EPS, except the weighted average number of shares outstanding is increased to include the dilutive effect of outstanding stock options and other stock-based awards.

A reconciliation of the income used to compute basic and diluted EPS for the periods noted was as follows:

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
	(in millions)			
Income from continuing operations, as reported	\$ 158	\$ 125	\$ 283	\$ 242
Less: allocation of undistributed earnings to unvested stock awards	(5)	(4)	(10)	(8)
Income from continuing operations, for computing EPS	\$ 153	\$ 121	\$ 273	\$ 234
Net income, as reported	\$ 189	\$ 123	\$ 314	\$ 239
Less: allocation of undistributed earnings to unvested stock awards	(7)	(4)	(11)	(8)
Net income, for computing EPS	\$ 182	\$ 119	\$ 303	\$ 231

A reconciliation of the weighted average number of shares outstanding used to compute basic and diluted EPS for the periods noted was as follows:

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
	(in millions)			
Basic weighted average number of shares outstanding	363	384	369	388
Dilutive common share equivalents—stock options	2	4	2	4
Diluted weighted average number of shares outstanding	365	388	371	392

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**(UNAUDITED)**

Basic and diluted EPS for the periods noted was as follows:

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
<b>Basic:</b>				
Income from continuing operations	\$ .42	\$ .32	\$ .74	\$ .60
Income (loss) from discontinued operations	.08	(.01)	.08	—
	<b>\$ .50</b>	<b>\$ .31</b>	<b>\$ .82</b>	<b>\$ .60</b>
<b>Diluted:</b>				
Income from continuing operations	\$ .42	\$ .31	\$ .74	\$ .60
Income (loss) from discontinued operations	.08	—	.08	(.01)
	<b>\$ .50</b>	<b>\$ .31</b>	<b>\$ .82</b>	<b>\$ .59</b>

The following stock-based awards were excluded from the weighted average number of shares outstanding used to compute basic and diluted EPS for the periods noted:

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
		(in millions)		
Antidilutive stock options excluded	20	11	20	11
Performance-based stock awards excluded	1	1	1	1
Weighted average number of unvested stock awards outstanding excluded	13	13	13	13

**Note 3—Stock-Based Compensation:**

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

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
		(in millions)		
Stock options	\$ 5	\$ 8	\$ 11	\$ 16
Vesting stock awards	20	17	37	34
Performance-based stock awards	2	1	3	1
Total stock-based compensation expense	<b>\$ 27</b>	<b>\$ 26</b>	<b>\$ 51</b>	<b>\$ 51</b>

*Stock Options.* Stock options granted during the six months ended July 31, 2010 and 2009 have a term of five years and a vesting period of four years, except for stock options granted to the Company's outside directors, which have a vesting period of one year. The fair value of stock options granted during the periods noted was determined using the following weighted average assumptions:

	Six Months Ended July 31	
	2010	2009
Expected term (in years)	3.8	3.9
Expected volatility	25.1%	30.6%
Risk-free interest rate	2.1%	1.5%
Dividend yield	0%	0%

The weighted average grant-date fair value of stock options granted during the six months ended July 31, 2010 and 2009 using the Black-Scholes option-pricing model was \$3.96 and \$4.78, respectively.

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**(UNAUDITED)**

Stock option activity for the six months ended July 31, 2010 was as follows:

	Shares of stock under stock options (in millions)	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in millions) \$
Outstanding at January 31, 2010	31.6	\$ 16.26	2.0	\$ 66
Options granted	5.3	17.44		
Options forfeited or expired	(1.3)	15.64		
Options exercised	(6.1)	13.83		32
Outstanding at July 31, 2010	<u>29.5</u>	<u>17.00</u>	<u>2.4</u>	<u>19</u>
Exercisable at July 31, 2010	<u>15.3</u>	<u>16.05</u>	<u>1.3</u>	<u>18</u>

*Vesting Stock Awards.* Vesting stock award activity for the six months ended July 31, 2010 was as follows:

	Shares of stock under stock awards (in millions)	Weighted average grant- date fair value \$
Unvested at January 31, 2010	12.1	\$ 18.60
Awards granted	4.4	17.42
Awards forfeited	(0.6)	18.20
Awards vested	(2.9)	19.30
Unvested at July 31, 2010	<u>13.0</u>	<u>18.07</u>

The fair value of vesting stock awards that vested during the six months ended July 31, 2010 and 2009 was \$53 million and \$42 million, respectively.

*Performance-Based Stock Awards.* Performance-based stock award activity for the six months ended July 31, 2010 was as follows:

	Expected number of shares of stock to be issued under performance- based stock awards (in millions)	Weighted average grant- date fair value \$
Outstanding at January 31, 2010	0.6	\$ 18.35
Awards granted	0.5	17.42
Awards forfeited	(0.1)	18.11
Outstanding at July 31, 2010	<u>1.0</u>	<u>17.88</u>

Increases or decreases in the expected number of shares to be issued may occur due to changes in the expected level of achievement of the performance goals over the life of the awards. As of July 31, 2010, there have been no vesting events for performance-based stock awards.

**Note 4—Acquisitions:**

*Cloudshield Technologies, Inc.* On February 5, 2010, the Company acquired all of the outstanding equity interests of Cloudshield Technologies, Inc., a provider of cyber security and management solutions services, for a preliminary purchase price of \$141 million paid in cash, subject to contractual adjustments. This acquisition enhances the Company's cyber security offerings and positions the Company to bring to market deep packet inspection solutions for high speed networks, enabling it to better meet emerging customer requirements. The preliminary purchase price allocation resulted in goodwill of \$114 million (none of which is tax deductible) and identifiable intangible assets of \$41 million. Identifiable intangible assets consisted of finite-lived intangible assets of \$24 million (amortizable over a weighted average life of four years) and in-process research and development intangible assets of \$17 million that will become amortizable upon completion of the related technology. The Company has not yet obtained all of the information required to complete the purchase price allocations related to this acquisition. The final purchase price allocation will be completed after the information identified by the Company has been received.

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*Reveal Imaging Technologies, Inc.* Subsequent to July 31, 2010, the Company acquired all of the outstanding equity interests of Reveal Imaging Technologies, Inc., a provider of threat detection products and services, for a preliminary purchase price of \$230 million, subject to contractual adjustments. This acquisition enhances the Company's existing homeland security solutions portfolio by adding U.S. Transportation Security Administration approved explosive detection systems for baggage screening to its passenger and cargo inspection systems product offerings.

These acquisitions, which individually and in the aggregate were not material business combinations, were both in the Government segment.

**Note 5—Goodwill and Intangible Assets:**

The changes in the carrying value of goodwill by segment were as follows:

	Government	Commercial (in millions)	Total
Goodwill at January 31, 2010	\$ 1,403	\$ 31	\$1,434
Acquisition	114	—	114
Foreign currency translation	—	(1)	(1)
Adjustments	1	—	1
<b>Goodwill at July 31, 2010</b>	<b>\$ 1,518</b>	<b>\$ 30</b>	<b>\$1,548</b>

Goodwill adjustments in fiscal 2011 resulted from the finalization of purchase price allocations related to prior year acquisitions.

Intangible assets, including those arising from preliminary estimates of assets acquired relating to acquisitions, consisted of the following:

	July 31, 2010			January 31, 2010		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
	(in millions)					
Finite-lived intangible assets:						
Customer relationships	\$ 121	\$ 57	\$ 64	\$ 119	\$ 48	\$ 71
Software and technology	77	36	41	58	31	27
Other	2	1	1	2	1	1
<b>Total finite-lived intangible assets</b>	<b>200</b>	<b>94</b>	<b>106</b>	179	80	99
Indefinite-lived intangible assets:						
In-process research and development	20	—	20	3	—	3
Trade names	4	—	4	4	—	4
<b>Total indefinite-lived intangible assets</b>	<b>24</b>	<b>—</b>	<b>24</b>	7	—	7
<b>Total intangible assets</b>	<b>\$ 224</b>	<b>\$ 94</b>	<b>\$ 130</b>	\$ 186	\$ 80	\$ 106

Amortizable intangible assets with a gross carrying value of \$3 million became fully amortized during the six months ended July 31, 2010 and are no longer reflected in the gross carrying value after becoming fully amortized. Amortization expense related to amortizable intangible assets was \$8 million and \$17 million for the three and six months ended July 31, 2010, respectively, and \$6 million and \$13 million for the three and six months ended July 31, 2009, respectively.

There were no goodwill or intangible asset impairment losses during the three and six months ended July 31, 2010 and 2009.

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The estimated annual amortization expense related to amortizable intangible assets as of July 31, 2010 was as follows (in millions):

Fiscal Year Ending January 31	
2011 (remainder of the fiscal year)	\$ 16
2012	26
2013	22
2014	18
2015	9
2016 and thereafter	15
	<b>\$106</b>

Actual amortization expense in future periods could differ from these estimates as a result of future acquisitions, divestitures, impairments, the outcome and timing of completion of in-process research and development projects, adjustments to preliminary valuations of intangible assets and other factors.

**Note 6—Financial Instruments:**

The Company had cash and cash equivalents of \$604 million as of July 31, 2010. The Company's cash equivalents were primarily comprised of investments in several large institutional money market funds that invest primarily in bills, notes and bonds issued by the U.S. Treasury, U.S. Government guaranteed repurchase agreements fully collateralized by U.S. Treasury obligations and U.S. Government guaranteed securities. The Company's cash equivalents are recorded at historical cost which equals fair value based on quoted market prices (Level 1 input as defined by the accounting standard for fair value measurements).

The Company utilizes foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers, payments to suppliers and certain intercompany transactions denominated in currencies other than the Company's (or one of its subsidiaries') functional currency. As of July 31, 2010, outstanding foreign currency forward contracts had an aggregate notional amount of \$19 million with an immaterial fair value. Since the foreign currency forward contracts do not qualify as cash flow hedges in accordance with the accounting standard for derivative and hedging instruments, gains and losses are recognized in earnings immediately. During the three and six months ended July 31, 2010 and 2009, the Company recognized a net gain from foreign currency forward contracts (included in other income, net) of less than \$1 million. The Company does not use derivatives for trading or speculative purposes.

The Company's notes payable and long-term debt consisted of the following:

	July 31, 2010	January 31, 2010
	(in millions)	
\$550 million 6.25% notes due fiscal 2013	\$ 550	\$ 549
\$300 million 5.5% notes due fiscal 2034	296	296
\$250 million 7.125% notes due fiscal 2033	248	248
Capital leases and other notes payable	11	13
	<b>1,105</b>	1,106
Less: current portion	3	3
Total	<b>\$1,102</b>	\$ 1,103

The fair value of long-term debt is determined based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements (Level 2 input as defined by the accounting standard for fair value measurements). The fair value of notes payable and long-term debt was \$1.18 billion and \$1.16 billion as of July 31, 2010 and January 31, 2010, respectively.

These notes contain financial covenants and customary restrictive covenants, including, among other things, restrictions on the Company's ability to create liens and enter into sale and leaseback transactions. The Company was in compliance with all covenants as of July 31, 2010.

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**Note 7—Comprehensive Income and Accumulated Other Comprehensive Loss:**

The components of comprehensive income for the periods noted were as follows:

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
Net income	\$ 189	\$ 123	\$ 314	\$ 239
Other comprehensive income:		(in millions)		
Foreign currency translation adjustments	—	7	(3)	15
Deferred taxes	—	(3)	1	(5)
Foreign currency translation adjustments, net of tax	—	4	(2)	10
Reclassification of realized loss on settled derivative instruments to net income	1	—	1	—
Deferred taxes	—	—	—	—
Reclassification of realized loss on settled derivative instruments to net income, net of tax	1	—	1	—
Pension liability adjustment	(1)	(5)	10	(5)
Deferred taxes	—	2	(3)	2
Pension liability adjustment, net of tax	(1)	(3)	7	(3)
Total other comprehensive income, net of tax	—	1	6	7
Comprehensive income	\$ 189	\$ 124	\$ 320	\$ 246

The Company sponsors a defined benefit pension plan for eligible employees of its United Kingdom subsidiary that primarily performed services on a specific customer contract, which expired on March 31, 2010. As of January 31, 2010, the pension plan had an underfunded projected benefit obligation of \$42 million and an unrecognized actuarial loss (pre-tax) of \$50 million. In April 2010, employees then performing services on the customer contract transferred to a successor contractor following contract expiration. These employee transfers gave rise to a curtailment gain, resulting in a reduction in the unrecognized actuarial loss (a component of accumulated other comprehensive loss) in the amount of \$8 million (pre-tax) during the six months ended July 31, 2010.

The components of accumulated other comprehensive loss were as follows:

	July 31, 2010	January 31, 2010
		(in millions)
Foreign currency translation adjustments, net of taxes of \$3 million and \$2 million as of July 31, 2010 and January 31, 2010, respectively	\$ (4)	\$ (2)
Unrecognized net loss on settled derivative instruments associated with outstanding debt, net of taxes of \$4 million as of July 31, 2010 and January 31, 2010	(5)	(6)
Unrealized loss on defined benefit plan, net of taxes of \$11 million and \$14 million as of July 31, 2010 and January 31, 2010, respectively	(29)	(36)
Total accumulated other comprehensive loss, net of taxes of \$18 million and \$20 million as of July 31, 2010 and January 31, 2010, respectively	\$ (38)	\$ (44)

As of July 31, 2010, \$1 million of the unrealized net loss on settled derivative instruments (pre-tax) will be amortized and recognized as interest expense during the next 12 months.

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**Note 8—Business Segment Information:**

The interim business segment information for the periods noted was as follows:

	Three Months Ended July 31		Six Months Ended July 31	
	2010	2009	2010	2009
	(in millions)			
Revenues:				
Government segment	\$2,704	\$2,634	\$5,284	\$5,170
Commercial segment	91	117	198	231
Intersegment elimination	(1)	(2)	(3)	(3)
<b>Total revenues</b>	<b>\$2,794</b>	<b>\$2,749</b>	<b>\$5,479</b>	<b>\$5,398</b>
Operating income (loss):				
Government segment	\$ 274	\$ 217	\$ 483	\$ 421
Commercial segment	2	12	3	19
Corporate and Other segment	(3)	(8)	(6)	(15)
<b>Total operating income</b>	<b>\$ 273</b>	<b>\$ 221</b>	<b>\$ 480</b>	<b>\$ 425</b>

As described in more detail in Note 16 of the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010, the majority of corporate expenses are reflected in the Government and Commercial segments based on agreed-upon allocations to the business units or as required by U.S. Government Cost Accounting Standards. The Corporate and Other segment reflects corporate costs that are unallowable under U.S. Government Cost Accounting Standards and the net effect of various items that are not directly related to the business unit's operating performance in the Government or Commercial segments.

**Note 9—Legal Proceedings:**

***National Center for Critical Information Processing and Storage Contract***

The U.S. Department of Justice filed a complaint against the Company and several other defendants in June 2009 relating to the solicitation and award of a task order to provide information technology support services to the National Center for Critical Information Processing and Storage run by the Naval Oceanographic Command Major Shared Resource Center (MSRC) located at the Stennis Space Center in Mississippi. This matter originated with a lawsuit filed under seal by a former government employee pursuant to the *qui tam* provisions of the civil False Claims Act. The Company was awarded the task order at issue in April 2004. The Justice Department's complaint alleges that prior to the release of the task order solicitation, the Company's employees and other eventual teammates met with government employees and obtained non-public information not provided to other potential bidders for this work, or received such information in advance of other bidders, giving the Company and its team an unfair advantage in competing for the task order. The complaint further alleges that the former MSRC director and deputy director took actions calculated to favor the Company in the bidding process. In its complaint, the government seeks approximately \$116 million in damages, which represents the aggregate amount of all payments received by the Company under this task order, plus the trebling of such damages and penalties under the False Claims Act.

The Company has cooperated with the government's investigation of this matter since the government initially contacted the Company in September 2006. The Company also conducted its own internal review of the allegations made by the government. Based on the Company's internal review, discussions with the government and the results of discovery thus far, the Company believes the government's claims lack merit and intends to vigorously defend itself against the allegations raised in the complaint. The parties are conducting discovery, which is currently scheduled to conclude by October 2010. Due to the early stage of this case, the outcome is uncertain. The Company has recorded a liability for an insignificant amount related to this matter as of July 31, 2010. However, there is a reasonable possibility of additional exposure to loss estimated to be up to approximately \$230 million, representing the amount of the trebling of the claim for damages minus the value received by the customer, plus penalties. As the case progresses, many factors will affect the ultimate amount of the potential loss if the Company is not successful in its defense of this lawsuit, including the results of discovery, the outcome of pre-trial motions, and the court's rulings on certain legal issues, such as the applicable measure of damages. An adverse outcome could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

### **Telkom South Africa**

The Company's former Telcordia subsidiary instituted arbitration proceedings before the International Chamber of Commerce (ICC) against a customer, Telkom South Africa, in March 2001 as a result of a contract dispute. Pursuant to the definitive stock purchase agreement for the fiscal 2006 sale of Telcordia, the Company is entitled to receive the net proceeds from any settlement after deduction for the tax liability incurred by Telcordia. In July 2010, Telcordia and Telkom South Africa settled all claims related to these arbitration proceedings. Under the settlement, Telkom South Africa paid \$80 million plus certain value added taxes (VAT). During the three and six months ended July 31, 2010, the Company recognized an after-tax net gain of \$31 million in discontinued operations, which is net of estimated amounts owed to Telcordia and certain other expenses related to this settlement.

### **Greek Government Contract**

**Background and Arbitration.** In May 2003, the Company entered into a firm-fixed-price contract with the Hellenic Republic of Greece (the Customer) to provide a Command, Control, Communications, Coordination and Integration System (the System) to support the 2004 Athens Summer Olympic Games (the Olympics) and to serve as the security system for the Customer's public order departments following completion of the Olympics. The System was to be completed, tested, and accepted by September 1, 2004, at a price of approximately \$199 million. The contract also requires the Company to provide five years of System support and maintenance and ten years of radio network services and contains an unpriced option for an additional five years of network services.

The Customer took delivery of the System for use and operation during the Olympics which began in August 2004. The Customer performed acceptance testing on each of the subsystems comprising the System and alleged certain omissions and deviations in its test reports. The Company and the Customer executed contract modifications in March and September 2007 which established and clarified specific requirements, contract terms, and a payment schedule under which the System would be completed as well as a scheduled reduction of the advance payment and performance bonds maintained by the Company in favor of the Customer.

In November 2008, the Customer accepted the System in writing pursuant to the requirements of the modified contract. At the time, the Customer determined that the System substantially complied with the terms of the contract and accepted the System with certain alleged minor omissions and deviations. The Customer valued the omissions and deviations at \$27 million, and the modified contract established a process for negotiating the final amount of the omissions and deviations. Approximately \$1 million of this amount relates to work performed directly by the Company and the balance relates to work performed by the Company's subcontractors. Upon System acceptance, the Company invoiced the Customer for approximately \$18 million, representing the undisputed portion of the contract balance owed to the Company. The Customer has not paid this final invoice or reduced the advance payment and performance bonds as required by the modified contract, and has refused to initiate the contractually required process to resolve the remaining alleged omissions and deviations.

In June 2009, the Company initiated arbitration before the ICC against the Customer seeking redress for these breaches of contract by the Customer. Under the terms of the Greek contract, disputes are subject to ultimate resolution by binding arbitration in Greece before a panel of three Greek arbitrators. In December 2009, the arbitration panel was selected. The Company seeks (i) aggregate damages in excess of \$92 million for payment of amounts owed and other claims and damages, (ii) recovery of advance payment and performance bond amounts totaling \$25 million and (iii) costs and expenses associated with the arbitration. The Customer filed an answer to the complaint denying liability on various grounds. In April 2010, the Customer filed a supplementary answer asserting set-off claims against amounts sought by the Company and issued a letter purporting to disapprove of its November 2008 acceptance of the System. Due to the complex nature of the legal and factual issues involved, the outcome of the arbitration is uncertain.

**Financial Status and Contingencies.** As a result of the significant uncertainties on this contract, the Company converted to the completed-contract method of accounting and ceased recognizing revenues for the System development portion of this contract in fiscal 2006. No profits or losses were recorded on the Greek contract during the three and six months ended July 31, 2010 and 2009. As of July 31, 2010, the Company has recorded \$124 million of losses under the Greek contract, reflecting the Company's estimated total cost to complete the System, assuming the Greek contract value was limited to the cash received to date. Based on the complex nature of this contractual situation and the difficulties encountered to date, significant uncertainties exist and the Company is unable to reliably estimate the ultimate outcome. Examples of these uncertainties include receipt of the remaining payments, the amount of additional cost that may be required to complete the contract, the release of the remaining bonds, changes in the political representatives from the Greek government involved with the project, and subcontractor performance and legal compliance issues. The Company may reverse a portion of the losses from the Greek contract if it receives future payments as required under the modified Greek contract.



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The Company has \$15 million of receivables relating to VAT as of July 31, 2010 that the Company has paid and believes it is entitled to recover either as a refund from the taxing authorities or as a payment under the Greek contract. The Company has invoiced the Customer for \$33 million for VAT and the Customer has failed to make payment. If the Customer fails to pay the outstanding VAT amounts or the Company is unable to recover the amount as a refund from the taxing authorities, the Company's total losses on the Greek contract could increase.

The Company has met certain advance payment and performance bonding requirements as discussed above through the issuance of euro-denominated standby letters of credit. The maximum value of the standby letters of credit outstanding under this contract was approximately \$250 million, which has been reduced over time as the Customer has accepted portions of the System and services provided by the Company. In May 2010, the Customer issued a letter purporting to terminate the portion of the contract relating to delivery of the System and to confirm the Company's ongoing obligations to provide network services and System support and maintenance under the contract. Shortly thereafter, the Customer drew, and the Company funded, \$25 million on the Company's standby letters of credit relating to the delivery of the System. As of July 31, 2010, there were \$7 million in standby letters of credit outstanding relating to the support and maintenance of the System. The Company is seeking recovery of the amounts drawn by the Customer on the standby letters of credit in the ongoing arbitration. The principal subcontractor has provided to the Company euro-denominated standby letters of credit in the amount of \$25 million as of July 31, 2010, of which \$19 million relates to the delivery of the System. The Company may draw on the subcontractor's standby letters of credit under certain circumstances by providing a statement to the responsible bank that the subcontractor has not fulfilled its obligations under the subcontract. The Company continues to believe that the loss recorded to date is sufficient to account for the ultimate outcome of this contractual situation and therefore no additional loss is expected to be recorded as a result of the draw on the standby letters of credit.

Additionally, Siemens AG (Siemens), the parent corporation of the Company's principal subcontractor has been subject to a number of investigations focusing on alleged improper payments to government officials and political parties in a number of countries, including Greece. The scope of the Greek government's investigation includes allegations that (i) improper payments were made by Siemens in connection with the Greek contract and (ii) the Company/Siemens team misrepresented to the Greek State prior to contract award its technical capabilities and ability to perform the Greek contract within the contractual performance period. The Company has taken a number of actions to determine that it had no involvement in any improper payments that may have been made by Siemens in connection with the Greek contract. If the Greek government's investigation ultimately determines that improper payments were made in connection with the Greek contract, or that the Company/Siemens team misrepresented its technical capabilities, the legal compliance and political issues that this would raise could impact the Company's subcontractor's ability to perform the subcontract and the Company's ability to perform the Greek contract. This could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

#### ***Nuclear Regulatory Commission***

The U.S. Department of Justice filed a lawsuit against the Company in September 2004 in the U.S. District Court for the District of Columbia alleging civil False Claims Act violations and breach of contract by the Company on two contracts that the Company had with the Nuclear Regulatory Commission (NRC). The complaint alleges that the Company's performance of several subcontracts on separate U.S. Department of Energy (DOE) programs, the participation of a Company employee in an industry trade association, and certain other alleged relationships created organizational conflicts of interest under the two NRC contracts. The Company disputes that the work performed on the DOE programs and the alleged relationships raised by the government created organizational conflicts of interest. In July 2008, the jury found in favor of the government on the breach of contract and two False Claims Act counts. The jury awarded a nominal amount of \$78 in damages for breach of contract and \$2 million in damages for the False Claims Act claims. The judge entered the judgment in October 2008, trebling the False Claims Act damages and awarding a total of \$585,000 in civil penalties. The Company has appealed to the U.S. Court of Appeals for the District of Columbia Circuit. Pending the outcome of the appeal, the Company has recorded a liability for the full judgment amount of \$7 million for this matter as of July 31, 2010.

#### ***Other***

The Company is also involved in various claims and lawsuits arising in the normal conduct of its business, none of which, in the opinion of the Company's management, based upon current information, will likely have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**Note 10—Other Commitments and Contingencies:**

***VirnetX, Inc.***

In fiscal 2007, the Company transferred several patents to VirnetX, Inc. In return, the Company received certain license rights and the right to receive, subject to certain caps and other limitations, royalties on VirnetX sales and a percentage of the consideration received in certain acquisitions and in patent infringement or enforcement claims against certain third parties, including Microsoft Corporation.

In May 2010, VirnetX and Microsoft entered into a settlement and license agreement to settle all claims asserted by VirnetX against Microsoft in two lawsuits. Under the agreement, Microsoft made a one-time payment to VirnetX of \$200 million in cash in exchange for dismissal of both lawsuits and VirnetX granting to Microsoft a worldwide, irrevocable, nonexclusive, non-sublicensable fully paid up license under VirnetX's patents. Under the Company's agreement with VirnetX, the Company was entitled to receive 35% of the proceeds from the settlement of litigation with Microsoft after reduction for out-of-pocket costs, including legal fees and expenses, of VirnetX and the Company incurred in connection with the litigation. The Company received a royalty payment of \$56 million in connection with this agreement, which was recognized as revenue, and reimbursement of approximately \$3 million of legal fees and costs it incurred in connection with the litigation. The Company also paid \$2 million as a royalty to the customer for which it developed some of the patented technologies to satisfy the Company's obligation under the initial customer contract.

***DS&S Joint Venture***

In March 2006, the Company sold its interest in DS&S, a joint venture in which the Company owned a 50% interest. As part of the sale, the Company agreed to indemnify the purchaser for certain legal costs and expenses, including those related to a government investigation involving DS&S and any litigation resulting from that investigation up to the sum of the sales price of \$9 million plus \$1 million received by the Company in repayment of a loan owed by DS&S. As of July 31, 2010, the Company has deferred the potential \$9 million gain on this sale pending resolution of the indemnification obligation.

***Acquisition Indemnification Claims***

Following the closing of an acquisition in December 2006, the Company identified a number of potential indemnification claims against the sellers. The claims against the sellers include the failure of the acquired company to comply with certain terms of contracts with the U.S. Government that required the acquired company in certain circumstances to provide price reductions for goods and services if it charged other customers a price lower than the prices it charged those customers at the time of contract award (the price reductions claims). The Company has disclosed this apparent non-compliance by the acquired company to the government and is fully cooperating with the government's ongoing review of the matter. In January 2010, the sellers filed for arbitration in accordance with the terms of the acquisition agreement to resolve the Company's indemnification claims and seek release of approximately \$6 million of the purchase price that was being held in escrow as security for these claims. In July 2010, the Company and the sellers signed a term sheet to settle all outstanding indemnification claims, except for the price reductions claims. The Company expects to enter into a formal settlement agreement with the sellers consistent with the term sheet. The Company continues to have its indemnification rights relating to the price reductions claims in accordance with the acquisition agreement and the parties expect to maintain a reduced escrow fund as security for these claims following completion of the formal settlement agreement. Based on its current expectations, the Company believes that it has adequate recourse against the sellers for any expected liability to the government that may result from the price reductions claims.

***Government Investigations and Reviews***

The Company is routinely subject to investigations and reviews relating to compliance with various laws and regulations, including those associated with organizational conflicts of interest, with respect to its role as a contractor to agencies and departments of the U.S. Government and in connection with performing services in countries outside of the United States. Adverse findings in these investigations or reviews can lead to criminal, civil or administrative proceedings and the Company could face penalties, fines, repayments or compensatory damages. Adverse findings could also have a material adverse effect on the Company's business, consolidated financial position, results of operations and cash flows due to its reliance on government contracts.

U.S. Government agencies, including the Defense Contract Audit Agency (DCAA) and others, routinely audit and review a contractor's performance on government contracts, indirect rates and pricing practices, and compliance with applicable contracting and procurement laws, regulations and standards. They also review the adequacy of the contractor's compliance with government standards for its accounting and management internal control systems, including: control environment and overall accounting system, general information technology system, budget and planning system, purchasing system, material management and accounting system, compensation system, labor system, indirect and other direct costs system, billing system and estimating system used for pricing on government contracts. Significant audits currently underway include the Company's control environment and overall accounting, billing and indirect and other direct cost systems, as well as reviews of the Company's compliance with certain U.S. Government Cost Accounting Standards.

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Both contractors and the U.S. Government agencies conducting these audits and reviews have come under increased scrutiny. For example, it was determined that the audit procedures the DCAA used in reviewing some of the Company's systems were not in compliance with the requirements of Generally Accepted Government Auditing Standards. As a result, in April and July 2009, the DCAA rescinded its most recent audit reports on the Company's accounting, billing, and indirect cost systems issued in 2005 and 2006 and is currently auditing these systems again. The current audits and reviews have become more rigorous and the standards to which the Company is held are being more strictly interpreted, increasing the likelihood of an audit or review resulting in an adverse outcome. During the course of its current audits, the DCAA is closely examining and questioning several of the Company's long established and disclosed practices that it had previously audited and accepted, increasing the uncertainty as to the ultimate conclusion that will be reached. Government audits and reviews may conclude that the Company's practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds. In addition, the Company changed its indirect rate structure used in its indirect cost system and its direct labor bid structure used for its estimating system for fiscal 2011 and future years. These changes are currently being reviewed by the DCAA.

The Company's failure to obtain an "adequate" determination of its various accounting and management internal control systems, including its recent changes to indirect cost and direct labor estimating systems, from the responsible U.S. Government agency could significantly and adversely affect its business, including its ability to bid on new contracts and its competitive position in the bidding process. Failure to comply with applicable contracting and procurement laws, regulations and standards could also result in the U.S. Government imposing penalties and sanctions against the Company, including suspension of payments and increased government scrutiny that could delay or adversely affect the Company's ability to invoice and receive timely payment on contracts, perform contracts or compete for contracts with the U.S. Government.

The Company's indirect cost audits by the DCAA have not been completed for fiscal 2005 and subsequent fiscal years. Although the Company has recorded contract revenues subsequent to fiscal 2004 based upon costs that the Company believes will be approved upon final audit or review, the Company does not know the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed the Company's estimates, its profitability would be adversely affected. The Company has recorded a liability of \$24 million for its current best estimate of net amounts to be refunded to customers for potential adjustments from such audits or reviews of contract costs incurred subsequent to fiscal 2004.

#### ***Tax Audits and Reviews***

The Company files income tax returns in the United States and various state and foreign jurisdictions and is subject to routine compliance reviews by the Internal Revenue Service (IRS) and other taxing authorities. The Company has effectively settled with the IRS for fiscal years prior to and including fiscal 2008. Effective fiscal 2011, the Company is participating in the IRS Compliance Assurance Process (CAP), in which the Company and the IRS endeavor to agree on the treatment of all tax positions prior to the return being filed, thereby greatly reducing the period of time between return submission and settlement with the IRS.

During the next 12 months, it is reasonably possible that resolution of these reviews by taxing authorities, both domestic and international, could be reached with respect to \$2 million of the Company's unrecognized tax benefits, depending on the timing of ongoing examinations, any litigation and expiration of statute of limitations, either because the Company's tax positions are sustained on audit or because the Company agrees to their disallowance and pays the related income tax. These unrecognized tax benefits are primarily related to certain recurring deductions customary for the Company's industry. As of July 31, 2010, the Company had liabilities for uncertain tax positions of \$29 million, including \$2 million related to discontinued operations.

During the six months ended July 31, 2010, the Company's uncertain tax positions were reduced by \$20 million resulting from the resolution of certain tax uncertainties. While the Company believes it has adequate accruals for uncertain tax positions, the tax authorities may determine that the Company owes taxes in excess of recorded accruals or the recorded accruals may be in excess of the final settlement amounts agreed to by the tax authorities.

The Company is subject to periodic audits by government agencies for taxes other than income taxes. The Company does not believe that the outcome of any other such tax matters would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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***Letters of Credit and Surety Bonds***

The Company had outstanding letters of credit aggregating to \$45 million at July 31, 2010, principally related to guarantees on contracts with foreign government customers. The Company also has outstanding surety bonds in the amount of \$283 million, principally related to performance and payment bonds. Of the total outstanding letters of credit, \$7 million was related to certain advance payment and performance bonding requirements on a firm-fixed-price contract with the Greek government.

***Other***

The U.S. Department of Defense is in the process of restructuring one of the Company's largest programs, Army Brigade Combat Team Modernization. As a result of this restructuring, certain efforts associated with the program were terminated for convenience by the U.S. Department of Defense in July 2009 and January 2010. The Company received an undefinitized change order which required the Company to submit a restructure proposal. The Company submitted its restructure proposal to its prime contractor in April 2010 and the prime contractor submitted its restructure proposal to the customer in May 2010. The Company continues to perform on this program in accordance with the revised scope of work under a reduced provisional billing rate that allows the Company to receive a lesser amount of the projected fee on an interim basis. As of July 31, 2010, the Company has recognized revenues of approximately \$220 million under the undefinitized change order. The future volume and profitability of this program is dependent on the outcome of the change order negotiations.

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

The following discussion and analysis of our financial condition and results of operations and quantitative and qualitative disclosures about market risk should be read in conjunction with our condensed consolidated financial statements and related notes. The following discussion contains forward-looking statements, including statements regarding our intent, belief, or current expectations with respect to, among other things, trends affecting our financial condition or results of operations, backlog, our industry, government spending and the impact of competition. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Some of these factors include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010, as may be updated periodically through subsequent quarterly reports on Form 10-Q. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.

Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ending January 31, 2011 as "fiscal 2011."

### Overview

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

Our business is focused on solving issues of national and global importance in the areas of defense, intelligence, homeland security, logistics and product support, energy, environment and health. We also plan to focus our investments to expand our business in areas such as: intelligence, surveillance and reconnaissance, cyber security, logistics, energy, and health technology. Our significant long-term management initiatives include:

- achieving internal, or non-acquisition related, annual revenue growth through better leveraging of key differentiators across our Company and the deployment of resources and investments into higher growth markets;
- improving our operating income margin through strong contract execution and growth in higher-margin business areas, as well as continued improvement in our information technology (IT) systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;
- investing in our people, including enhanced training and career development programs, with a focus on retention and recruiting; and
- disciplined deployment of our cash resources and use of our capital structure to enhance growth and shareholder value through strategic acquisitions, share repurchases and other uses as conditions warrant.

Key financial highlights and events, including progress against these initiatives, during the three months ended July 31, 2010 include:

- Revenues for the three months ended July 31, 2010 increased 2% over the same period in the prior year. Internal revenue growth (as defined in "Non-GAAP Financial Measures") contracted 1%. Internal revenue growth was negatively impacted by one less business day in the current year as compared to the same period in the prior year (representing a 2% decline in revenues), fewer new contract starts resulting from lower bookings in recent periods, lower demand for materials on a number of programs and the expiration of a customer contract in our Commercial segment. This was partially offset by a \$56 million royalty payment received during the three months ended July 31, 2010.
- Operating income as a percentage of revenues increased by 1.8%, or 23%, from 8.0% for the three months ended July 31, 2009 to 9.8% for the three months ended July 31, 2010 primarily due to a \$56 million royalty payment received during the three months ended July 31, 2010.
- Income from continuing operations for the three months ended July 31, 2010 increased \$33 million, or 26%, over the same period in the prior year primarily due to the royalty receipt offset by the resulting increase in the provision for income taxes of \$18 million.
- Diluted earnings per share (EPS) from continuing operations for the three months ended July 31, 2010 increased \$.11 per share, or 35%, as compared to the same period in the prior year primarily due to the increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 23 million, or 6%, primarily due to stock repurchases.

- Cash and cash equivalents increased \$36 million during the three months ended July 31, 2010 primarily due to \$111 million generated from operations, including a \$56 million royalty payment received, and \$82 million in discontinued operations received from settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary, Telcordia Technologies, Inc., partially offset by cash used to repurchase our stock totaling \$154 million.
- Net bookings (as defined in “Key Financial Metrics—Bookings and Backlog”) were approximately \$2.7 billion for the three months ended July 31, 2010. Total backlog was \$16.0 billion at July 31, 2010 as compared to \$16.1 billion at April 30, 2010.

### Reportable Segments

We have three reportable segments: Government, Commercial and Corporate and Other. Our operating business units are aggregated into the Government or Commercial segments, depending on the nature of the customers served, the contractual requirements and the regulatory environment governing the business unit’s operations. Except with respect to “Results of Operations—Discontinued Operations” and “—Net Income and Diluted EPS,” all amounts in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are presented for our continuing operations. For additional information regarding our reportable segments, see “Item 1. Business” in Part I and Note 16 of the notes to consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

### Key Financial Metrics

**Bookings and Backlog.** We received net bookings worth an estimated \$2.7 billion and \$5.9 billion during the three and six months ended July 31, 2010, respectively. Bookings generally represent the estimated amount of revenue to be earned in the future from funded and unfunded contract awards that were received during the period, net of any adjustments to previously awarded backlog amounts. We calculate net bookings as the period’s ending backlog plus the period’s revenues less the prior period’s ending backlog and less the backlog obtained in acquisitions during the period.

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. We segregate our backlog into two categories as follows:

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

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

	July 31, 2010	January 31, 2010
	(in millions)	
<b>Government segment:</b>		
Funded backlog	\$ 5,254	\$ 4,684
Negotiated unfunded backlog	10,042	10,168
<b>Total Government segment backlog</b>	<b>\$15,296</b>	<b>\$ 14,852</b>
<b>Commercial segment:</b>		
Funded backlog	\$ 530	\$ 568
Negotiated unfunded backlog	166	155
<b>Total Commercial segment backlog</b>	<b>\$ 696</b>	<b>\$ 723</b>
<b>Total:</b>		
Funded backlog	\$ 5,784	\$ 5,252
Negotiated unfunded backlog	10,208	10,323
<b>Total backlog</b>	<b>\$15,992</b>	<b>\$ 15,575</b>

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

The DoD is in the process of restructuring one of our largest programs, Army Brigade Combat Team Modernization. As a result of this restructuring, certain efforts associated with the program were terminated for convenience by the DoD in July 2009 and January 2010. We received an undefinitized change order which required us to submit a restructure proposal. We submitted the restructure proposal to our prime contractor in April 2010 and the prime contractor submitted its restructure proposal to the customer in May 2010. We continue to perform on this program in accordance with the revised scope of work under a reduced provisional billing rate that allows us to receive a lesser amount of the projected fee on an interim basis. The future volume and profitability of this program is dependent on the outcome of the change order negotiations. Included within the Government segment backlog above is approximately \$50 million in funded backlog and \$445 million in negotiated unfunded backlog related to this program, which represents our best estimate of our remaining effort under this restructured contract. Of these amounts, we expect to recognize revenues of approximately \$120 million during the remainder of fiscal 2011.

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

**Contract Types.** Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each of the following types of contracts:

- Cost-reimbursement contracts provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee. These contracts include cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee contracts.
- Time-and-materials (T&M) contracts typically provide for negotiated fixed hourly rates for specified categories of direct labor plus reimbursement of other direct costs. Fixed-price-level-of-effort (FP-LOE) contracts are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time.
- Firm-fixed-price (FFP) contracts provide for a fixed price for specified products, systems and/or services.

For additional information regarding the types of contracts used, including advantages and disadvantages of each type of contract, see "Item 1. Business—Contract Types" in Part I of our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

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

	Six Months Ended July 31	
	2010	2009
Cost-reimbursement	47%	48%
T&M and FP-LOE	30	31
FFP	23	21
Total	100%	100%

Revenues from FFP contracts increased by 2% primarily due to a \$56 million royalty payment received during the three months ended July 31, 2010.

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

	Three Months Ended July 31		Six Months Ended July 31		
	2010	Percent change	2009	2010	
	(dollars in millions)				
Labor-related revenues	\$1,570	—%	\$1,577	\$3,179	1%
As a percentage of revenues	56%		57%	58%	58%
M&S revenues	1,224	4	1,172	2,300	2
As a percentage of revenues	44%		43%	42%	42%

M&S revenues increased primarily due to a \$56 million royalty payment received during the three months ended July 31, 2010. The labor-related revenues were relatively consistent for the three and six months ended July 31, 2010 as compared to the same periods in the prior year.

## Results of Operations

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

	Three Months Ended July 31			Six Months Ended July 31		
	2010	Percent change	2009	2010	Percent change	2009
	(dollars in millions)					
Revenues	\$2,794	2%	\$2,749	\$5,479	2%	\$5,398
Cost of revenues	2,388	1	2,369	4,740	2	4,664
Selling, general and administrative expenses:						
General and administrative (G&A)	76	(25)	101	153	(26)	206
Bid and proposal (B&P)	44	2	43	81	4	78
Internal research and development (IR&D)	13	(13)	15	25	—	25
Operating income	273	24	221	480	13	425
As a percentage of revenues	9.8%		8.0%	8.8%		7.9%
Non-operating expense, net	(20)		(19)	(38)		(34)
Income from continuing operations before income taxes	253	25	202	442	13	391
Provision for income taxes	(95)	23	(77)	(159)	7	(149)
Income from continuing operations	158	26	125	283	17	242
Income (loss) from discontinued operations, net of tax	31		(2)	31		(3)
Net income	\$ 189	54	\$ 123	\$ 314	31	\$ 239

We classify indirect costs incurred within or allocated to our Government segment as overhead (included in cost of revenues) and G&A expenses in the same manner as such costs are defined in our disclosure statements under U.S. Government Cost Accounting Standards. Effective with the beginning of fiscal 2011, we updated our disclosure statements with the Defense Contract Management Agency, resulting in certain costs being classified differently as either overhead or G&A expenses on a prospective basis. This change has caused a net increase in reported cost of revenues and a net decrease in reported G&A expenses in fiscal 2011 as compared to fiscal 2010; however, total operating costs were not affected by this change.

**Revenues.** Our revenues increased \$45 million, or 2%, and \$81 million, or 2%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year. Internal revenue growth (as defined in "Non-GAAP Financial Measures") contracted by 1% for the three and six months ended July 31, 2010 due to a decline in internal revenue growth in both the Government and Commercial segments for the reasons discussed below. This decline was partially offset by a \$56 million royalty payment received during the three and six months ended July 31, 2010 in the Government segment. The internal revenue growth rate for the three months ended July 31, 2010 was also negatively impacted by one less business day in the current year as compared to the same period in the prior year (representing a 2% decline in revenues).

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

	Three Months Ended July 31			Six Months Ended July 31		
	2010	Percent change	2009	2010	Percent change	2009
	(dollars in millions)					
Government segment revenues	\$2,704	3%	\$2,634	\$5,284	2%	\$5,170
As a percentage of total revenues	97%		96%	96%		96%
Commercial segment revenues	91	(22)	117	198	(14)	231
As a percentage of total revenues	3%		4%	4%		4%
Intersegment elimination	(1)	(50)	(2)	(3)	—	(3)
Total revenues	\$2,794	2	\$2,749	\$5,479	2	\$5,398

Government segment revenues increased \$70 million, or 3%, and \$114 million, or 2%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year primarily due to revenues from recent acquisitions and a royalty payment received. Internal revenue growth was flat for the three and six months ended July 31, 2010. We had growth in a number of areas, most significantly in our mine resistant ambush



protected vehicles programs (\$43 million and \$85 million for the three and six months ended July 31, 2010, respectively), systems engineering solutions for the U.S. Navy (\$28 million and \$40 million for the three and six months ended July 31, 2010, respectively), and intelligence, surveillance, and reconnaissance systems solutions for a variety of national security customers (\$52 million and \$67 million for the three and six months ended July 31, 2010, respectively). In addition, we recognized a \$56 million royalty payment received in connection with patents previously transferred to a third party. For a discussion of this matter, see Note 10 of the notes to the condensed consolidated financial statements for the three and six months ended July 31, 2010 contained in this Quarterly Report on Form 10-Q. These growth areas were offset by programs that declined year-over-year. The most significant reductions arose from fewer materials requested under a supply chain prime vendor contract (\$31 million and \$60 million for the three and six months ended July 31, 2010, respectively), a reduction in scope under the Army Brigade Combat Team Modernization program (\$20 million for both the three and six months ended July 31, 2010) and a decline in revenues under an IT services contract with NASA (\$21 million and \$34 million for the three and six months ended July 31, 2010, respectively). Revenue growth continues to be impacted by on-going delays in procurement decisions and new program starts across the intelligence and defense sectors. In addition, the internal revenue growth for the three months ended July 31, 2010 was negatively impacted by one less business day in the current year as compared to the same period in the prior year (representing a 2% decline in revenues).

Commercial segment revenues decreased \$26 million, or 22%, and \$33 million, or 14%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year primarily due to the expiration of an IT outsourcing contract in the United Kingdom in the first quarter of fiscal 2011 (representing a \$12 million and \$15 million decline in revenues for the three and six months ended July 31, 2010, respectively) and reduced volume in our consulting services and information technology business area, which we believe was due to general economic conditions.

**Operating Income.** Total operating income increased \$52 million, or 24%, and \$55 million, or 13%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year primarily due to a \$56 million royalty payment received during the three months ended July 31, 2010.

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

	Three Months Ended July 31		Six Months Ended July 31			
	2010	Percent change	2009	2010	Percent change	2009
	(dollars in millions)					
Government segment operating income	\$274	26%	\$217	\$483	15%	\$421
As a percentage of related revenues	10.1%		8.2%	9.1%		8.1%
Commercial segment operating income	2	(83)	12	3	(84)	19
As a percentage of related revenues	2.2%		10.3%	1.5%		8.2%
Corporate and Other segment operating loss	(3)	(63)	(8)	(6)	(60)	(15)
Total operating income	\$273	24	\$221	\$480	13	\$425
As a percentage of revenues	9.8%		8.0%	8.8%		7.9%

Government segment operating income increased \$57 million, or 26%, and \$62 million, or 15%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year primarily due to a \$56 million royalty payment received during the three months ended July 31, 2010. The Government segment operating income was also favorably impacted by strong program performance partially offset by the dilutive effects of the recent acquisition of a cyber security company (\$5 million and \$11 million for the three and six months ended July 31, 2010, respectively).

Commercial segment operating income decreased \$10 million, or 83%, and \$16 million, or 84%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year primarily due to declines resulting from the expiration of an IT outsourcing contract in the United Kingdom in the first quarter of fiscal 2011 (\$4 million and \$8 million for the three and six months ended July 31, 2010, respectively) and reduced volume in our consulting services and information technology business area, which we believe was due to general economic conditions. In addition, we incurred severance costs of \$1 million and \$2 million during the three and six months ended July 31, 2010, respectively, for actions taken to reduce infrastructure costs.

Corporate and Other segment loss represents corporate costs that are unallowable under U.S. Government Cost Accounting Standards and the net effect of various items that are not directly related to the business unit's operating performance in the Government or Commercial segments. Corporate and Other segment operating loss decreased \$5 million, or 63%, and \$9 million, or 60%, for the three and six months ended July 31, 2010, respectively, as compared to the same period in the prior year. The decrease in the loss is primarily due to a decline in stock option expense (\$1 million and

\$3 million for the three and six months ended July 31, 2010, respectively) as a result of a decrease in the number of stock options issued in recent years. In addition, during the three months ended July 31, 2010 we received \$3 million for reimbursement of legal-related costs in connection with the resolution of a patent infringement matter. For a discussion of this matter, see Note 10 of the notes to the condensed consolidated financial statements for the three and six months ended July 31, 2010 contained in this Quarterly Report on Form 10-Q.

**Provision for Income Taxes.** The provision for income taxes increased \$18 million, or 23%, and \$10 million, or 7%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods of the prior year. As a percentage of income from continuing operations before income taxes, the provision of income taxes was 37.5% and 36.0% for the three and six months ended July 31, 2010, respectively, as compared to 38.1% for the same periods in the prior year. The lower effective income tax rate for the three and six months ended July 31, 2010 as compared to the same period in the prior year was primarily attributable to a \$11 million reduction in the provision for income taxes resulting from the resolution of certain tax uncertainties.

We file income tax returns in the United States and various state and foreign jurisdictions and have effectively settled with the Internal Revenue Service (IRS) for fiscal years prior to and including fiscal 2008. Effective fiscal 2011, we are participating in the IRS Compliance Assurance Process (CAP), in which we and the IRS endeavor to agree on the treatment of all tax positions prior to the return being filed, thereby greatly reducing the period of time between return submission and settlement with the IRS.

**Income from Continuing Operations.** Income from continuing operations increased \$33 million, or 26%, and \$41 million, or 17%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year primarily due to a royalty payment received as discussed above. This increase was partially offset by an increase in the provision for income taxes of \$18 million and \$10 million for the three and six months ended July 31, 2010, respectively.

**Diluted Earnings per Share (EPS) from Continuing Operations.** Diluted EPS from continuing operations increased \$.11 per share, or 35%, and \$.14 per share, or 23%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year. These increases were primarily due to the increases in income from continuing operations over the same respective periods for the reasons discussed above and a decline in the diluted weighted average number of shares outstanding of 23 million, or 6%, and 21 million, or 5%, for the three and six months ended July 31, 2010, respectively, primarily due to share repurchases.

**Discontinued Operations.** Discontinued operations for the three and six months ended July 31, 2010 reflect an after-tax net gain of \$31 million related to the settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary Telcordia Technologies, Inc.

**Net Income and Diluted EPS.** Net income increased \$66 million, or 54%, and \$75 million, or 31%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year. The increase in net income for the three months ended July 31, 2010 as compared to the same period in the prior year reflects an increase in income from continuing operations of \$33 million and an increase in income from discontinued operations of \$33 million. Diluted EPS increased \$.19 per share, or 61%, and \$.23 per share, or 39%, for the three and six months ended July 31, 2010, respectively, as compared to the same periods in the prior year due to increases in net income and declines in the diluted weighted average number of shares outstanding discussed above.

#### Liquidity and Capital Resources

We had \$604 million in cash and cash equivalents at July 31, 2010, which were primarily comprised of investments in several large institutional money market funds that invest primarily in bills, notes and bonds issued by the U.S. Treasury, U.S. Government guaranteed repurchase agreements fully collateralized by U.S. Treasury obligations and U.S. Government guaranteed securities and that have original maturities of three months or less. We anticipate our principal sources of liquidity for the next 12 months and beyond will be our existing cash and cash equivalents and cash flows from operations. We may also borrow under our \$750 million revolving credit facility. Our revolving credit facility, which is backed by ten financial institutions, matures in fiscal 2013 and, by its terms, can be accessed on a same-day basis. We anticipate our principal uses of cash for the next 12 months and beyond will be for operating expenses, capital expenditures, acquisitions of businesses, stock repurchases and funding of pension obligations. We anticipate that our operating cash flows, existing cash and cash equivalents, which have no restrictions on withdrawal, and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

**Historical Trends**

Cash and cash equivalents were \$604 million and \$861 million at July 31, 2010 and January 31, 2010, respectively. The following table summarizes cash flow information for the periods noted:

	Six Months Ended July 31	
	2010	2009
	(in millions)	
Total cash flows provided by operations	\$ 249	\$ 272
Total cash flows used in investing activities	(174)	(19)
Total cash flows used in financing activities	(411)	(244)
Increase in cash and cash equivalents from discontinued operations	81	1
Effect of foreign currency exchange rate changes on cash and cash equivalents	(2)	5
<b>Total increase (decrease) in cash and cash equivalents</b>	<b>\$ (257)</b>	<b>\$ 15</b>

**Cash Provided by Operations.** Cash flows from operations decreased \$23 million for the six months ended July 31, 2010 as compared to the same period in the prior year. Cash flows from operations for the six months ended July 31, 2010 as compared to the same period in the prior year were adversely impacted by timing driven increases in tax payments (\$49 million) and the funding of performance bonds on our contract with the Greek Government (\$23 million) offset by an increase in income from continuing operations, including the receipt of a \$56 million royalty payment.

**Cash Used in Investing Activities.** We used \$174 million of cash in support of investing activities during the six months ended July 31, 2010 including \$140 million to acquire a business and \$35 million to purchase property, plant and equipment including increased spending on information technology modernization projects and construction projects on existing or new leased facilities. We used \$19 million of cash in support of investing activities during the six months ended July 31, 2009, including \$9 million to acquire a business and \$28 million to purchase property, plant and equipment offset by \$12 million in proceeds from sales of investments and an \$8 million receipt for purchase price adjustments related to a fiscal 2009 acquisition.

**Cash Used in Financing Activities.** We used \$411 million of cash in support of financing activities during the six months ended July 31, 2010, including \$445 million to repurchase shares of our stock partially offset by \$22 million in proceeds from the sale of stock under our employee stock purchase plan (ESPP) and exercises of stock options and \$13 million in excess tax benefits associated with stock-based compensation. We used \$244 million of cash in support of financing activities during the six months ended July 31, 2009, including \$276 million to repurchase shares of our stock and \$16 million for payments on notes payable and debt partially offset by \$34 million in proceeds from the sale of stock under our ESPP and exercises of stock options and \$14 million in excess tax benefits associated with stock-based compensation.

**Cash Flows from Discontinued Operations.** Cash flows from discontinued operations for the six months ended July 31, 2010 include proceeds of \$82 million from the settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary Telcordia Technologies, Inc. The payments of related obligations to tax authorities and to our former subsidiary are expected to be made in upcoming quarters.

**Stock Repurchase Program**

Our board of directors has authorized a stock repurchase program under which we may repurchase shares of our common stock as part of our overall strategy for capital allocation. Stock repurchases under this program may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. From inception of the stock repurchase program in December 2006 through July 31, 2010, we have repurchased an aggregate of 82 million shares. As of July 31, 2010, there were 7 million shares remaining authorized for repurchase under the program.

**Underfunded Pension Obligation**

We sponsor a defined benefit pension plan for eligible employees of our United Kingdom subsidiary that primarily performed services on a specific customer contract, which expired on March 31, 2010. As of January 31, 2010, the pension plan had an underfunded projected benefit obligation of \$42 million and an unrecognized actuarial loss (pre-tax) of \$50 million. In February 2010, we were notified by the customer that it had entered into a follow-on contract with a successor contractor. In April 2010, employees then performing services on the customer contract transferred to the successor contractor following contract expiration. During the six months ended July 31, 2010, we recognized charges (pre-tax) of \$3 million from

severance and additional contractual retirement benefits related to reductions in pension eligible personnel who were not transferred to the successor contractor. Upon the completion of these actions, we expect that there will be no active employees participating in the pension plan. We will have continuing defined benefit pension obligations with respect to former employees who performed services on the customer contract that remain covered by the plan.

We expect to recognize charges (pre-tax) of \$20 million to \$30 million during fiscal 2011 from recognition of losses related to the underfunded pension obligations associated with certain employees whose pension plan assets and obligations are expected to transfer to the successor contractor and from related costs. We expect these remaining charges will be primarily non-cash. The definitive amount of the charges we will incur depends on the number of employees who elect to transfer their pension benefits to the successor contractor, the amount of assets and obligations to be transferred, the performance of the pension plan assets and the date on which the pension plan assets and obligations actually transfer.

### Outstanding Indebtedness

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

	July 31, 2010	January 31, 2010
	(in millions)	
\$550 million 6.25% notes due fiscal 2013	\$ 550	\$ 549
\$300 million 5.5% notes due fiscal 2034	296	296
\$250 million 7.125% notes due fiscal 2033	248	248
Capital leases and other notes payable	11	13
	<b>1,105</b>	1,106
Less: current portion	3	3
Total	<b>\$1,102</b>	\$ 1,103

These notes contain financial covenants and customary restrictive covenants, including, among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions. We were in compliance with all covenants as of July 31, 2010.

*Credit Facility.* We have an unused revolving credit facility providing for \$750 million in unsecured borrowing capacity at interest rates determined, at our option, based on either LIBOR plus a margin or a defined base rate through fiscal 2013. The facility contains financial covenants and customary restrictive covenants. As of July 31, 2010, we were in compliance with all covenants under the credit facility.

### Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain of our unconsolidated joint venture investments as described in Note 19 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010. These arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition.

### Commitments and Contingencies

We are subject to a number of reviews, investigations, claims, lawsuits and other uncertainties related to our business. For a discussion of these items, see Notes 9 and 10 of the notes to the condensed consolidated financial statements for the three and six months ended July 31, 2010 contained in this Quarterly Report on Form 10-Q.

### Critical Accounting Policies

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

We have several critical accounting policies, which were described in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010, that are important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments complex and difficult have to do with making estimates about the effect of matters that are inherently uncertain. The following discussion of our revenue recognition policy updates the discussion of such policy in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

**Accounting Change.** Effective February 1, 2010, we changed our method of revenue recognition for cost-plus-fixed-fee, time-and-materials and fixed-price-level-of-effort contracts with the U.S. Government to the methods described below. Contract costs will continue to be expensed as incurred under these contracts.

**Cost-plus-fixed-fee contracts**—Revenue is recognized on the basis of partial performance as costs are incurred together with an estimate of applicable fees as we become contractually entitled to reimbursement of costs and the applicable fees pursuant to the guidance in ASC 912-605-25 Contractors-Federal Government—Recognition of Fees Under Cost-Plus-Fixed-Fee Contracts.

**Time-and-materials contracts**—Revenue is recognized using the percentage-of-completion method of accounting utilizing an output measure to measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

**Fixed-price-level-of-effort contracts**—These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, we recognize revenue in a manner similar to time-and-materials contracts whereby we utilize the percentage-of-completion method of accounting utilizing an output measure. We measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

The revenue recognition change impacts contracts accounting for approximately two-thirds of our revenues. We believe the change is to an alternative accounting principle that is preferable because we believe it better reflects the economic substance and earnings process under these arrangements. This change was facilitated by the implementation of a new information technology system.

Although this change impacts contracts accounting for approximately two-thirds of our revenues, the result of the accounting change was immaterial to our consolidated financial position and results of operations for all periods presented because the resulting measurement of the progress toward completion under the two methods is not significantly different. Accordingly, the cumulative effect of the accounting change was recognized in the consolidated statement of income in the first quarter, rather than retrospectively applied to the prior period consolidated financial statements.

**Revenue Recognition.** We generate our revenues from various types of contracts, which include firm-fixed-price, time-and-materials, fixed-price-level-of-effort, cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee contracts.

**Cost-plus-fixed-fee contracts**—Revenue is recognized on cost-plus-fixed-fee contracts with the U.S. Government on the basis of partial performance equal to costs incurred plus an estimate of applicable fees earned as we become contractually entitled to reimbursement of costs and the applicable fees.

**Time-and-materials contracts**—Revenue is recognized on time-and-materials contracts with the U.S. Government using the percentage-of-completion method of accounting utilizing an output measure of progress. Revenue is recognized on time-and-materials contracts with non-U.S. Government customers using a proportional performance method. Under both of these methods, revenue is recognized based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

**Fixed-price-level-of-effort contracts (FP-LOE)**—These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, we recognize revenue on FP-LOE contracts with the U.S. Government in a manner similar to time-and-materials contracts whereby we measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

**Cost-plus-award-fee/cost-plus-incentive fee contracts**—Revenues and fees on these contracts with the U.S. Government are primarily recognized using the percentage-of-completion method of accounting, most often based on the cost-to-cost method. We include an estimate of the ultimate incentive or award fee to be received on the contract in the estimate of contract revenues for purposes of applying the percentage-of-completion method of accounting.

Firm-fixed-price contracts—Revenues and fees on these contracts that are system integration or engineering in nature are primarily recognized using the percentage-of-completion method of accounting utilizing the cost-to-cost method.

Revenues from services and maintenance contracts, notwithstanding the type of contract, are recognized over the term of the respective contracts as the services are performed and revenue is earned. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. Revenues from the sale of manufactured products are recorded upon passage of title and risk of loss to the customer, which is generally upon delivery, provided that all other requirements for revenue recognition have been met.

We also use the efforts-expended method of percentage-of-completion using measures such as labor dollars for measuring progress toward completion in situations in which this approach is more representative of the progress on the contract. For example, the efforts-expended method is utilized when there are significant amounts of materials or hardware procured for the contract that is not representative of progress on the contract. Additionally, we utilize the units-of-delivery method under percentage-of-completion on contracts where separate units of output are produced. Under the units-of-delivery method, revenue is generally recognized when the units are delivered to the customer, provided that all other requirements for revenue recognition have been met.

We also evaluate contracts for multiple elements, and when appropriate, separate the contracts into separate units of accounting for revenue recognition.

We provide for anticipated losses on all types of contracts by recording an expense during the period in which the losses are determined. Amounts billed and collected but not yet recognized as revenues under certain types of contracts are deferred. Contract costs incurred for U.S. Government contracts, including indirect costs, are subject to audit and adjustment through negotiations with government representatives. Revenues on U.S. Government contracts have been recorded in amounts that are expected to be realized upon final settlement.

Our accounts receivable include unbilled receivables, which consist of costs and fees billable upon contract completion or the occurrence of a specified event, the majority of which is expected to be billed and collected within one year. Unbilled receivables are stated at estimated realizable value. Contract retentions are billed when we have negotiated final indirect rates with the U.S. Government and, once billed, are subject to audit and approval by government representatives. Consequently, the timing of collection of retention balances is outside our control. Based on our historical experience, the majority of retention balances are expected to be collected beyond one year.

Contract claims are unanticipated additional costs incurred but not provided for in the executed contract price that we seek to recover from the customer. Such costs are expensed as incurred. Additional revenue related to contract claims is recognized when the amounts are awarded by the customer.

In certain situations, primarily where we are not the primary obligor on certain elements of a contract such as the provision of administrative oversight and/or management of government-owned facilities or logistical support services related to other vendors' products, we recognize as revenues the net management fee associated with the services and exclude from our income statement the gross sales and costs associated with the facility or other vendors' products.

#### **Non-GAAP Financial Measures**

In this Quarterly Report on Form 10-Q, we refer to internal revenue growth percentage, which is a non-GAAP financial measure that we reconcile to the most directly comparable GAAP financial measure. We calculate our internal revenue growth percentage by comparing our reported revenue for the current year period to the revenue for the prior year period adjusted to include the actual revenue of acquired businesses for the comparable prior year period before acquisition. This calculation has the effect of adding revenue for the acquired businesses for the comparable prior year period to our prior year period reported revenue.

We use internal revenue growth percentage as an indicator of how successful we are at growing our base business and how successful we are at growing the revenues of the businesses that we acquire. We believe that our integration of acquired businesses allows our current management to leverage business development capabilities, drive internal resource collaboration, utilize access to markets and qualifications, and refine strategies to realize synergies, which benefits both acquired and existing businesses. As a result, the performance of the combined enterprise post-acquisition is an important measurement. In addition, as a means of rewarding the successful integration and growth of acquired businesses, and not acquisitions themselves, incentive compensation for our executives and the broader employee population is based, in part, on achievement of revenue targets linked to internal revenue growth.

The limitation of this non-GAAP financial measure as compared to the most directly comparable GAAP financial measure is that internal revenue growth percentage is one of two components of the total revenue growth percentage, which is the most directly comparable GAAP financial measure. We address this limitation by presenting the total revenue growth percentage next to or near disclosures of internal revenue growth percentage. This financial measure is not meant to be considered in isolation or as a substitute for comparable GAAP financial measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. The method that we use to calculate internal revenue growth percentage is not necessarily comparable to similarly titled financial measures presented by other companies.

Internal revenue growth percentages for the three and six months ended July 31, 2010 were calculated as follows:

	Three Months Ended July 31, 2010	Six Months Ended July 31, 2010
	(dollars in millions)	
<b>Government segment:</b>		
Prior year period's revenues, as reported	\$ 2,634	\$ 5,170
Revenues of acquired businesses for the comparable prior year period	61	132
Prior year period's revenues, as adjusted	\$ 2,695	\$ 5,302
Current year period's revenues, as reported	2,704	5,284
Internal revenue growth	\$ 9	\$ (18)
Internal revenue growth percentage	—%	—%
<b>Commercial segment:</b>		
Prior year period's revenues, as reported	\$ 117	\$ 231
Revenues of acquired businesses for the comparable prior year period	—	—
Prior year period's revenues, as adjusted	\$ 117	\$ 231
Current year period's revenues, as reported	91	198
Internal revenue growth	\$ (26)	\$ (33)
Internal revenue growth percentage	(22)%	(14)%
<b>Total:</b>		
Prior year period's revenues, as reported	\$ 2,749	\$ 5,398
Revenues of acquired businesses for the comparable prior year period	61	132
Prior year period's revenues, as adjusted	\$ 2,810	\$ 5,530
Current year period's revenues, as reported	2,794	5,479
Internal revenue growth	\$ (16)	\$ (51)
Internal revenue growth percentage	(1)%	(1)%

#### Effects of Inflation

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

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

During the six months ended July 31, 2010, there were no material changes in our market risk exposure. For a discussion of our market risk associated with interest rate risk and foreign currency risk as of January 31, 2010, see "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A, of our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

**Item 4. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer (our Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of July 31, 2010, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes In Internal Control Over Financial Reporting**

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



**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We have provided information about legal proceedings in which we are involved in Note 9 of the notes to condensed consolidated financial statements for the three and six months ended July 31, 2010 contained within this Quarterly Report on Form 10-Q.

In addition to the matters disclosed in Note 9, we are routinely subject to investigations and reviews relating to compliance with various laws and regulations, including those associated with organizational conflicts of interest, with respect to our role as a contractor to agencies and departments of the U.S. Government and in connection with performing services in countries outside of the United States. Adverse findings in these investigations or reviews can lead to criminal, civil or administrative proceedings and we could face penalties, fines, repayments or compensatory damages. Adverse findings could also have a material adverse effect on our business, consolidated financial position, results of operations and cash flows due to our reliance on government contracts.

**Item 1A. Risk Factors.**

There were no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

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

Our board of directors has authorized a stock repurchase program under which we may repurchase shares of our common stock as part of our overall strategy for capital allocation. Stock repurchases under this program may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. From inception of the stock repurchase program in December 2006 through July 31, 2010, we have repurchased an aggregate of 82 million shares. As of July 31, 2010, there were 7 million shares remaining authorized for repurchase under this program.

The following table presents repurchases of our stock during the quarter ended July 31, 2010:

Period	(a) Total Number of Shares (or Units) Purchased <sup>(1)</sup>	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
May 1, 2010 – May 31, 2010	67,260	\$ 17.47	—	15,354,942
June 1, 2010 – June 30, 2010	8,606,402	17.56	8,552,413	6,802,529
July 1, 2010 – July 31, 2010	31,866	16.80	26	6,802,503
<b>Total</b>	<b>8,705,528</b>	<b>17.56</b>	<b>8,552,439</b>	

<sup>(1)</sup> Includes shares purchased as follows:

	May	June	July
Under publicly announced plans or programs	—	8,552,413	26
Upon surrender by stockholders of previously owned shares in payment of the exercise price of non-qualified stock options	55,699	35,313	27,090
Upon surrender by stockholders of previously owned shares to satisfy statutory tax withholding obligations related to vesting of stock awards	11,561	18,676	4,750
<b>Total</b>	<b>67,260</b>	<b>8,606,402</b>	<b>31,866</b>

<sup>(2)</sup> The stock repurchase program under which we could repurchase up to 40 million shares of our common stock was publicly announced in December 2006. In March 2008 and September 2009, our board authorized the repurchase of additional shares, in each case, restoring the number of shares authorized to be repurchased under the program to 40 million shares.

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

None.

**Item 4. (Removed and Reserved).**

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

- 10.1 2006 Employee Stock Purchase Plan, as amended and restated June 2010.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data File.

**SIGNATURE**

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

Date: September 2, 2010

SAIC, Inc.

/s/ MARK W. SOPP

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

**Exhibit Index**

Exhibit Number	Description of Exhibit
10.1	2006 Employee Stock Purchase Plan, as amended and restated June 2010.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data File.

## 2006 EMPLOYEE STOCK PURCHASE PLAN

**1. Establishment of Plan.**

SAIC, Inc. (the “**Company**”) proposes to grant options for purchase of the Company’s Class A Preferred Stock or the Company’s Common Stock as determined by the Committee to eligible employees of the Company and its Participating Subsidiaries pursuant to this 2006 Employee Stock Purchase Plan (this “**Plan**”). The Company intends this Plan to qualify as an “employee stock purchase plan” under Section 423 of the Code (including any amendments to or replacements of such Section), although the Company makes no undertaking or representation to maintain such qualification. In addition, the Plan authorizes the grant of options under a Non-423 Plan Component pursuant to rules, procedures or sub-plans adopted by the Board (or its designate) designed to achieve desired tax or other objectives. To the extent that the Company grants options to employees of its Affiliates, such grants shall be made under the Non-423 Plan Component. Any term not expressly defined in this Plan but defined for purposes of Section 423 of the Code shall have the same definition herein.

**2. Definitions.**

This Plan uses the following defined terms:

- (a) “**Affiliate**” means any entity other than a Subsidiary in which the Company has a controlling interest and which is not a “subsidiary corporation” as defined in Section 424(f) of the Code.
- (b) “**Annual Increase**” means the automatic annual increase in the Share Limit described in Section 3.
- (c) “**Board**” means the Board of Directors of the Company.
- (d) “**Class A Preferred Stock**” means the Class A Preferred Stock of the Company.
- (e) “**Code**” means the Internal Revenue Code of 1986, as amended.
- (f) “**Committee**” means the Compensation Committee of the Board.
- (g) “**Common Stock**” means the Common Stock of the Company.
- (h) “**Company**” means SAIC, Inc., a Delaware corporation.
- (i) “**employee**” has the meaning set forth in Section 4.
- (j) “**Employee Stock Purchase Committee**” means a committee consisting of one or more management employees of the Company appointed in accordance with Section 5.
- (k) “**fair market value**” means the value of a Share as determined under Section 10.
- (l) “**First Offering Period**” means the period commencing and ending on those dates determined by the Committee.
- (m) “**Maximum Share Amount**” means a maximum number of Shares which may be purchased by any employee at any single Purchase Date described in Section 12.
- (n) “**Non-423 Plan Component**” means a component of this Plan which does not qualify under Section 423 of the Code.
- (o) “**Notice Period**” means the period within two (2) years from the Offering Date relating to the applicable shares or one (1) year from the Purchase Date on which the applicable shares were purchased.
- (p) “**Offering Date**” means the first business day of each Offering Period.
- (q) “**Offering Period**” means a period of three (3) months except for the First Offering Period as set forth in Section 7 of this Plan. The duration and timing of Offering Periods may be changed pursuant to Section 7, Section 16 and Section 29 of this Plan, provided that no Offering Period shall exceed a period of twenty-four (24) months.
- (r) “**Parent Corporation**” shall have the same meaning as “parent corporation” in Section 424(e) of the Code.

(s) “**Participating Subsidiaries**” means Science Applications International Corporation and such Parent Corporations, Subsidiaries or Affiliates that the Board designates from time to time as corporations that shall participate in this Plan.

(t) “**Plan**” means this 2006 Employee Stock Purchase Plan of the Company.

(u) “**Purchase Date**” means the last business day of each Purchase Period.

(v) “**Purchase Period**” means a period of three (3) months, except for the first Purchase Period, coincident with an Offering Period. The duration and timing of Purchase Periods may be changed pursuant to Section 7, Section 16 and Section 29 of this Plan, provided that no Purchase Period shall exceed a period of six (6) months.

(w) “**Reserves**” means the number and type of Shares covered by each option under this Plan which has not yet been exercised and the number and type of Shares which have been authorized for issuance under this Plan, including the Annual Increase, but have not yet been placed under option.

(x) “**Share**” means a share of the Class A Preferred Stock or Common Stock, as determined by the Committee.

(y) “**Share Limit**” means the limit on the total number of Shares available for issuance under this Plan described in Section 3.

(z) “**Subsidiary**” shall have the same meaning as “subsidiary corporation” in Section 424(f) of the Code.

(aa) “**Value Date**” means the date the fair market value of a Share is to be determined.

### 3. Number of Shares.

The total number of Shares initially available for issuance pursuant to this Plan shall be 9,000,000 (the “**Share Limit**”), subject to adjustments effected in accordance with Section 16 of this Plan. Notwithstanding the foregoing and subject to Section 16, the Share Limit shall automatically increase on February 1, 2007 and February 1 of each year thereafter until and including February 1, 2016 (unless the Plan is terminated earlier in accordance with the provisions hereof) by the “**Annual Increase**” which shall consist of a number of shares equal to the least of (i) 9,000,000, (ii) two percent (2%) of the number of shares of Common Stock of the Company outstanding on the last day of the immediately preceding fiscal year (measured on an as-converted basis with respect to outstanding shares of Class A Preferred Stock), or (iii) a lesser number determined by the Committee prior to such February 1. To the extent the Board (or its designate) shall have implemented a Non-423 Plan Component, the Share Limit shall be reduced by the number of shares issued under the Non-423 Plan Component. Shares issued under this Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares reacquired in private transactions or open market purchases, but all shares issued under this Plan and the Non-423 Plan Component shall be counted against the Share Limit.

### 4. Purpose.

The purpose of this Plan is to provide eligible employees of the Company and Participating Subsidiaries with a convenient means of acquiring an equity interest in the Company through payroll deductions, to enhance such employees’ sense of participation in the affairs of the Company and Participating Subsidiaries, and to provide an incentive for continued employment. For the purposes of this Plan, “employee” shall mean any individual who is an employee of the Company or a Participating Subsidiary. Whether an individual qualifies as an employee shall be determined by the Committee, in its sole discretion. The Committee shall be guided by the provisions of Treasury Regulation Section 1.421-7 and Section 3401(c) of the Code and the Treasury Regulations thereunder as to employees in the United States, with the intent that the Plan cover all “employees” within the meaning of those provisions other than those who are not eligible to participate in the Plan, provided, however, that any determinations regarding whether an individual is an “employee” shall be prospective only, unless otherwise determined by the Committee. Unless the Committee makes a contrary determination, the employees of the Company shall, for all purposes of this Plan, be those individuals who are carried as employees of the Company or a Participating Subsidiary for regular payroll purposes or are on a leave of absence for not more than 90 days. Any inquiries regarding eligibility to participate in the Plan shall be directed to the Committee, whose decision shall be final.

### 5. Administration.

This Plan shall be administered by the Committee. The Committee may delegate certain administrative responsibilities to an Employee Stock Purchase Committee, including (a) prescribing, amending and rescinding rules and regulations relating to the Plan; (b) prescribing forms for carrying out the provisions and purposes of the Plan; (c) interpreting the Plan; and (d) making all other determinations deemed necessary or advisable for the administration of the Plan, including factual determinations. Subject to the provisions of this Plan, the Committee shall have all authority to (i) determine and change the percentage discount pursuant to Section 10, (ii) determine and change the Offering Periods and Offering Dates pursuant to Section 7, (iii) determine and change the purchase price for shares pursuant to Section 10, (iv) prescribe minimum holding periods for the Shares issued under this Plan, and (v) prescribe, amend and rescind rules and regulations relating to this Plan. All decisions of the Committee and the Employee Stock Purchase Committee shall be final and binding upon all participants. Members of the Committee and the Employee Stock Purchase Committee shall receive no compensation for their services in connection with the administration of this Plan, other than standard fees as established from time to time by the Board for services rendered by Board members serving on Board committees. All expenses incurred in connection with the administration of this Plan shall be paid by the Company.

## **6. Eligibility.**

Any employee of the Company or the Participating Subsidiaries is eligible to participate in an Offering Period (as hereinafter defined) under this Plan except the following:

(a) employees who are not employed by the Company or a Participating Subsidiary prior to the beginning of such Offering Period or prior to such other time period as specified by the Committee;

(b) employees who, together with any other person whose stock would be attributed to such employee pursuant to Section 424(d) of the Code, own stock or hold options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any of its Participating Subsidiaries or who, as a result of being granted an option under this Plan with respect to such Offering Period, would own stock or hold options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any of its Participating Subsidiaries;

(c) individuals who provide services to the Company or any of its Participating Subsidiaries as independent contractors who are reclassified as common law employees for any reason except for federal income and employment tax purposes; and

(d) employees who reside in countries for whom such employees' participation in the Plan would result in a violation under any corporate or securities laws of such country of residence.

## **7. Offering Dates.**

The Offering Periods of this Plan may be up to twenty-four (24) months in duration and may consist of up to eight (8) Purchase Periods of up to six (6) months in duration during which payroll deductions of the participants are accumulated under this Plan. However, unless and until determined otherwise by the Committee, except for the First Offering Period, each Offering Period shall have a duration of three months and shall commence on April 1, July 1, October 1 or January 1 and each Offering Period shall have only one Purchase Period which shall run simultaneously with the Offering Period. The First Offering Period shall commence and end on those dates determined by the Committee. The Committee shall have the power to change the Offering Dates, the Purchase Dates and the duration of Offering Periods or Purchase Periods without stockholder approval if such change is announced prior to the relevant Offering Period or prior to such other time period as specified by the Committee.

## **8. Participation in this Plan.**

Eligible employees may become participants in an Offering Period under this Plan on the Offering Date, after satisfying the eligibility requirements, by delivering a subscription agreement to the Company prior to such Offering Date, or such other time period as specified by the Committee. An eligible employee who does not deliver a subscription agreement to the Company after becoming eligible to participate in an Offering Period shall not participate in that Offering Period or any subsequent Offering Period unless such employee enrolls in this Plan by delivering a subscription agreement with the Company prior to such Offering Period, or such other time period as specified by the Committee. Once an employee becomes a participant in an Offering Period by filing a subscription agreement, such employee shall automatically participate in the Offering Period commencing immediately following the last day of the prior Offering Period unless the employee withdraws or is deemed to withdraw from this Plan or terminates further participation in the Offering Period as set forth in Section 13 below. Such participant is not required to file any additional subscription agreement in order to continue participation in this Plan.

## **9. Grant of Option on Enrollment.**

Enrollment by an eligible employee in this Plan with respect to an Offering Period shall constitute the grant (as of the Offering Date) by the Company to such employee of an option to purchase on the Purchase Date up to that number of Shares determined by a fraction, the numerator of which is the amount accumulated in such employee's payroll deduction account during such Purchase Period and the denominator of which is eighty-five percent (85%) (unless such percentage is changed pursuant to Section 10) of the fair market value of a Share on the Purchase Date (but in no event less than the par value of a Share), provided, however, that the number of Shares subject to any option granted pursuant to this Plan shall not exceed the lesser of (x) the maximum number of shares set by the Committee pursuant to Section 12(c) below with respect to the applicable Purchase Date, or (y) the maximum number of shares which may be purchased pursuant to Section 12(b) below with respect to the applicable Purchase Date. The fair market value of a Share shall be determined as provided in Section 10 below. Notwithstanding the foregoing, in the event of a change in generally accepted accounting principles which would adversely affect the accounting treatment applicable to any current Offering Period, the Committee may make such changes to the number of Shares purchased at the end of Purchase Period or the purchase price paid as are allowable under generally accepted accounting principles and as it deems necessary in the sole discretion of the Committee to avoid or minimize adverse accounting consequences.

## 10. Purchase Price.

The purchase price per Share at which a Share shall be sold in any Offering Period shall be eighty-five percent (85%) of the fair market value of the Shares on the Purchase Date; provided that the Committee may change the purchase price to be anywhere from eighty-five percent (85%) to one hundred percent (100%) of the fair market value of a Share on the Offering Date or the Purchase Date.

For purposes of this Plan, "fair market value" of a Share shall be determined as follows:

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

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

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

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

## 11. Payment of Purchase Price; Changes in Payroll Deductions; Issuance of Shares.

(a) The purchase price of the shares is accumulated by regular payroll deductions made during each Offering Period. The deductions are made as a percentage of the participant's compensation in one percent (1%) increments, not less than one percent (1%), nor greater than ten percent (10%), or such lower limit set by the Committee. Compensation shall mean, in the case of employees subject to tax in the United States, all W-2 cash compensation, including, but not limited to, base salary, wages, bonuses, incentive compensation, commissions, overtime, shift premiums, plus draws against commissions, provided, however that compensation shall not include any long term disability or workers' compensation payments, car allowances, relocation payments or expense reimbursements and further provided, however, that for purposes of determining a participant's compensation, any election by such participant to reduce his or her regular cash remuneration under Sections 125 or 401(k) of the Code shall be treated as if the participant did not make such election. In the case of employees not subject to tax in the United States, the Committee shall establish a comparable definition of compensation. Payroll deductions shall commence on the first payday of the Offering Period and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in this Plan. If payroll deductions are not permitted in a jurisdiction, participants in that jurisdiction may contribute via check or pursuant to another method approved by the Committee.



(b) A participant may increase or decrease the rate of payroll deductions during an Offering Period by filing with the Company a new authorization for payroll deductions, in which case the new rate shall become effective for the next payroll period commencing after the Company's receipt and processing of the authorization and shall continue for the remainder of the Offering Period unless changed as described below. Such change in the rate of payroll deductions may be made at any time during an Offering Period. The Committee shall have the authority to impose restrictions on the number of increases or decreases a participant may make within an Offering Period as set forth in this Subsection (b) or in Section 11(c) below.

(c) A participant may reduce his or her payroll deduction percentage to zero during an Offering Period by filing with the Company a request for cessation of payroll deductions. Such reduction shall be effective beginning with the next payroll period after the Company's receipt of the request and no further payroll deductions shall be made for the duration of the Offering Period unless the rate of payroll deduction is subsequently increased. Payroll deductions credited to the participant's account prior to the effective date of the request shall be used to purchase Shares in accordance with Section (e) below. A participant may subsequently increase his or her payroll deductions during the Offering Period as long as he or she has not withdrawn participation in the Offering Period as set forth in Section 13 below.

(d) All payroll deductions made for a participant are credited to his or her account under this Plan and are deposited with the general funds of the Company. No interest accrues on the payroll deductions, unless required by local law. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions, unless required by local law.

(e) On each Purchase Date, for so long as this Plan remains in effect, and provided that the participant has not submitted a signed and completed withdrawal form before that date, which notifies the Company that the participant wishes to withdraw from that Offering Period under this Plan and have all payroll deductions accumulated in the account maintained on behalf of the participant, as of that date returned to the participant, the Company shall apply the funds then in the participant's account to the purchase of whole and fractional Shares reserved under the option granted to such participant with respect to the Offering Period to the extent that such option is exercisable on the Purchase Date. The purchase price per share shall be as specified in Section 10 of this Plan. In the event that this Plan has been oversubscribed, all funds not used to purchase shares on the Purchase Date shall be returned to the participant, without interest. No Share shall be purchased on a Purchase Date on behalf of any employee whose participation in this Plan has terminated prior to such Purchase Date.

(f) As soon as practicable after the Purchase Date, the Company shall issue shares for the participant's benefit representing the shares purchased upon exercise of his or her option.

(g) During a participant's lifetime, his or her option to purchase shares hereunder is exercisable only by him or her. The participant shall have no interest or voting rights in shares covered by his or her option until such option has been exercised and shares have been issued to the participant.

## **12. Limitations on Shares to be Purchased.**

(a) No participant shall be entitled to purchase stock under this Plan at a rate which, when aggregated with his or her rights to purchase stock under all other employee stock purchase plans of the Company or any Subsidiary, exceeds \$25,000 in fair market value, determined as of the Offering Date (or such other limit as may be imposed by the Code) for each calendar year in which the employee participates in this Plan. The Company shall have the authority to take all necessary action, including but not limited to, suspending the payroll deductions of any participant, in order to ensure compliance with this Section.

(b) No participant shall be entitled to purchase more than the Maximum Share Amount on any single Purchase Date. Prior to the commencement of any Offering Period or prior to such time period as specified by the Committee, the Committee may, in its sole discretion, set a Maximum Share Amount. The Maximum Share Amount shall be 2,500 shares. If a new Maximum Share Amount is set, then all participants must be notified of such Maximum Share Amount prior to the commencement of the next Offering Period. The Maximum Share Amount shall continue to apply with respect to all succeeding Purchase Dates and Offering Periods unless revised by the Committee as set forth above.

(c) If the number of shares to be purchased on a Purchase Date by all employees participating in this Plan exceeds the number of shares then available for issuance under this Plan, then the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as shall be reasonably practicable and as the Committee shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares to be purchased under a participant's option to each participant affected.

(d) Any payroll deductions accumulated in a participant's account which are not used to purchase stock due to the limitations in this Section 12 shall be returned to the participant as soon as practicable after the end of the applicable Purchase Period, without interest unless required by local law.

### **13. Withdrawal.**

(a) Each participant may withdraw from an Offering Period under this Plan by signing and delivering to the Company a written notice to that effect on a form provided for such purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period, or such other time period as specified by the Committee.

(b) Upon withdrawal from this Plan, the accumulated payroll deductions shall be returned to the withdrawn participant, without interest, and his or her interest in this Plan shall terminate. In the event a participant voluntarily elects to withdraw from this Plan, he or she may not resume his or her participation in this Plan during the same Offering Period, but he or she may participate in any Offering Period under this Plan which commences on a date subsequent to such withdrawal by filing a new authorization for payroll deductions in the same manner as set forth in Section 8 above for initial participation in this Plan.

(c) At such times, if any, when there are multiple Purchase Periods within an Offering Period and the purchase price can be based on the fair market value at the beginning of the Offering Period, if the fair market value on the first day of the current Offering Period in which a participant is enrolled is higher than the fair market value on the first day of any subsequent Offering Period, the Company shall automatically enroll such participant in the subsequent Offering Period. Any funds accumulated in a participant's account prior to the first day of such subsequent Offering Period shall be applied to the purchase of shares on the Purchase Date immediately prior to the first day of such subsequent Offering Period, if any.

### **14. Termination of Employment.**

Termination of a participant's employment for any reason, including retirement, death or the failure of a participant to remain an eligible employee of the Company or of a Participating Subsidiary, shall immediately terminate his or her participation in this Plan. In such event, the payroll deductions credited to the participant's account shall be returned to him or her or, in the case of his or her death, to his or her legal representative, without interest. For purposes of this Section 14, an employee shall not be deemed to have terminated employment or failed to remain in the continuous employ of the Company or of a Participating Subsidiary in the case of sick leave, military leave, or any other leave of absence approved by the Board, provided, however that such leave is for a period of not more than ninety (90) days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

### **15. Return of Payroll Deductions.**

In the event a participant's interest in this Plan is terminated by withdrawal, termination of employment or otherwise, or in the event this Plan is terminated by the Board, the Company shall deliver to the participant all payroll deductions credited to such participant's account. No interest shall accrue on the payroll deductions of a participant in this Plan, unless required by local law.

### **16. Capital Changes.**

Subject to any required action by the stockholders of the Company, the Reserves, as well as the price per Share covered by each option under this Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding Shares resulting from a stock split or the payment of a stock dividend (but only on the Shares), any other increase or decrease in the number of issued and outstanding Shares effected without receipt of any consideration by the Company or other change in the corporate structure or capitalization affecting the Company's present Shares, provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an option.

In the event of the proposed dissolution or liquidation of the Company, the Offering Period shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. The Committee may, in the exercise of its sole discretion in such instances, declare that this Plan shall terminate as of a date fixed by the Committee and give each participant the right to purchase shares under this Plan prior to such termination. In the event of (i) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the options under this Plan are assumed, converted or replaced by the successor corporation, which assumption shall be binding on all participants), (ii) a merger in which the Company is the surviving corporation but after which the stockholders of the Company immediately prior to such merger (other than any stockholder that merges, or which owns or controls another corporation that merges, with the Company in such merger) cease to own their shares or other equity interest in the Company, (iii) the sale of all or substantially all of the assets of the Company, or (iv) the acquisition, sale, or transfer of more than 50% of the outstanding shares of the Company by tender offer or similar transaction, the Plan shall continue with regard to Offering Periods that commenced prior to the closing of the proposed transaction and shares shall be purchased based on the fair market value of the surviving corporation's stock on each Purchase Date, unless otherwise provided by the Committee.

The Committee may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per Share covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of its outstanding Shares, or in the event of the Company being consolidated with or merged into any other corporation.

**17. Nonassignability.**

Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under this Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Sections 25 or 26 below) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be void and without effect.

**18. Reports.**

Individual accounts shall be maintained for each participant in this Plan. Each participant shall receive, as soon as practicable after the end of each Purchase Period, a report of his or her account setting forth the total payroll deductions accumulated, the number of shares purchased, the per share price thereof and the remaining cash balance, if any, carried forward to the next Purchase Period or Offering Period, as the case may be.

**19. Notice of Disposition.**

Each participant shall notify the Company in writing if the participant disposes of any of the shares purchased in any Offering Period pursuant to this Plan if such disposition occurs within the Notice Period. The Company may, at any time during the Notice Period, place a legend or legends on any certificate representing shares acquired pursuant to this Plan requesting the Company's transfer agent to notify the Company of any transfer of the shares. The obligation of the participant to provide such notice shall continue notwithstanding the placement of any such legend on the certificates.

**20. No Rights to Continued Employment.**

An employee's employment with the Company or a Subsidiary is not for any specified term and may be terminated by such employee or by the Company or a Subsidiary at any time, for any reason, with or without cause. Nothing in this Plan shall confer upon any employee any right to continue in the employ of, or affiliation with, the Company or a Subsidiary nor constitute any promise or commitment by the Company or a Subsidiary regarding future positions, future work assignments, future compensation or any other term or condition of employment or affiliation.

**21. Equal Rights and Privileges.**

All eligible employees shall have equal rights and privileges with respect to this Plan so that this Plan qualifies as an "employee stock purchase plan" within the meaning of Section 423 or any successor provision of the Code and the related regulations, except for differences that may be mandated by local law and that are consistent with Code Section 423(b)(5); provided, however, that participants participating in the Non-423 Plan Component by means of rules, procedures or sub-plans adopted pursuant to Section 22 need not have the same rights and privileges as participants participating in the Section 423 Plan.

**22. Additional Provisions to Comply with Local Law.**

The Committee may from time to time establish one or more sub-plans under the Plan for purposes of satisfying applicable laws of state and local domestic United States and non-United States jurisdictions. The Committee shall establish such sub-plans by adopting supplements to this Plan containing such additional terms and conditions not otherwise inconsistent with the Plan as the Committee shall deem necessary or desirable. To the extent inconsistent with the requirements of Code Section 423, such sub-plans and/or supplements shall be considered part of the Non-423 Plan Component, and the options granted thereunder shall not be considered to comply with Section 423. All supplements adopted by the Committee shall be deemed to be part of the Plan and the Company shall not be required to provide copies of any supplement to participants in any jurisdiction that is not the subject of such supplement.

### **23. Notices.**

All notices or other communications by a participant to the Company under or in connection with this Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

### **24. Term; Stockholder Approval.**

After this Plan is adopted by the Board, this Plan shall become effective on the date on which the First Offering Period commences subject to the effectiveness of the merger of SAIC Merger Sub, Inc. with and into Science Applications International Corporation. This Plan shall be approved by the stockholders of the Company, in any manner permitted by applicable corporate law, within twelve (12) months before or after the date this Plan is adopted by the Board. No purchase of shares pursuant to this Plan shall occur prior to such stockholder approval. This Plan shall continue until the earlier to occur of (a) termination of this Plan by the Board (which termination may be effected by the Board at any time), (b) issuance of all of the Shares available for issuance under this Plan, or (c) ten (10) years from the approval of this Plan by stockholders.

### **25. Death of a Non-U.S. Participant.**

In the event a non U.S. participant dies with accumulated payroll deductions having been accumulated to purchase shares at the next Purchase Date, such amounts shall be paid to the estate of the participant.

### **26. Designation of Beneficiary.**

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under this Plan in the event of such participant's death subsequent to the end of an Purchase Period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under this Plan in the event of such participant's death prior to a Purchase Date.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under this Plan who is living at the time of such participant's death, the Company shall deliver such shares or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

### **27. Conditions Upon Issuance of Shares; Limitation on Sale of Shares.**

Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or automated quotation system upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

### **28. Applicable Law.**

The Plan shall be governed by the substantive laws (excluding the conflict of laws rules) of the State of Delaware.

### **29. Amendment or Termination.**

The Board may at any time amend or terminate this Plan, except that any such termination cannot affect options previously granted under this Plan, nor may any amendment make any change in an option previously granted which would adversely affect the right of any participant, nor may any amendment be made without approval of the stockholders of the Company obtained in accordance with Section 24 above within twelve (12) months of the adoption of such amendment (or earlier if required by Section 24) if such amendment would:

- (a) increase the number of shares that may be issued under this Plan; or
- (b) change the designation of the employees (or class of employees) eligible for participation in this Plan.

Notwithstanding the foregoing, the Board may make such amendments to the Plan as the Board determines to be advisable, including changes with respect to current Offering Periods or Purchase Periods, if the continuation of the Plan or any Offering Period would result in financial accounting treatment for the Plan that is different from the financial accounting treatment in effect on the date this Plan is adopted by the Board.

## SAIC, INC.

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

I, Walter P. Havenstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ending July 31, 2010 of SAIC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 2, 2010

/s/ WALTER P. HAVENSTEIN

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Walter P. Havenstein  
Chief Executive Officer

## SAIC, INC.

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

I, Mark W. Sopp, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ending July 31, 2010 of SAIC, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 2, 2010

/s/ MARK W. SOPP

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Mark W. Sopp  
Chief Financial Officer

## SAIC, INC.

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

In connection with the Quarterly Report of SAIC, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Walter P. Havenstein, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: September 2, 2010

/s/ WALTER P. HAVENSTEIN

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Walter P. Havenstein  
Chief Executive Officer



## SAIC, INC.

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

In connection with the Quarterly Report of SAIC, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark W. Sopp, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: September 2, 2010

/s/ MARK W. SOPP

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Mark W. Sopp  
Chief Financial Officer