SAIC, Inc.
Form S-1/A
October 14, 2005
Table of Contents

As filed with the Securities and Exchange Commission on October 14, 2005

Registration No. 333-128021

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SAIC, INC.

(Exact name of Registrant as specified in its charter)

Delaware	8700	20-3562868
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

10260 Campus Point Drive
San Diego, California 92121
(858) 826-6000
(Address, including zip code and telephone number, including area code, of Registrant s principal executive offices)

Douglas E. Scott, Esq.

Senior Vice President, General Counsel and Secretary

SAIC, Inc.

10260 Campus Point Drive

San Diego, California 92121

(858) 826-6000

(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Sarah A. O Dowd

Stephen C. Ferruolo

Ryan A. Murr

Heller Ehrman LLP

4350 La Jolla Village Drive

San Diego, California 92122

Phone: (858) 450-8400

Fax: (858) 450-8499

Bruce K. Dallas
Nigel D. J. Wilson
Davis Polk & Wardwell
1600 El Camino Real
Menlo Park, California 94025
Phone: (650) 752-2000
Fax: (650) 752-2111

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

PROSPECTUS (Subject to Completion)

Issued October 14, 2005

Shares

COMMON STOCK

SAIC, Inc. is offering shares of its common stock. Although our principal operating subsidiary has previously sponsored a limited market in its common stock, no public market currently exists for our common stock. We anticipate that the initial public offering price will be between $ and $ per share. A special dividend of $ billion will be declared prior to this offering by our principal operating subsidiary and, following completion of this offering, paid to its stockholders of record, including our directors and officers. We will not pay this special dividend on shares sold in this offering.

We have applied for listing of our common stock on the New York Stock Exchange under the symbol SAI.

Investing in our common stock involves risks. See Risk Factors beginning on page 10.

PRICE $ A SHARE

	Price to Public	*Underwriting Discounts and Commissions*	*Proceeds to SAIC*
Per Share	*$*	*$*	*$*
Total	*$*	*$*	*$*

We have granted the underwriters the right to purchase up to an additional shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on , 2006.

MORGAN STANLEY *BEAR, STEARNS & CO. INC.*

, 2006

Table of Contents

TABLE OF CONTENTS

Until , 2006, all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Table of Contents

PROSPECTUS SUMMARY

You should read the following summary together with the entire prospectus, including the more detailed information in our financial statements and related notes appearing in the back of this prospectus. You should also carefully consider, among other things, the matters discussed in Risk Factors.

In this prospectus, we use the terms SAIC, we, us and our to refer to Science Applications International Corporation or SAIC, Inc. when the distinction between the two companies is not important. When the distinction is important to the discussion, we use the term Old SAIC to refer to Science Applications International Corporation and New SAIC to refer to SAIC, Inc. Unless otherwise noted, references to years are to fiscal years ended January 31, not calendar years. For example, we refer to the fiscal year ended January 31, 2005 as fiscal 2005. We are currently in fiscal 2006. References to government fiscal years are to fiscal years ending September 30.

SAIC, INC.

Overview

We are a leading 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, as well as to selected commercial markets. Our customers seek our domain expertise to solve complex technical challenges requiring innovative solutions for mission-critical functions in such areas as national security, intelligence and homeland defense. Increasing demand for our services and solutions is driven by priorities including the ongoing global war on terror and the transformation of the U.S. military.

From fiscal 2001 to fiscal 2005, our consolidated revenues increased at a compound annual growth rate of 15.5% to a company record of $7.2 billion, inclusive of acquisitions and exclusive of Telcordia Technologies, Inc., our commercial telecommunications subsidiary, which we divested in March 2005. As of July 31, 2005, we had a portfolio of more than 10,000 contracts and total consolidated negotiated backlog of approximately $9.9 billion, which included funded backlog of approximately $3.4 billion, compared to approximately $9.0 billion and $3.4 billion, respectively, as of July 31, 2004. In May 2005, Washington Technology, a leading industry publication, ranked us number three in its list of Top Federal Prime Contractors in the United States based on information technology (IT), telecommunications and systems integration revenues.

The U.S. Government is our largest customer, in aggregate representing 86% of our total consolidated revenues in fiscal 2005. According to the Congressional Budget Office, U.S. Government total discretionary spending in government fiscal 2005 is approximately $960 billion and we estimate that more than $125 billion of this amount will be spent in areas in which we compete. We believe that U.S. Government spending in these areas will continue to grow as a result of homeland security and intelligence needs arising from the global war on terror, the ongoing transformation of the U.S. military and the increased reliance on outsourcing by the U.S. Government.

Competitive Strengths

To maximize our ability to consistently deliver innovative solutions to help meet our customers most challenging needs, and to grow our business and increase stockholder value, we rely on the following key strengths:

- Skilled Personnel and Experienced Management;
- Employee Ownership and Core Values;

Table of Contents

- Knowledge of Customers Needs;
- Technical Expertise;
- Trusted Services and Solutions Provider;
- Proven Marketing and Business Development Organization; and
- Ability to Complete and Integrate Acquisitions.

Growth Strategy

We are focused on continuing to grow our business as a leading scientific, engineering, systems integration and technical services and solutions company. In our Government segment, we seek to become the leading provider of systems engineering, systems integration and technical services and solutions by focusing on the U.S. Government s increased emphasis on defense transformation, intelligence and homeland defense. In addition, we plan to continue to pursue strategic acquisitions in areas such as these where we anticipate high growth. In our Commercial segment, we seek to grow our business in our existing targeted markets, in addition to becoming a leader in new selected vertical markets in which we can leverage our specialized experience and skill sets.

Our Services and Solutions

We offer a broad range of services and solutions to address our customers most complex and critical technology-related needs. These services include the following:

Defense Transformation. We develop leading-edge concepts, technologies and systems to solve complex challenges facing the U.S. military and its allies, helping them transform the way they fight.

Intelligence. We develop solutions to help the U.S. defense, intelligence and homeland security communities build an integrated intelligence picture, allowing them to be more agile and dynamic in chaotic environments and produce actionable intelligence.

Homeland Security. We develop technical solutions and provide systems integration and mission-critical support services to help federal, state, local and foreign governments and private-sector customers protect the United States and allied homelands.

Logistics and Product Support. We provide logistics and product support solutions to enhance the readiness and operational capability of U.S. military personnel and weapon and support systems.

Systems Engineering and Integration. We provide systems engineering and integration solutions to help our customers design, manage and protect complex IT networks and infrastructure.

Research and Development. As one of the largest science and technology contractors to the U.S. Government, we conduct leading-edge research and development of new technologies with applications in areas such as national security, intelligence and life sciences.

Commercial Services. We help our customers become more competitive, offering technology-driven consulting, systems integration and outsourcing services and solutions in selected commercial markets, currently IT support for oil and gas exploration and production, applications and IT infrastructure management for utilities and data lifecycle management for pharmaceuticals.

Prior to completion of this offering, we will ask the stockholders of Old SAIC to adopt and approve a merger agreement providing for the merger of Old SAIC with New SAIC s wholly-owned subsidiary, SAIC Merger Sub, Inc. We refer to this merger in this prospectus as the reorganization merger. After the reorganization merger, Old SAIC will be a wholly-owned subsidiary of New SAIC and Old SAIC stockholders

Table of Contents

will become New SAIC stockholders. We expect to complete the reorganization merger before the completion of this offering, and the completion of the reorganization merger is a condition to the completion of this offering. After the reorganization merger and upon the completion of this offering, our current stockholders will hold approximately % of our total outstanding capital stock and % of our total voting power. Unless we indicate otherwise, the information in this prospectus assumes that we complete the reorganization merger.

We are headquartered in San Diego, California. Our address is 10260 Campus Point Drive, San Diego, California 92121, and our telephone number is (858) 826-6000. Our website can be found on the Internet at *www.saic.com*. The website contains information about us and our operations. The contents of our website are not incorporated by reference into this prospectus.

Table of Contents

THE OFFERING

Common stock offered by us	shares	
Stock to be outstanding immediately after completion of this offering:		
Common stock		shares
Class A preferred stock, divided into four series:		
Series A-1 preferred stock	35,500,576 shares	
Series A-2 preferred stock	106,501,727 shares	
Series A-3 preferred stock	106,501,727 shares	
Series A-4 preferred stock	106,501,727 shares	
Total class A preferred stock		355,005,758 shares
Total capital stock		shares
Voting rights:		
Common stock	One vote per share	
Class A preferred stock	10 votes per share	
Proposed NYSE symbol	SAI	

Net proceeds from this offering will be approximately $, or $ if the underwriters exercise their over-allotment option in full. A special dividend of $ billion will be declared prior to this offering by our principal operating subsidiary and, following completion of this offering, paid to its stockholders of record. We will not pay this special dividend on shares sold in this offering. The aggregate amount of this special dividend will exceed the net proceeds from this offering by approximately $ million, or $ million if the underwriters exercise their over-allotment option in full. See Use of Proceeds and The Merger and the Special Dividend.

The principal purpose of this offering is to better enable us to use our cash and cash flows from operations to fund organic growth and growth through acquisitions, as well as to provide us with publicly traded stock that can be used for future acquisitions. Creating a public market for our common stock eliminates the need to use our cash to provide liquidity for our stockholders in the limited market that we have historically sponsored.

The payment of the special dividend is conditioned upon the completion of this offering. We do not expect to pay any other dividends on our capital stock in the foreseeable future and intend to retain any future earnings to finance our operations and growth. Any future determination to pay dividends will be at the discretion of our board of directors in light of earnings, financial condition, operating results, capital requirements, applicable contractual restrictions and other factors our board of directors deems relevant. See Use of proceeds, Dividend Policy and The Merger and the Special Dividend.

Shares of our class A preferred stock are convertible on a one-for-one basis into our common stock, subject to certain restrictions on the timing of conversion. The four series of this stock will be identical, except for the restrictions on the timing of the conversion applicable to each series. See Description of Capital Stock.

The number of shares of class A preferred stock that will be outstanding immediately after the completion of this offering is based on 173,185,879 shares of Old SAIC class A common stock and 215,850 shares of Old

Table of Contents

SAIC class B common stock outstanding as of July 31, 2005 (which will convert into shares of New SAIC class A preferred stock pursuant to the reorganization merger described below), and excludes the following:

- 63,104,636 shares of New SAIC class A preferred stock issuable upon exercise of 31,552,318 options to purchase shares of Old SAIC class A common stock, which will be assumed by New SAIC in the reorganization merger, with a weighted-average exercise price of $16.75 per share (adjusted for the reorganization merger, but not including the anticipated adjustments for the special dividend); and

- shares of New SAIC class A preferred stock reserved for future grants under our 2006 Equity Incentive Plan and 2006 Employee Stock Purchase Plan.

Except as otherwise indicated, all information in this prospectus relating to New SAIC (1) assumes that the underwriters over-allotment option will not be exercised and (2) gives effect to the reorganization merger of Old SAIC with a wholly-owned subsidiary of New SAIC, pursuant to which:

- each share of Old SAIC class A common stock will convert into two shares of New SAIC class A preferred stock, which will be allocated among four series, A-1, A-2, A-3 and A-4, as described under The Merger and the Special Dividend; and

- each share of Old SAIC class B common stock will convert into 40 shares of New SAIC class A preferred stock, which will be allocated among four series, A-1, A-2, A-3 and A-4, as described under The Merger and the Special Dividend.

Old SAIC financial statements and share and per share data have not been adjusted to give effect to the planned reorganization merger.

Please read Risk Factors and other information included in this prospectus for a discussion of the factors you should consider carefully before deciding to invest in our common stock.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the summary consolidated financial data presented below in conjunction with Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. The summary consolidated financial data presented below under Consolidated Statement of Income Data for the years ended January 31, 2005, 2004 and 2003 and for the six months ended July 31, 2005 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data presented below under Consolidated Statement of Income Data for the six months ended July 31, 2004 have been derived from unaudited condensed consolidated financial statements that are included elsewhere in this prospectus and have been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our results of operations for and as of the periods presented. The summary consolidated financial data presented below under Consolidated Balance Sheet Data as of July 31, 2005 have been derived from our audited consolidated financial statements that are included elsewhere in this prospectus. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

The pro forma consolidated balance sheet data reflect the balance sheet data as of July 31, 2005, after giving effect to Old SAIC s payment of the special dividend after the completion of this offering. The pro forma as adjusted consolidated balance sheet data reflect the balance sheet data as of July 31, 2005, after giving effect to the payment of the special dividend, the completion of the reorganization merger and the completion of the sale of common stock by us in this offering at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and offering expenses. The special dividend is expected to range from $8 to $10 per share of Old SAIC class A common stock and from $160 to $200 per share of Old SAIC class B common stock, which is the equivalent of a range from $4 to $5 per share of New SAIC class A preferred stock. The pro forma earnings per share and the pro forma common equivalent share data contained in the summary consolidated financial data presented below reflect the payment of the special dividend and the completion of the reorganization merger.

Table of Contents

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
	(in millions, except per share data)				
Consolidated Statement of Income Data:					
Revenues	$ 7,187	$ 5,833	$ 4,835	$ 3,798	$ 3,474
Cost of revenues	6,337	5,100	4,211	3,332	3,055
Selling, general and administrative expenses	364	331	305	210	185
Goodwill impairment		7	13		
Gain on sale of business units, net	(2)		(5)		
Operating income	488	395	311	256	234
Net (loss) gain on marketable securities and other investments, including impairment losses (1)	(16)	5	(134)	(5)	(4)
Interest income	45	49	37	43	17
Interest expense	(88)	(80)	(45)	(44)	(44)
Other (expense) income, net	(12)	5	6	2	(1)
Minority interest in income of consolidated subsidiaries	(14)	(10)	(7)	(6)	(6)
Income from continuing operations before income taxes	403	364	168	246	196
Provision for income taxes	131	140	61	106	77
Income from continuing operations	272	224	107	140	119
Income from discontinued operations, net of tax	137	127	152	542	51
Net income	$ 409	$ 351	$ 259	$ 682	$ 170
Earnings per share:					
Basic:					
Income from continuing operations	$ 1.49	$ 1.22	$ .55	$ .79	$ .64
Discontinued operations, net of tax	.74	.68	.77	3.06	.28
	$ 2.23	$ 1.90	$ 1.32	$ 3.85	$ .92
Diluted:					
Income from continuing operations	$ 1.45	$ 1.19	$ .53	$ .77	$ .63
Discontinued operations, net of tax	.73	.67	.75	2.98	.27
	$ 2.18	$ 1.86	$ 1.28	$ 3.75	$ .90
Common equivalent shares:					
Basic	183	185	196	177	184
Diluted	188	189	203	182	189
Pro forma earnings per share:					
Basic: (2)(3)					
Income from continuing operations	$			$	
Discontinued operations, net of tax					
	$			$	

Diluted: (2)(3)		
Income from continuing operations	$	$
Discontinued operations, net of tax		
	$	$
Pro forma common equivalent shares:		
Basic (2)(3)		
Diluted (2)(3)		

Table of Contents

	As of July 31, 2005		
	Actual	Pro Forma	Pro Forma as Adjusted
		(in millions)	
Consolidated Balance Sheet Data:			
Cash, cash equivalents and short-term investments	$ 3,101		
Working capital	3,153		
Total assets	5,866		
Long-term debt, net of current portion	1,209		
Stockholders equity	2,834		

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
			(dollars in millions)		
Other Data:					
EBITDA (4)	$ 687	$ 622	$ 464	$ 1,148	$ 342
Adjusted EBITDA (5)	519	438	354	284	253
Number of contracts generating more than $10 million in annual revenues (6)	91	66	44	N/A	N/A

	As of January 31			As of July 31	
	2005	2004	2003	2005	2004
			(dollars in millions)		
Total consolidated negotiated backlog (7)	$ 8,977	$ 7,575	$ 5,619	$ 9,932	$ 9,045
Total consolidated funded backlog (7)	3,646	3,355	2,729	3,354	3,434
Total number of employees (8)	42,400	39,300	34,700	43,000	40,900

(1) Includes impairment losses of $108 million on marketable equity securities and other private investments in 2003.

(2) Pro forma earnings per share and common equivalent share data reflect the completion of the reorganization merger and the payment of the special dividend that Old SAIC intends to pay to its stockholders following completion of this offering. See Use of Proceeds, Capitalization and The Merger and the Special Dividend.

(3) Pro forma earnings per share and common equivalent share data for both basic and diluted computations assume that shares of our common stock during each of the periods indicated had been sold by us with assumed net proceeds of $ per share. Such shares represent the assumed number of shares of our common stock necessary to be sold in this offering to fund the $ special dividend to be paid by Old SAIC. Pro forma earnings per share and common equivalent share data for both basic and diluted computations reflect the conversion of each outstanding share of Old SAIC class A common stock into two shares of New SAIC class A preferred stock and each outstanding share of Old SAIC class B common stock into 40 shares of New SAIC class A preferred stock.

(4) EBITDA is defined as net income plus income tax expense, net interest expense, and depreciation and amortization expense. EBITDA is considered a non-GAAP financial measure. We believe that EBITDA is an important measure of our performance and is a useful supplement to net income and other income statement data. We believe EBITDA is useful to management and investors in comparing our performance to that of other companies in our industry, since it removes the impact of (a) differences in capital structure, including the effects of interest income and expense, (b) differences among the tax regimes to which we and comparable companies are subject and (c) differences in the age, method of acquisition and approach to depreciation and amortization of productive assets. However, because other companies may calculate EBITDA differently than we do, it may be of limited usefulness as a comparative measure. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are: (a) EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments, (b) EBITDA does not reflect changes in, or cash requirements for, our working capital needs, (c) EBITDA does not reflect the interest expense, or the cash requirements necessary to service our principal payments, on our debt, (d) EBITDA does not reflect income taxes or the cash requirements for any tax payments, and (e) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

8

Table of Contents

The following is a reconciliation of EBITDA to net income.

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
			(in millions)		
Net income	$ 409	$ 351	$ 259	$ 682	$ 170
Interest income	(45)	(49)	(37)	(43)	(17)
Interest expense	88	80	45	44	44
Provision for income taxes	149	159	101	434	102
Depreciation and amortization	86	81	96	31	43
EBITDA	$ 687	$ 622	$ 464	$ 1,148	$ 342

(5) Adjusted EBITDA equals EBITDA minus income from discontinued operations, net of tax and gain on sale of business units and subsidiary common stock, plus goodwill impairment, net gain or (loss) on marketable securities and other investments including impairment losses and investment activities by our venture capital subsidiary. We utilize and present Adjusted EBITDA as a further supplemental measure of our performance. We prepare Adjusted EBITDA to eliminate the impact of items we do not consider indicative of ongoing operating performance. You are encouraged to evaluate each adjustment and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA.

The following is a reconciliation of Adjusted EBITDA to EBITDA.

	Year Ended January 31			Six Months Ended July 31	
	2005	2004	2003	2005	2004
			(in millions)		
EBITDA	$ 687	$ 622	$ 464	$ 1,148	$ 342
Income from discontinued operations, net of tax	(137)	(127)	(152)	(542)	(51)
Depreciation and amortization of discontinued operations	(30)	(44)	(65)		(18)
Provision for income taxes of discontinued operations	(18)	(19)	(40)	(328)	(25)
Gain on sale of business units and subsidiary common stock	(2)		(5)		
Goodwill impairment		7	13		
Net loss (gain) on marketable securities and other investments, including impairment losses	16	(5)	134	5	4
Investment activities by venture capital subsidiary	3	4	5	1	1
Adjusted EBITDA	$ 519	$ 438	$ 354	$ 284	$ 253

(6) Number of contracts from which we recognized more than $10 million in annual revenues in the period presented.

(7) Total consolidated negotiated backlog consists of funded backlog and negotiated unfunded backlog. Funded backlog represents the portion of backlog for which funding currently is appropriated or otherwise authorized and is payable to us upon completion of a specified portion of work, less revenues previously recognized. Our funded backlog does not include the full potential value of our contracts because the U.S. Government and our other customers often appropriate or authorize funds for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a number of years. Negotiated unfunded backlog represents (a) firm orders for which funding has not been appropriated or otherwise authorized and (b) unexercised contract options. When a definitive contract or contract amendment is executed and funding has been appropriated or otherwise authorized, funded backlog is increased by the difference between the funded dollar value of the contract or contract amendment and the revenue recognized to date. Negotiated unfunded backlog does not include any estimate of future potential task orders that might be awarded under (a) indefinite delivery / indefinite

quantity contract vehicles, (b) government-wide acquisition contract vehicles or (c) U.S. General Services Administration Schedule contract vehicles. See Risk Factors Risks Relating to Our Business We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our future revenues and growth prospects, Management s Discussion and Analysis of Financial Condition and Results of Operations Sources of Revenues Backlog and Business Contracts Backlog.

(8) Includes full-time and part-time employees and excludes employees of our former Telcordia Technologies, Inc. subsidiary.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information contained in this prospectus before deciding whether to purchase our common stock. If any of the following risks occurs, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business

We depend on our contracts with U.S. Government agencies for a significant portion of our revenues and, if our reputation or relationships with these agencies were harmed, our future revenues and growth prospects would be adversely affected.

We are heavily dependent upon the U.S. Government as our primary customer and we believe that the success and development of our business will continue to depend on our successful participation in U.S. Government contract programs. We generated 86%, 85% and 84% of our total consolidated revenues from the U.S. Government (including all branches of the U.S. military) in fiscal 2005, 2004 and 2003, respectively. Revenues from the U.S. Army represented 13% of our total consolidated revenues in each of fiscal 2005, 2004 and 2003. Revenues from the U.S. Navy represented 13% of our total consolidated revenues in fiscal 2005 and 12% of our total consolidated revenues in fiscal 2004 and 2003. Revenues from the U.S. Air Force represented 11% of our total consolidated revenues in fiscal 2005 and 2004 and 12% of our total consolidated revenues in fiscal 2003.

For the foreseeable future, we expect to continue to derive a substantial portion of our revenues from work performed under U.S. Government contracts. If our reputation or relationship with the U.S. Government, and in particular agencies of the Department of Defense (DoD) or the U.S. intelligence community, were negatively affected, if we were suspended or debarred from contracting with government agencies or if the U.S. Government decreased the amount of business that it does with us, our future revenues and growth prospects would be adversely affected.

The U.S. Government may modify, curtail or terminate our contracts at any time prior to their completion and, if we do not replace them, we may be unable to sustain our revenue growth and may suffer a decline in revenues.

Many of the U.S. Government programs in which we participate as a contractor or subcontractor may extend for several years. These programs are normally funded on an annual basis. Under our contracts, the U.S. Government generally has the right not to exercise options to extend or expand our contracts and may modify, curtail or terminate the contracts and subcontracts at its convenience. Any decision by the U.S. Government not to exercise contract options or to modify, curtail or terminate our major programs or contracts would adversely affect our revenues and revenue growth.

We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our future revenues and growth prospects.

Backlog is our estimate of the amount of revenue we expect to realize over the remaining life of definitive contracts and task orders in effect as of the measurement date. The U.S. Government s ability not to exercise contract options or to modify, curtail or terminate our major programs or contracts makes the calculation of backlog subject to numerous uncertainties. Our total consolidated negotiated backlog consists of funded backlog plus negotiated unfunded backlog. Funded backlog represents the portion of backlog for which funding currently is appropriated or otherwise authorized and is payable to us upon completion of a specified portion of work, less revenues previously recognized. Negotiated unfunded backlog represents (1) firm orders for which funding has not been appropriated or otherwise authorized and (2) unexercised contract options. Negotiated unfunded backlog does not include any estimate of future potential task orders that might be awarded under indefinite

Table of Contents

delivery / indefinite quantity (IDIQ), government-wide acquisition contracts (GWAC) or U.S. General Services Administration (GSA) Schedule contract vehicles. As of July 31, 2005, our total consolidated negotiated backlog was $9.9 billion, which included $3.4 billion in funded backlog. For information regarding our historic backlog levels, see Business Contracts Backlog. Due to the uncertain nature of our contracts with the U.S. Government, we may never realize revenues from some of the engagements that are included in our backlog. Our unfunded backlog, in particular, contains amounts that we may never realize as revenues because the maximum contract value specified under a U.S. Government contract or task order awarded to us is not necessarily indicative of the revenues that we will realize under that contract. If we fail to realize as revenues amounts included in our backlog, our future revenues and growth prospects may be adversely affected.

The U.S. Government has increasingly relied on IDIQ and other contracts that are subject to a competitive bidding process. If we are unable to consistently win new awards under these contracts, we may be unable to sustain our revenue growth and may suffer a decline in revenues.

The U.S. Government has increasingly been using IDIQ contracts, GWACs and GSA Schedule contract vehicles to obtain commitments from contractors to provide various products or services on pre-established terms and conditions. Under these contracts, the U.S. Government issues task orders for specific services or products it needs and the contractor supplies these products or services in accordance with the previously agreed terms. These contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling but not committing the U.S. Government to purchase substantial amounts of products and services from one or more contractors. The use of these contracts makes it difficult for us to estimate the actual value of products or services that we may ultimately sell or perform under a given contract, and a failure to estimate these amounts accurately could have an adverse effect on our results of operations and financial condition. The competitive bidding process also presents a number of more general risks, including the risk of unforeseen technological difficulties and cost overruns that may result from our bidding on programs before completion of their design and the risk that we may encounter expense, delay or modifications to previously awarded contracts as a result of our competitors protesting or challenging contracts awarded to us in competitive bidding.

Contracts such as these that are subject to a competitive bidding process have also resulted in greater competition and increased pricing pressure. Accordingly, we may not be able to realize revenues and/or maintain our historical profit margins under these contracts. We may not continue to realize revenues under these existing contracts or otherwise successfully sell our services and solutions under these types of contracts. Our failure to compete effectively in this procurement environment would adversely affect our revenues and revenue growth.

Our overall profit margins on our contracts may decrease and our results of operations could be adversely affected if material and subcontract revenues continue to grow at a faster rate than labor-related revenues.

Our revenues are generated from either the efforts of our technical staff, which we refer to as labor-related revenues, or the receipt of payments for the costs of materials and subcontracts used in a project, which we refer to as material and subcontract (M&S) revenues. Generally, our M&S revenues have lower margins than our labor-related revenues. Our labor-related revenues increased by 15.6% from fiscal 2004 to 2005 and by 15.8% from fiscal 2003 to 2004, while our M&S revenues increased by 39% from fiscal 2004 to 2005 and by 32.1% from fiscal 2003 to 2004. M&S revenues accounted for 37%, 33% and 30% of our total consolidated revenues for fiscal 2005, 2004 and 2003, respectively, and labor-related revenues accounted for 63%, 67% and 70% of our total consolidated revenues for fiscal 2005, 2004 and 2003, respectively. If M&S revenues continue to grow at a faster rate than labor-related revenues, our overall profit margins on our contracts may decrease and our profitability could be adversely affected.

A decline in the U.S. defense budget or changes in budgetary priorities may adversely affect our future revenues and limit our growth prospects.

Sales under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented 65% of our total consolidated revenues in fiscal 2005. Changes in the budgetary priorities of the U.S.

Table of Contents

Government or the DoD could directly affect our operating results. For example, the U.S. defense budget declined in the late 1980s and the early 1990s, resulting in a slowing of new program starts, program delays and program cancellations. These reductions caused most defense-related government contractors to experience declining revenues, increased pressure on operating margins and, in some cases, net losses. While spending authorizations for defense-related programs by the U.S. Government have increased in recent years, and in particular after the September 11, 2001 terrorist attacks, these spending levels may not be sustainable, and future levels of spending and authorizations for these programs may decrease, remain constant or shift to programs in areas where we do not currently provide services. A significant decline in overall U.S. Government spending, including in the areas of national security, defense transformation, intelligence and homeland security, or a significant shift in its spending priorities, would adversely affect our future revenues and limit our growth prospects. For example, the relief and recovery costs for Hurricanes Katrina and Rita could impact the U.S. Government s spending for defense-related programs.

A delay in the completion of the U.S. Government s budget process could delay procurement of our services and solutions and have an adverse effect on our future revenues.

In years when the U.S. Government does not complete its budget process before the end of its fiscal year on September 30, government operations are typically funded pursuant to a continuing resolution that authorizes agencies of the U.S. Government to continue to operate, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of our services and solutions. We have from time to time experienced a decline in revenues in our quarter ending January 31 as a result of this annual budget cycle, and we could experience similar declines in revenues if the budget process is delayed significantly in future periods. These delays could have an adverse effect on our future revenues.

Our financial results may vary significantly from period to period.

Our financial results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our financial results may be negatively affected by any of the risk factors listed in this Risk Factors section and, in particular, the following risks:

- a reduction of government funding or delay in the completion of the U.S. Government s budget process;
- decisions by the U.S. Government not to exercise contract options or to modify, curtail or terminate our major programs or contracts;
- the potential decline in our overall profit margins if our material and subcontract revenues grow at a faster rate than labor-related revenues;
- failure to estimate costs or control costs under firm fixed price (FFP) contracts;
- adverse judgments or settlements in legal disputes;
- expenses related to acquisitions, mergers or joint ventures; and

- other one-time financial charges.

Our failure to attract, train and retain skilled employees, including our management team, would adversely affect our ability to execute our strategy.

The availability of highly trained and skilled technical, professional and management personnel is critical to our future growth and profitability. Competition for scientists, engineers, technicians and professional and management personnel is intense and competitors aggressively recruit key employees. Because of our growth and increased competition for experienced personnel, particularly in highly specialized areas, it has become more difficult to meet all of our needs for these employees in a timely manner. Although we intend to continue to

Table of Contents

devote significant resources to recruit, train and retain qualified employees, we may not be able to attract and retain these employees. Any failure to do so would have an adverse effect on our ability to execute our strategy.

In addition to attracting and retaining qualified engineering, technical and professional personnel, we believe that our success will also depend on the continued employment of a highly qualified and experienced senior management team and its ability to generate new business. Our inability to retain appropriately qualified and experienced senior executives could cause us to lose customer relationships or new business opportunities.

Our revenues and growth prospects may be adversely affected if we or our employees are unable to obtain the security clearances or other qualifications we and they need to perform services for our customers.

Many U.S. Government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue anticipated from the contract.

Employee misconduct, including security breaches, or our failure to comply with laws or regulations applicable to our business could cause us to lose customers or our ability to contract with the U.S. Government.

Because we are a U.S. Government contractor, misconduct, fraud or other improper activities by our employees or our failure to comply with laws or regulations could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with U.S. Government procurement regulations, regulations regarding the protection of classified information, legislation regarding the pricing of labor and other costs in U.S. Government contracts, environmental laws and any other applicable laws or regulations. Many of the systems we develop involve managing and protecting information relating to national security and other sensitive government functions. A security breach in one of these systems could prevent us from having access to such critically sensitive systems. Other examples of potential employee misconduct include time card fraud and violations of the Anti-Kickback Act. The precautions we take to prevent and detect these activities may not be effective, and we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees could subject us to fines and penalties, loss of security clearance and suspension or debarment from contracting with the U.S. Government, any of which would adversely affect our business.

Our U.S. Government contracts may be terminated and we may be liable for penalties under a variety of procurement rules and regulations and changes in government regulations or practices could adversely affect our profitability, cash balances or growth prospects.

We must comply with laws and regulations relating to the formation, administration and performance of U.S. Government contracts, which affect how we do business with our customers. Such laws and regulations may potentially impose added costs on our business and our failure to comply with them may lead to penalties and the termination of our U.S. Government contracts. Some significant regulations that affect us include:

-

the Federal Acquisition Regulations and their supplements, which regulate the formation, administration and performance of U.S. Government contracts;

- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations; and

- the Cost Accounting Standards, which impose accounting requirements that govern our right to