SAIC, Inc.
Form 10-K/A
September 03, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 31, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-33072

SAIC, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**20-3562868**
State or other jurisdiction of incorporation or organization	**I.R.S. Employer Identification No.**
10260 Campus Point Drive, San Diego, California	**92121**
Address of principal executive offices	**Zip Code**

Registrant s telephone number, including area code:

(858) 826-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $.0001 Per Share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

Title of class

Class A Preferred Stock, Par Value $.0001 Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K. x

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

As of July 31, 2007, the aggregate market value of the common stock (based upon the closing price of the stock on the New York Stock Exchange) held by non-affiliates of the registrant was $2,030,266,611. The registrant s Class A preferred stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant s Class A preferred stock is convertible into one share of the registrant s common stock.

As of March 7, 2008, the registrant had 182,596,258 shares of common stock, $.0001 par value per share, issued and outstanding, and 230,028,280 shares of Class A preferred stock, $.0001 par value per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of SAIC, Inc. s definitive Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

Explanatory Note

SAIC, Inc. (Company) is filing this Amendment No. 1 on Form 10-K/A to the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2008 to reflect the restatement of its consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007 and 2006. Certain misstatements in the Company s previously issued consolidated financial statements resulted from a recently identified transcription error that was initially made in the determination of income taxes owed from the March 2005 sale of the Company s subsidiary, Telcordia Technologies, Inc. (Telcordia). These misstatements relate to accounting for the sale of Telcordia, which is presented as part of discontinued operations in the Company s consolidated financial statements for the year ended January 31, 2005 and for all subsequent quarterly and annual periods. The error that caused these misstatements was not identified by the Company s procedures and controls existing when the error was made in 2005. Additionally, certain business segment information has been restated to correct an error that resulted in certain Government segment business activity being reported in the Commercial segment. Refer to Note 2 of the notes to consolidated financial statements included in Item 8 for a complete description and quantification of the restatement.

This Amendment No. 1 on Form 10-K/A does not include any significant updates of previously filed information except as required to reflect the effects of the restatement. This amendment includes changes to Items 6, 7, 8, and 9A of Part II of the original filing to reflect the restatement. In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the original filing has been amended to contain the consent of the Company s independent registered public accounting firm and currently dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The consent of the Company s independent registered public accounting firm and the certifications of the Company s Chief Executive Officer and Chief Financial Officer are attached to this Amendment No. 1 on Form 10-K/A as Exhibits 23.1, 31.1, 31.2, 32.1, and 32.2. Other than the foregoing items, no other items are amended or included in this Amendment No. 1 on Form 10-K/A. The foregoing items have not been updated to reflect other events occurring after the date of the original filing or to modify or update those disclosures affected by subsequent events. Therefore, this Amendment No. 1 on Form 10-K/A should be read in conjunction with the original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 previously filed on March 28, 2008 and with reports filed with the SEC subsequent to January 31, 2008.

Except for the foregoing amended information, this Amendment No. 1 on Form 10-K/A continues to speak as of the date of the original filing, and the Company has not updated the disclosure contained herein to reflect events that occurred at a later date. Other events occurring after the date of the original filing or other disclosures necessary to reflect subsequent events have been or will be addressed in reports filed with the SEC that address financial reporting periods subsequent to the fiscal year ended January 31, 2008.

With this filing, the Company is amending its Annual Report on Form 10-K for the fiscal year ended January 31, 2008 previously filed on March 28, 2008, to correct the previously undetected error made in the determination of income taxes owed from the March 2005 sale of Telcordia, which has been presented as part of discontinued operations in the Company s consolidated financial statements for the year ended January 31, 2005 and for all subsequent quarterly and annual periods. For this reason, the consolidated financial statements, report of independent registered public accounting firm and related financial information for the years ended January 31, 2008, 2007, 2006, and 2005 contained in any Form 10-K or for any interim period contained in any Form 10-Q reports filed on or prior to March 28, 2008 should no longer be relied upon. In addition, the Company is amending its Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2008 previously filed on June 4, 2008, to make corrections relating to the same error made in connection with the determination of income taxes owed from the March 2005 sale of Telcordia. Therefore, the condensed consolidated financial statements and related financial information contained in such Form 10-Q should no longer be relied upon.

The impact of the error principally affected the consolidated financial statements as of and for the year ended January 31, 2005. While this error was not detected until the quarterly period ended July 31, 2008, the material weakness that gave rise to this error was previously disclosed in Item 9A. Controls and Procedures in our Annual Report on Form 10-K for the year ended January 31, 2005. As previously disclosed, as of January 31, 2005, the Company was taking actions to address a material weakness caused by inadequate controls over accounting for income taxes, including an inadequate review and reconciliation process over the tax accounts.

Following January 31, 2005, the Company made a number of changes to strengthen its internal controls over financial reporting, including changes to its internal control processes and procedures over accounting for income taxes, in preparation for compliance with the Sarbanes Oxley Act of 2002. Management believes that these changes to the internal controls over financial reporting adequately addressed the material weakness that was disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2005. In connection with the restatement, the Company reevaluated its disclosure controls and procedures and internal control over financial reporting. Based on the Company s re-evaluation, the Company reconfirmed its previous conclusions that its disclosure controls and procedures and internal control over financial reporting were effective as of January 31, 2008.

SAIC, Inc.

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Item 6. *Selected Financial Data*

The following selected consolidated financial data as of and for the years ended January 31, 2008, 2007, 2006 and 2005 has been restated. Information for all periods presented has been reclassified to conform to the year ended January 31, 2008 presentation of discontinued operations as described in Note 18 of the notes to consolidated financial statements. Refer to Note 2 of the notes to consolidated financial statements for a complete description and quantification of the restatement.

	Year Ended January 31				
	2008	2007	2006	2005	2004
		As Restated			
	(in millions, except per share data)				
Consolidated Statement of Income Data:					
Revenues	**$ 8,935**	$ 8,061	$ 7,518	$ 6,910	$ 5,573
Cost of revenues	**7,698**	6,974	6,568	6,044	4,828
Selling, general and administrative expenses	**571**	515	480	406	365
Goodwill impairment					7
Gain on sale of business units, net				2	
Operating income	**666**	572	470	462	373
Interest income [1]	**56**	116	96	44	49
Interest expense	**(90)**	(92)	(88)	(87)	(80)
Minority interest in income of consolidated subsidiaries	**(3)**	(5)	(3)	(3)	
Other income (expense), net	**(3)**	5	(7)	(28)	10
Income from continuing operations before income taxes	**626**	596	468	388	352
Provision for income taxes	**240**	231	133	125	135
Income from continuing operations	**386**	365	335	263	217
Income from discontinued operations, net of tax [2]	**30**	25	584	121	134
Net income	**$ 416**	$ 390	$ 919	$ 384	$ 351
Earnings per share:					
Basic:					
Income from continuing operations	**$ .96**	$ 1.04	$ .96	$ .72	$ .59
Income from discontinued operations	**.07**	.07	1.68	.33	.36
	$ 1.03	$ 1.11	$ 2.64	$ 1.05	$ .95
Diluted:					
Income from continuing operations	**$ .93**	$ 1.00	$ .93	$ .70	$ .58
Income from discontinued operations	**.07**	.07	1.63	.32	.35
	$ 1.00	$ 1.07	$ 2.56	$ 1.02	$ .93
Weighted average shares outstanding:					
Basic	**404**	352	348	365	370
Diluted	**417**	364	359	375	377

	January 31				
	2008	2007	2006	2005	2004
		As Restated			
	(in millions, except per share data)				
Consolidated Balance Sheet Data:					
Total assets [1]	**$ 4,981**	$ 4,559	$ 5,655	$ 5,985	$ 5,540
Long-term debt	**1,098**	1,199	1,192	1,206	1,217
Other long-term liabilities	**148**	102	110	99	86
Stockholders equity [1]	**1,868**	1,502	2,774	2,326	2,203

Cash dividends per share declared and paid [1]	15

[1] Prior to our October 2006 reorganization merger in which Science Applications International Corporation became a subsidiary of SAIC, Inc., Science Applications International Corporation declared a dividend of $2.45 billion. SAIC, Inc. then completed an initial public offering of its common stock for net proceeds of $1.24 billion. These transactions resulted in a decrease in total assets (cash and marketable securities) and stockholders equity in fiscal 2007 and a decrease in interest income in fiscal 2008.

[2] In fiscal 2006, we completed the sale of Telcordia and recognized a gain on sale before income taxes of $871 million. The results of operations prior to sale are reflected in income from discontinued operations for all periods presented.

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Item 7. *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 should be read in conjunction with our audited consolidated financial statements and related notes. In addition to historical consolidated financial information, the following discussion contains forward-looking statements, including statements regarding our intent, belief, or current expectations with respect to, among other things, trends affecting our financial condition or results of operations and the impact of competition. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those discussed in the forward-looking statements. See Item 1A. Risk Factors Forward-Looking Statement Risks in Part I of our original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 as filed on March 28, 2008. Factors that could cause or contribute to these differences include those discussed below and elsewhere in our original Annual Report on Form 10-K, particularly in Risk Factors. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.

Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ended January 31, 2008 as fiscal 2008.

Restatement

We have restated our previously issued consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007 and 2006. Certain misstatements in our previously issued consolidated financial statements resulted from a recently identified transcription error that was initially made in the determination of income taxes owed from the March 2005 sale of our subsidiary, Telcordia Technologies, Inc. (Telcordia). These misstatements relate to accounting for the sale of Telcordia, which is presented as part of discontinued operations in our consolidated financial statements for the year ended January 31, 2005 and for all subsequent quarterly and annual periods. The error that caused these misstatements was not identified by our procedures and controls existing when the error was made in 2005. Additionally, certain business segment information has been restated to correct an error that resulted in certain Government segment business activity being reported in the Commercial segment. Refer to Note 2 of the notes to consolidated financial statements for a complete description and quantification of the restatement.

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) has not been updated except as required to reflect the results of the restatement. This MD&A continues to speak as of the date of the original filing and has not been updated to reflect other events occurring after the date of the original filing or to modify or update those disclosures affected by subsequent events. Other events occurring after the date of the original filing or other disclosures necessary to reflect subsequent events have been or will be addressed in reports filed with the SEC that address financial reporting periods subsequent to the fiscal year ended January 31, 2008.

Overview

Science Applications International Corporation was formed in 1969. In October 2006, in connection with becoming a publicly-traded company, Science Applications International Corporation completed a merger (reorganization merger) in which it became a 100%-owned subsidiary of SAIC, Inc., after which SAIC, Inc. completed an initial public offering of its common stock. We use the terms Company, we, us, and our to refer to SAIC, Inc. and its majority-owned and 100%-owned subsidiaries, including Science Applications International Corporation.

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

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

achieving internal, or non-acquisition related, annual revenue growth through investments in business development, internal research and new product and technology development, and through increased focus on pursuing more large lead system integrator contract opportunities;

improving our operating income margin by increasing contract fees (by reducing the use of subcontractors, improving internal collaboration, increasing our growth in higher-margin business areas, and improving profitability on material and subcontractor deliverables) and improving our indirect cost structure (through better recovery of our indirect costs, streamlining our administrative infrastructure, and reducing unallowable and unbillable costs);

improving our information technology systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;

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- 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 fiscal 2008 include:

- Consolidated revenues increased 11% over the prior year, reflecting an internal growth rate of 7% compared to an internal growth rate of 4% in the prior year. We calculate internal revenue growth by comparing our reported revenue to the prior year revenue adjusted to include the revenue of acquired businesses for the comparable prior year before acquisition. Our internal revenue growth for fiscal 2008 was favorably impacted by increased activity on a number of new and continuing programs in our intelligence, defense and homeland security business areas.

- Operating income as a percentage of revenues improved from 7.1% for fiscal 2007 to 7.5% for fiscal 2008, primarily due to increased profitability on many cost reimbursable contracts as a result of the recovery of a greater percentage of our indirect costs through our indirect pricing rates, continued reductions in costs associated with management infrastructure, improved fee rates on several large programs and increased sales of more profitable border, port and mobile security products.

- Income from continuing operations increased $21 million over the prior year primarily due to increased operating income of $94 million, caused by increased revenues and improved operating margins, offset by a $60 million decrease in interest income. Interest income decreased due to declines in average fiscal 2008 cash and marketable securities balances, mainly due to the payment of a $2.45 billion special dividend in November 2006 offset by the $1.24 billion raised through our October 2006 initial public offering.

- Cash and cash equivalents decreased $17 million during fiscal 2008, primarily reflecting cash provided by operations of $345 million offset by cash used in support of investing activities of $203 million, including the acquisition of two businesses for $144 million (net of cash acquired of $29 million and $1 million of accrued acquisition payments), and cash used in support of financing activities of $157 million, largely consisting of repurchases of our stock.

- We completed two business acquisitions during fiscal 2008 for an aggregate purchase price of $174 million. One acquired business is a consulting, engineering, and architectural design company with specific competencies in industrial manufacturing and facilities construction. The other acquired business is an India-based provider of onsite and offshore IT solutions and technology consulting in the science and engineering sector.

- We completed a reorganization transaction resulting in the disposition of our 55% interest in our consolidated majority-owned subsidiary, AMSEC LLC, in exchange for our acquisition of certain divisions and subsidiaries of AMSEC LLC and recognized in discontinued operations a gain before income taxes of $31 million.

We commenced the first phase of our multi-year implementation of a new information technology system designed to bring the enterprise onto a single accounting, planning and operating platform. At the end of fiscal 2008, our corporate operations and two of our twenty operating business units (representing approximately 10% of total consolidated revenues on a full year basis) were operating on the new system, with the remainder to be implemented during fiscal 2009 and 2010.

Reportable Segments

We have three reportable segments: Government, Commercial, and Corporate and Other. Except with respect to Other Income Statement Items Discontinued Operations and Net Income and Earnings per Share all amounts in this Management s Discussion and Analysis of Financial Condition and Results of Operations are presented for our continuing operations only.

Government Segment. Through our Government segment, we provide systems engineering, systems integration and advanced technical services and solutions primarily to U.S. federal, state and local government agencies and foreign governments. Revenues from our Government segment accounted for 94%, 94% and 93% of our total consolidated revenues for fiscal 2008, 2007 and 2006, respectively. Within the Government segment, a significant portion of our revenues are derived from contracts with the U.S. Government. The revenues from contracts with the U.S. Government include contracts where we serve as the prime or lead contractor, as well as contracts where we serve as a subcontractor to other parties who are engaged directly with various U.S. Government agencies as the prime contractor. Some revenues in the Government segment are derived from non-government customers for whom the work is performed by a Government segment business unit.

The U.S. Government s increased spending in recent years on homeland security, intelligence and defense-related programs has had a favorable impact on our business in fiscal 2008, 2007 and 2006. Our results have also been favorably impacted by the U.S. Government s increased spending on information technology (IT) outsourcing and other technical services. Future levels of spending and authorizations may decrease, remain constant or shift to areas where we do not currently provide services. Additionally, changes in spending authorizations and budgetary priorities could occur due to the rapid growth of the federal budget deficit, increasing political pressure to reduce overall levels of government spending or other factors.

Competition for contracts with the U.S. Government is intense. The U.S. Government has increasingly used contracting processes that give it the ability to select multiple winners or pre-qualify certain contractors to provide various products or services at established general terms and conditions. Such processes include purchasing services and solutions using indefinite-delivery / indefinite-quantity (IDIQ) and U.S. General Services Administration (GSA) award contract vehicles. This trend has served to increase competition for U.S. Government contracts and increase pressure on the prices we charge for our products and services.

Commercial Segment. Through our Commercial segment, we primarily target commercial customers worldwide in select industry markets, which currently include oil and gas, utilities and life sciences. While the Commercial segment provides an array of IT systems integration and advanced technical services, the focused offerings include applications and IT infrastructure management, data lifecycle management, and business transformation services. Our Commercial segment customers often benefit from leveraging our broader governmental experiences, such as geographic information systems, security, and systems engineering. Revenues from our Commercial segment accounted for 6%, 6% and 7% of our total consolidated revenues in fiscal 2008, 2007 and 2006, respectively.

Corporate and Other Segment. Our Corporate and Other segment includes the operations of our internal real estate management subsidiary, various corporate activities, the elimination of intersegment revenues and costs and certain corporate expense items not allocable to our Government customers referred to as unallowable expenses. Our Corporate and Other segment does not contract with third parties for the purpose of generating revenues.

Key Financial Metrics

Sources of Revenues

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

Bookings and Backlog. We recorded net bookings worth an estimated $8.8 billion and $8.9 billion during fiscal 2008 and 2007, respectively. Bookings generally represent the estimated amount of revenue to be earned in the future from receipt of funded and unfunded contract awards during the year, net of any adjustments to previously reported backlog amounts. We calculate bookings as the year ending backlog plus the year s revenues less prior year ending backlog and less backlog obtained in acquisitions.

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

Funded Backlog. Government segment funded backlog primarily represents contracts for which funding is appropriated less revenues previously recognized on these contracts. Government segment funded backlog does not include the unfunded portion of contracts where funding is incrementally appropriated or authorized on a quarterly or annual basis by the U.S. Government and other customers, even though the contract may call for performance over a number of years. Commercial segment funded backlog represents the full value on firm contracts, which may cover multiple future years, under which we are obligated to perform, less revenues previously recognized on these contracts.

Negotiated Unfunded Backlog. Negotiated unfunded backlog represents estimated amounts of revenue to be earned in the future from (1) negotiated contracts for which funding has not been appropriated or otherwise authorized and (2) unexercised priced contract options. Negotiated unfunded backlog does not include any estimate of future potential task orders expected to be awarded under IDIQ, GSA Schedule, or other master agreement contract vehicles.

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The estimated value of our total consolidated backlog as of the end of the last two fiscal years was as follows:

	January 31	
	2008	2007
	As Restated	
	(in millions)	
Government segment:		
Funded backlog	**$ 4,322**	$ 3,932
Negotiated unfunded backlog	**9,719**	10,186
Total backlog	**$ 14,041**	$ 14,118
Commercial segment:		
Funded backlog	**$ 740**	$ 693
Negotiated unfunded backlog	**193**	100
Total backlog	**$ 933**	$ 793
Total consolidated:		
Funded backlog	**$ 5,062**	$ 4,625
Negotiated unfunded backlog	**9,912**	10,286
Total backlog	**$ 14,974**	$ 14,911

The restatement of previously reported backlog as of January 31, 2008 includes a downward adjustment of $65 million for the Government segment to eliminate amounts attributable to our discontinued operations.

Total backlog may fluctuate from period to period depending on the timing of contract awards, renewals, modifications and cancellations.

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

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

- Cost-reimbursement contracts which provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee.

- Time-and-materials (T&M) contracts which typically provide for negotiated fixed hourly rates plus reimbursement of other direct costs.

- Fixed-price-level-of-effort contracts which are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time.

Firm-fixed-price (FFP) contracts which provide for a fixed price for specified products, systems and/or services. If actual costs vary from planned costs on a FFP contract, we generate more or less than the planned amount of profit and may even incur a loss.

The following table summarizes revenues by contract type as a percentage of total revenues for the last three fiscal years:

	Year Ended January 31		
	2008	2007	2006
Cost-reimbursement	**47%**	48%	45%
T&M and fixed-price-level-of-effort	**35**	36	37
FFP	**18**	16	18
Total	**100%**	100%	100%

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

	Year Ended January 31				
	2008	Percent change	2007	Percent change	2006
			(dollars in millions)		
Labor-related revenues	**$ 5,492**	8%	$ 5,106	9%	$ 4,677
As a percentage of revenues	***61%***		*63%*		*62%*
M&S revenues	**3,443**	17	2,955	4	2,841
As a percentage of revenues	***39%***		*37%*		*38%*

The increase in labor-related revenues in fiscal 2008 and 2007 was primarily due to increases in labor rates and the number of direct labor personnel. At the end of fiscal 2008, we had approximately 43,800 full-time and part-time employees compared to 41,700 and 41,100 at the end of fiscal 2007 and 2006, respectively. The increase in M&S revenues in fiscal 2008 compared to the prior year was primarily due to increased activities on several large systems integration programs, including work performed for the North Atlantic Treaty Organization (NATO) and the Space and Naval Surface Warfare Center and increased sales of border, port and mobile security products. The increase in M&S revenues in fiscal 2007 was due to the delivery of significant materials under certain contracts primarily in the homeland security business area. This increase for the year was partially offset by declines in M&S activity in the systems engineering and integration business area primarily due to the completion of a large contract that had a substantial component of materials, declines in our logistics and product support business area primarily due to the completion of one of our large prime vendor contracts and a reduced volume of orders on other prime vendor contracts caused by non-recurring customer events.

Contract Concentration. The growth of our business is directly related to our ability to successfully compete for contract awards and hire personnel to perform on contracts as well as our ability to successfully deliver on these contracts. The following table summarizes information related to our larger contracts for the last three fiscal years:

	Year Ended January 31		
	2008	2007	2006
Number of contracts:			
Greater than $50 million in annual revenues recognized	**14**	9	9
Greater than $10 million in annual revenues recognized	**117**	107	101

These larger contracts with greater than $10 million in annual revenues recognized represented 39%, 37% and 37% of our total consolidated revenues in fiscal 2008, 2007 and 2006, respectively. The remainder of our revenues is derived from a large number of smaller contracts with annual revenues of less than $10 million.

In fiscal 2008, 2007, and 2006, 87%, 88% and 88%, respectively, of our consolidated revenues were attributable to prime contracts with the U.S. Federal Government or to subcontracts with other contractors engaged in work for the U.S. Federal Government. The percentage of total consolidated revenues from customers representing greater than 10% of our total consolidated revenues were as follows:

	Year Ended January 31		
	2008	2007	2006
U.S. Army	**21%**	18%	16%
U.S. Navy	**12**	12	12
U.S. Air Force	**8**	9	10

Geographic Location. The majority of our services are performed in the United States. Revenues earned within the United States accounted for 98%, 97% and 97% of our total consolidated revenues in fiscal 2008, 2007 and 2006, respectively.

Cost of Revenues and Operating Expenses

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

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

Results of Operations

The following table summarizes our consolidated results of operations for the last three fiscal years:

	Year Ended January 31				
	2008	Percent change	2007 As Restated	Percent change	2006
			(dollars in millions)		
Revenues	**$ 8,935**	11%	$ 8,061	7%	$ 7,518
Cost of revenues	**7,698**	10	6,974	6	6,568
Selling, general and administrative expenses	**571**	11	515	7	480
Operating income	**666**	16	572	22	470
As a percentage of revenues	***7.5%***		*7.1%*		*6.3%*
Non-operating income (expense), net	**(40)**		24		(2)
Income from continuing operations before income taxes	**626**	5	596	27	468
Provision for income taxes	**240**	4	231	74	133
Income from continuing operations	**386**	6	365	9	335
Income from discontinued operations, net of tax	**30**		25		584
Net income	**$ 416**	7	$ 390	(58)	$ 919

Revenues. Our consolidated revenues increased 11% and 7% in fiscal 2008 and 2007, respectively, primarily due to growth in revenues in our Government segment, including growth related to the acquisition of businesses. Internal, or non-acquisition, related growth was 7% and 4% for fiscal 2008 and 2007, respectively. We calculate internal revenue growth by comparing our current year reported revenue to the prior year revenue adjusted to include the revenue of acquired businesses for the comparable period before acquisition. Revenue growth related to acquisition of businesses was 4% and 3% for fiscal 2008 and 2007, respectively.

The following table summarizes changes in segment revenues for the last three fiscal years:

	Year Ended January 31				
	2008	Percent change	2007 As Restated	Percent change	2006
			(dollars in millions)		
Government segment revenues	**$ 8,426**	12%	$ 7,543	7%	$ 7,027
As a percentage of total revenues	***94%***		*94%*		*93%*
Commercial segment revenues	**509**	(2)	518	5	494
As a percentage of total revenues	***6%***		*6%*		*7%*
Corporate and Other segment revenues					(3)
Total revenues	**$ 8,935**	11	$ 8,061	7	$ 7,518

Government segment revenues increased $883 million, or 12%, in fiscal 2008, including internal revenue growth of 8%. Internal revenue growth in the Government segment for fiscal 2008 was attributed to continued growth in a number of our business areas, most notably our intelligence, defense and homeland security business areas. The increase in the intelligence business area was due to new program wins and higher levels of activity on existing programs, including certain classified and operational intelligence programs in fiscal 2008. The increase in the defense business area is primarily due to increased volume in Command, Control and Communications programs with the U.S. Navy and Marine Corps customers and new program wins. This activity in our defense business area included revenue from work performed on the recently-won NATO Ballistic Missile Defense program and slightly reduced revenues from our highly visible Future Combat Systems program caused by customer budget reductions and timing of work. Increases in revenues in our homeland security business area were driven by increased sales of border, port and mobile security products as well as new program wins with various Department of Homeland Security agencies. Revenue growth related to acquisitions of businesses in the Government segment was 4% for fiscal 2008.

Government segment revenues increased $516 million, or 7%, in fiscal 2007, including internal revenue growth of 4%. Internal revenue growth in the Government segment for fiscal 2007 was positively impacted by growth in the intelligence, homeland security and defense business areas. In addition, fiscal 2006 revenues reflect a reduction in revenues associated with difficulties encountered on our Greek contract. The fiscal 2007 revenue increase was partially offset by declines in our systems engineering and integration business area primarily due to the completion of a large contract. We also experienced declines in our logistics and product support business area in fiscal 2007 primarily due to the completion of one of our large prime vendor contracts and a reduced volume of orders on other prime vendor contracts caused by non-recurring customer events. Revenue growth related to acquisitions of businesses in the Government segment was 3% for fiscal 2007.

Commercial segment revenues decreased $9 million, or 2%, in fiscal 2008, primarily due to a one-time sale of equipment in fiscal 2007. Commercial segment revenues were also impacted by reductions in information technology outsourcing revenues in our U.K. subsidiary, offset in part by increased outsourcing and consulting services volume on various domestic programs. Commercial segment revenues increased $24 million, or 5%, in fiscal 2007 due to higher volume in our consulting services and information technology outsourcing business areas, including a one-time sale of equipment.

Corporate and Other segment revenues include the elimination of intersegment revenues of $3 million in fiscal 2006. There were no intersegment revenues in fiscal 2008 and 2007.

Cost of Revenues. The following table summarizes changes in segment cost of revenues for the last three fiscal years:

	Year Ended January 31				
	2008	Percent change	2007 As Restated	Percent change	2006
	(dollars in millions)				
Government segment cost of revenues	**$ 7,333**	11%	$ 6,598	6%	$ 6,206
As a percentage of related revenues	***87.0%***		*87.5%*		*88.3%*
Commercial segment cost of revenues	**387**	(2)	394	3	382
As a percentage of related revenues	***76.0%***		*76.1%*		*77.3%*
Corporate and Other segment cost of revenues	**(22)**	(22)	(18)	10	(20)
Total cost of revenues	**$ 7,698**	10	$ 6,974	6	$ 6,568
As a percentage of revenues	***86.2%***		*86.5%*		*87.4%*

Government segment cost of revenues improved as a percentage of related revenues for fiscal 2008 primarily due to increased profitability on many cost reimbursement contracts as a result of the recovery of a greater percentage of our indirect costs through our indirect pricing rates, continued reductions in costs associated with management infrastructure, and improved fee rates on several large programs. The indirect rate performance improvement actions resulted in both increased profitability on certain cost reimbursable contracts as a result of the recovery of $15 million of prior year indirect rate overruns as well as an overall reduction in indirect rate overruns expensed to cost of revenues in fiscal 2008 compared to fiscal 2007. Government segment cost of revenues for fiscal 2008 also benefited from increases in contract fee rates, primarily due to a higher volume of sales of more profitable border, port and mobile security products. The fiscal 2008 improvement was partially offset by increased stock-based compensation expense related to both our required adoption of Statement of Financial Accounting Standards (SFAS) No. 123(R) for stock options as well as a fiscal 2008 increase in vesting stock award activity.

The fiscal 2007 improvement in Government segment cost of revenues as a percentage of related revenues was primarily due to a decrease of $81 million in losses recognized on our Greek contract as compared to fiscal 2006, a slightly higher concentration of labor-related revenues, which typically carry higher margins than our M&S revenues, and better management of our overhead expenses for fiscal 2007 as compared to fiscal 2006. The fiscal 2007 improvement was partially offset by increased stock-based compensation expense related to stock options and discounts on the employee stock purchase plan in fiscal 2007 of $21 million as a result of the required adoption SFAS No. 123(R). There was no expense recognized for stock options or employee stock purchase plan discounts in fiscal 2006.

Commercial segment cost of revenues remained consistent as a percentage of related revenues in fiscal 2008 as compared to fiscal 2007. Commercial segment cost of revenues improved as a percentage of related revenues in fiscal 2007 primarily due to improved contract margin performance on certain of our longer term information technology outsourcing contracts in that year.

Corporate and Other segment cost of revenues in fiscal 2008 and 2007 represents the elimination of intersegment facility charges to our Government and Commercial segments for use of company-owned properties.

PART II

Selling, General and Administrative Expenses. The following table summarizes changes in consolidated SG&A expense by type of activity for the last three fiscal years:

	Year ended January 31				
	2008	Percent change	2007	Percent change	2006
	(dollars in millions)				
General and administrative	**$ 409**	11%	$ 369	7%	$ 344
As a percentage of total revenues	***4.6%***		*4.6%*		*4.6%*
Bid and proposal	**113**	1	112	3	109
As a percentage of total revenues	***1.3%***		*1.4%*		*1.4%*
Internal research and development	**49**	44	34	26	27
As a percentage of total revenues	***.5%***		*.4%*		*.4%*
Total SG&A	**$ 571**	11	$ 515	7	$ 480
As a percentage of total revenues	***6.4%***		*6.4%*		*6.4%*

Total consolidated SG&A increased $56 million, or 11%, for fiscal 2008. As a percentage of revenues, consolidated SG&A for fiscal 2008 remained relatively consistent with fiscal 2007 levels, largely reflecting management s efforts to control general and administrative spending as a percentage of revenues offset by planned increases in internal research and development efforts to develop new products and technologies to meet our customers anticipated needs.

General and administrative expenses increased $40 million, or 11%, for fiscal 2008 as compared to fiscal 2007 primarily due to the fiscal 2008 acquisition of a business with a higher general and administrative cost structure, increased stock-based compensation expense, increased professional services spending and increased corporate business development spending offset by a reduction in legal expenses. The increase in stock-based compensation results from both our required adoption of SFAS 123(R) for stock options as well as a fiscal 2008 increase in vesting stock award activity. The increase in professional services spending includes activities associated with efforts to improve our information technology systems infrastructure, including the first phase of implementation during fiscal 2008 of a new information technology system, as well as efforts to improve related business processes to provide greater effectiveness and efficiency across all business functions. The reduction in fiscal 2008 legal spending reflects reduced legal activity associated with our Greek contract. Internal research and development expenses increased $15 million for fiscal 2008, consistent with our business strategy to increase efforts to develop new products and technologies to support our customers and our long-term growth. Bid and proposal (B&P) expenses increased $1 million for fiscal 2008. The level of B&P activities fluctuates depending on the timing of bidding opportunities.

Total consolidated SG&A increased $35 million, or 7% for fiscal 2007 as compared to fiscal 2006. General and administrative expenses increased $25 million, or 7%, primarily due to increased information technology and other infrastructure expenditures, increased legal expenses as well as increased stock-based compensation, business development and professional services expenses. Stock-based compensation expense related to stock options and discounts on the employee stock purchase plan increased approximately $12 million during fiscal 2007 as a result of the adoption of SFAS No. 123(R). There was no expense recognized for stock options or employee stock purchase plan discounts in fiscal 2006. Professional services expense increased by $12 million for fiscal 2007 largely due to certain systems implementation projects and our Sarbanes-Oxley compliance efforts. Internal research and development expenses increased $7 million for fiscal 2007 primarily due to increased efforts to develop new products and technologies to support our customers and our long-term growth. Bid and proposal (B&P) expenses increased $3 million for fiscal 2007, reflecting increased B&P activities offset by declines in production costs stemming from government actions to simplify the bidding process and actions taken by us to make our proposal process more efficient, both of which generally reduced the average cost of responding to a given B&P opportunity.

The following table summarizes changes in SG&A expense by segment for the last three fiscal years:

	Year Ended January 31				
	2008	Percent change	2007 As Restated	Percent change	2006
			(dollars in millions)		
Government segment SG&A	$ 437	16%	$ 376	3%	$ 366
As a percentage of related revenues	*5.2%*		*5.0%*		*5.2%*
Commercial segment SG&A	78		78	10	71
As a percentage of related revenues	*15.3%*		*15.1%*		*14.4%*
Corporate and Other segment SG&A	56	(8)	61	42	43
Total SG&A	$ 571	11	$ 515	7	$ 480
As a percentage of revenues	*6.4%*		*6.4%*		*6.4%*

PART II

Government segment SG&A increased $61 million for fiscal 2008 primarily due to the acquisition in fiscal 2008 of a new business with a higher general and administrative cost structure, increased professional services spending, and increased internal research and development and business development spending. Government segment SG&A increased $10 million for fiscal 2007 primarily due to increased stock-based compensation, internal research and development and professional services expenses.

Commercial segment SG&A expenses remained consistent in fiscal 2008. Commercial segment SG&A increased $7 million in fiscal 2007 due to increased spending to support Commercial segment revenue growth and higher net periodic pension cost.

Corporate and Other segment SG&A expenses represent corporate costs that are unallowable under Cost Accounting Standards and the net effect of various items related to operating business units that are excluded from the evaluation of a business unit s operating performance in the Government or Commercial segments. Corporate and Other segment SG&A decreased $5 million in fiscal 2008 primarily due to a reduction in legal expenses offset by an increase in unallowable stock option expense. Corporate and Other segment SG&A increased $18 million for fiscal 2007 primarily due to increased unallowable stock option expense, professional service and legal expenses.

Operating Income. The following tables summarize changes in segment operating income for the last three fiscal years:

	Year Ended January 31				
	2008	Percent change	2007 As Restated	Percent change	2006
	(dollars in millions)				
Government segment operating income	**$ 656**	15%	$ 569	25%	$ 455
As a percentage of related revenues	***7.8%***		*7.5%*		*6.5%*
Commercial segment operating income	**44**	(4)	46	12	41
As a percentage of related revenues	***8.6%***		*8.9%*		*8.3%*
Corporate and Other segment operating income	**(34)**	21	(43)	(65)	(26)
Total operating income	**$ 666**	16	$ 572	22	$ 470
As a percentage of revenues	***7.5%***		*7.1%*		*6.3%*

Total operating income increased $94 million for fiscal 2008 primarily due to increased profitability in the Government segment and reduced losses in the Corporate and Other segment. Total operating income increased $102 million for fiscal 2007 primarily due to increased Government and Commercial segment profitability, primarily due to increased revenues and decreased losses recognized on our Greek contract, partially offset by an increase in Corporate and Other segment operating loss for the period.

Government segment operating income increased $87 million for fiscal 2008, benefiting from increased profitability on many cost reimbursable contracts as a result of the recovery of a greater percentage of our indirect costs through our indirect pricing rates, continued reductions in costs associated with management infrastructure, improved fee rates on several large programs and increased sales of more profitable border, port and mobile security products. These benefits were partially offset by increases in stock based compensation expense due to our adoption of SFAS 123(R) for stock options and increased vesting stock award activity, increased professional services spending and increased spending on internal research and development initiatives and discretionary overhead spending mostly for business development activities. Government segment operating income increased $114 million for fiscal 2007 primarily due to growth in related revenues and decreased losses recognized on our Greek contract partially offset by increased SG&A expenses.

Commercial segment operating income decreased $2 million for fiscal 2008. Commercial segment operating income increased $5 million for fiscal 2007 primarily due to growth in related revenues and improvements in cost of revenues as a percentage of revenues offset by increased SG&A expenses.

Corporate and Other segment operating loss decreased $9 million for fiscal 2008 primarily reflecting lower legal expenses, including expenses relating to our dispute on the Greek contract. Corporate and Other segment operating loss increased $17 million for fiscal 2007 primarily due to increased unallowable stock option expense, professional services spending and legal expenses.

Interest Income. Interest income decreased by $60 million, or 52%, for fiscal 2008 due to a decrease in our average cash and marketable securities balances, resulting primarily from the payment of a $2.45 billion special dividend in November

2006 offset by the $1.24 billion raised in our October 2006 initial public offering. Interest income increased $20 million, or 21%, in fiscal 2007 due primarily to increased average interest rates and cash balances.

Interest Expense. Interest expense reflects interest on (1) our outstanding debt securities, (2) a building mortgage, (3) deferred compensation arrangements and (4) notes payable. Interest expense remained consistent for fiscal 2008 as most of our debt instruments have fixed interest rates and there were no significant changes in the underlying debt balances during fiscal 2008. Interest expense increased slightly during fiscal 2007, reflecting short-term borrowings made on our credit facility following our initial public offering.

As more fully described in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 filed with the SEC on March 28, 2008 and Note 9 of the notes to consolidated financial statements, we are currently exposed to interest rate risks and foreign currency risks that are inherent in the financial instruments arising from transactions entered into in the normal course of business. We will from time to time use derivative instruments to manage these risks. The derivative instruments we currently hold have not had a material impact on our consolidated financial position or results of operations.

Other Income (Expense), Net. The components of other income (expense), net were as follows:

	Year Ended January 31		
	2008	2007	2006
	(in millions)		
Impairment losses on investments	**$ (13)**	$ (1)	$ (6)
Gross realized gains on sale of marketable securities			1
Gross realized losses on sale of marketable securities			(9)
Net gain (loss) on sale of other investments	**1**	1	(1)
Equity interest in earnings and impairment losses of unconsolidated affiliates	**6**	2	5
Other	**3**	3	3
Total other income (expense), net	**$ (3)**	$ 5	$ (7)

The impairment losses on investments in fiscal 2008, 2007 and 2006 were due to declines in fair value of private equity securities held by our venture capital subsidiary that were deemed to be other-than-temporary. The carrying value of our cost and equity method investments as of January 31, 2008 was $48 million, including $24 million of private equity securities held by our venture capital subsidiary.

Provision for Income Taxes. The provision for income taxes as a percentage of income from continuing operations before income taxes was 38.3% in fiscal 2008, 38.8% in fiscal 2007 and 28.4% in fiscal 2006. The lower effective tax rate for fiscal 2006 was primarily due to the reversal of approximately $50 million in accruals for uncertain tax positions as a result of settlements of federal and state audits for amounts different than the recorded accruals for uncertain tax positions, as well as the expiration of statutes on open tax years.

We are subject to routine compliance reviews by the Internal Revenue Service (IRS), and other taxing authorities. The IRS is currently auditing fiscal 2005 and 2006. The IRS has completed audits through fiscal 2004. As of January 31, 2008, we had liabilities for uncertain tax positions of $58 million, including $28 million related to continuing operations. While we believe we have adequate accruals for our uncertain tax positions, the tax authorities may determine that we owe taxes in excess of recorded accruals or our recorded accruals may be in excess of the final settlement amounts agreed to by tax authorities.

Income from Continuing Operations. Income from continuing operations increased $21 million, or 6%, in fiscal 2008 primarily due to increased operating income of $94 million caused by increased revenues and improved operating margins offset by a $60 million decrease in interest income, an $8 million decline in other income (expense), net, primarily attributable to other-than-temporary impairment losses on investments, and a $9 million increase in income tax expense. Income from continuing operations increased $30 million, or 9%, in fiscal 2007 primarily due to increased operating income of $102 million, increased interest income of $20 million, and increased other income offset by a $98 million increase in income tax expense.

Earnings per Share (EPS) from Continuing Operations. Diluted EPS from continuing operations decreased $0.07 per share, or 7%, for fiscal 2008 as compared to fiscal 2007 despite a $21 million increase in income from continuing operations. This was primarily due to a 53 million share increase in the number of diluted weighted average shares outstanding in fiscal 2008 as compared to fiscal 2007. Diluted EPS from continuing operations increased $0.07, or 8%, for fiscal 2007 primarily due to a $30 million increase in income from continuing operations offset by a 5 million share increase in the number of diluted weighted average shares outstanding in fiscal 2007 as compared to fiscal 2006. The increase in the weighted average shares outstanding for fiscal 2008 and 2007 was primarily due to the sale of 86 million shares of common stock in connection with our October 2006 initial public offering.

Discontinued Operations. During fiscal 2008, we completed a reorganization transaction resulting in the disposition of our 55% interest in our consolidated majority-owned subsidiary, AMSEC LLC, in exchange for our acquisition of certain divisions and subsidiaries of AMSEC LLC and recorded a pre-tax gain on sale of $31 million. During fiscal 2007, we sold ANX, a majority-owned subsidiary, for an initial sales price of $27 million and recorded a pre-tax gain of $19 million. During fiscal 2006, we sold our Telcordia subsidiary for $1.35 billion and recorded a pre-tax gain of $871 million.

The results of operations and the financial position of AMSEC LLC (other than the divisions and subsidiaries that we acquired in the reorganization transaction), ANX and Telcordia have been reported as discontinued operations for all fiscal years presented. The operating results of these discontinued operations for fiscal 2008, 2007 and 2006 were as follows:

	Year Ended January 31		
	2008	2007	2006
		(in millions)	
Revenues	**$ 106**	$ 246	$ 363
Costs and expenses:			
Cost of revenues	**96**	215	290
Selling, general and administrative expenses	**4**	13	42
Non-operating income		3	
Income before minority interest in income of consolidated subsidiaries and income taxes	**$ 6**	$ 21	$ 31

The AMSEC LLC reorganization transaction was generally treated as a tax-free liquidation of our interest in AMSEC LLC for income tax purposes.

With respect to the sale of Telcordia, we have indemnified the buyer for all income tax obligations on and through the closing date of the transaction. While we believe we have appropriate accruals for these uncertain tax positions, the ultimate resolution of these matters could differ from the amounts accrued. We also have customary indemnification obligations owing to the buyer and are entitled to receive additional amounts as contingent sale price, including all of the proceeds, net of the tax liability incurred by Telcordia, from any judgment or settlement of the litigation Telcordia initiated against Telkom South Africa and 50% of the net proceeds received in connection with the prosecution of certain patent rights of Telcordia as described in Commitments and Contingencies. All future contingent payments or contingent purchase price proceeds and changes in our estimates of these items and other related items will be reflected as discontinued operations and result in adjustments to the gain on sale in the period in which they arise.

Net Income and EPS. Net income increased $26 million, or 7%, for fiscal 2008. This reflects a $21 million increase in income from continuing operations and a $5 million increase in income from discontinued operations. Diluted EPS decreased $0.07 per share, or 7%, for fiscal 2008 despite the $26 million increase in net income due to a 53 million share increase in the number of diluted weighted average shares outstanding for fiscal 2008 compared to fiscal 2007. Net income decreased $529 million for fiscal 2007 primarily due to reduced income from discontinued operations of $559 million related to the fiscal 2006 sale of Telcordia offset by a $30 million increase in income from continuing operations. Diluted EPS decreased $1.49 per share, or 58%, for fiscal 2007 primarily due to the $1.56 per share decline in income from discontinued operations. The increase in the number of weighted average shares outstanding for fiscal 2008 and 2007 was primarily due to the sale of 86 million shares of common stock in connection with our October 2006 initial public offering.

Liquidity and Capital Resources

We have financed our operations from our inception in 1969 primarily through cash flow from operations, proceeds from the sales of investments, issuances of debt securities and borrowings under our credit facilities. In connection with the October 2006 initial public offering, we received net proceeds of $1.24 billion, after deducting underwriting commissions and discounts and other offering-related costs. Prior to the initial public offering and reorganization merger, our 100%-owned subsidiary, Science

Applications International Corporation, declared a special dividend of $2.45 billion to its stockholders, which was paid in November 2006. We anticipate our principal sources of liquidity for the next 12 months and beyond will be cash flows from operations. We may also make borrowings under our revolving credit facility. We anticipate our principal uses of cash will be for operating expenses, capital expenditures, working capital requirements, acquisitions, debt service requirements, stock repurchases, and funding of pension obligations. We anticipate that our operating cash flows, existing cash and cash equivalents and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

PART II

Historical Trends

Cash and cash equivalents totaled $1.10 billion and $1.11 billion at January 31, 2008 and 2007, respectively. The following table summarizes cash provided or used by type of activity for the last three fiscal years:

	Year Ended January 31		
	2008	2007	2006
		(in millions)	
Total cash flows provided by operations	**$ 345**	$ 693	$ 573
Total cash flows provided by (used in) investing activities	**(203)**	1,211	(581)
Total cash flows used in financing activities	**(157)**	(1,833)	(707)
Increase (decrease) in cash and cash equivalents from discontinued operations	**(2)**	7	761
Total increase (decrease) in cash and cash equivalents	**$ (17)**	$ 78	$ 46

Cash Provided by Operations. The $348 million decrease in fiscal 2008 cash flows from operations compared to fiscal 2007 was primarily due to an increase in accounts receivable due to increased revenues and an increase in the average time to collect receivables at the end of fiscal 2008 as compared to fiscal 2007, a greater portion of fiscal 2007 bonuses and retirement plan contributions paid in cash instead of stock in fiscal 2008, an increase in inventories primarily related to increased activity in our logistics and products support business area and increased cash paid for income taxes. The increase in the average time to collect receivables at the end of fiscal 2008 as compared to fiscal 2007 was largely due to invoice processing delays arising from a system implementation at a major customer and billing delays attributable to our implementation of our new information technology system. During fiscal 2008, we recognized $64 million of excess tax benefits realized from stock options exercised and unvested stock that vested subsequent to our reorganization merger as cash inflows from financing activities as required by SFAS No. 123(R) Share-Based Payment. Excess tax benefits, realized prior to the reorganization merger and initial public offering were presented as cash flows from operations as previously required by SFAS No. 95 Statement of Cash Flows. The $120 million increase in fiscal 2007 cash flows from operations compared to fiscal 2006 was primarily due to decreases in cash paid for income taxes, higher income from continuing operations, and additional non-cash stock based compensation offset by increased accounts receivable balances due to increased revenue during the fourth quarter of fiscal 2007 as compared to the same period in fiscal 2006.

Cash Provided by (Used in) Investing Activities. We used $203 million of cash in support of investing activities during fiscal 2008, including $144 million to acquire two businesses, one in the Government segment and one in the Commercial segment and $61 million for purchases of property, plant and equipment. We generated cash from investing activities of $1.21 billion in fiscal 2007 primarily due to the liquidation of $1.66 billion in marketable securities in preparation for the November 2006 payment of the $2.45 billion special dividend offset by $377 million used in the acquisition of eight businesses and $73 million in purchases of property, plant and equipment. We used $581 million of cash in support of investing activities during fiscal 2006, including $291 million to purchase marketable securities, $212 million in the acquisition of four businesses and $52 million in purchases of property, plant and equipment.

Cash Used in Financing Activities. We used $157 million of cash in support of financing activities during fiscal 2008, including $309 million used to repurchase shares of preferred and common stock, offset by $98 million in proceeds from the sale of stock and exercise of stock options and $64 million in excess tax benefits associated with stock-based compensation. We used cash in financing activities of $1.83 billion during fiscal 2007 primarily representing the payment of a special dividend of $2.45 billion and the repurchase of $724 million of stock offset by sales of $1.34 billion of stock, including $1.24 billion though our initial public offering, and exercise of stock options. We used $707 million of cash in support of financing activities in fiscal 2006, primarily representing repurchases of our stock of $818 million offset by sales of stock and exercises of stock options of $155 million. Repurchases of stock for each of the last three fiscal years were as follows:

	Year Ended January 31		
	2008	2007	2006
		(in millions)	
Repurchases of stock:			
Under publicly announced repurchase plans	**$ 215**	$ 42	$
Limited market stock trades		230	399
Retirement plans		360	228
Upon employee terminations			112
Other stock repurchases	**94**	92	79
Total	**$ 309**	$ 724	$ 818

Prior to the initial public offering, we maintained an internal, limited market for the purpose of allowing our employees and retirement plans to periodically buy and sell shares of our stock. We had the right, but not the obligation, to repurchase stock in the limited market and retirement plan trades that we conducted, to the extent that the number of shares offered for sale exceeded the number of shares sought to be purchased. As a publicly traded company, we no longer conduct limited market or retirement plan trades.

Stock Repurchase Program

In December 2006, our board of directors authorized a stock repurchase program under which we may repurchase up to 40 million shares of our common stock. 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 and regulatory requirements and other market conditions. Through January 31, 2008, we repurchased 14.7 million shares of our common stock under this program, which includes 12.2 million shares repurchased in fiscal 2008. On March 21, 2008, our board of directors authorized the repurchase of an aggregate of 40 million of shares under the stock repurchase program from and after the open of the NYSE on March 24, 2008 (excluding shares purchased under the stock repurchase program from December 2006 through March 21, 2008).

Underfunded Pension Obligation

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

Outstanding Indebtedness

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

	January 31	
	2008	2007
	(in millions)	
6.25% notes due fiscal 2013	**$ 549**	$ 549
5.5% notes due fiscal 2034	**296**	296
7.125% notes due fiscal 2033	**248**	248
6.75% notes due fiscal 2009	**100**	96
Other notes payable	**35**	39
	1,228	1,228
Less current portion	**130**	29
Total	**$ 1,098**	$ 1,199

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

All of the notes described above contain customary restrictive covenants, including, among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions. We were in compliance with such covenants as of January 31, 2008. Our other notes payable have interest rates from 5.0% to 11.0% and are due on various dates through fiscal 2017. For additional information on our notes payable and long-term debt, see Note 8 of the notes to consolidated financial statements.

Credit Facility. We have a revolving credit facility providing for $750 million in unsecured borrowing capacity at interest rates determined, at our option, based on either LIBOR plus a margin or a defined base rate through fiscal 2013. As of January 31, 2008,

$745 million of the revolving credit facility was available, due to $5 million of outstanding standby letters of credit issued in connection with our contract with the Greek government. The terms of the standby letters of credit require them to remain outstanding until the customer formally accepts the system pursuant to the contract. See also Commitments and Contingencies Firm-Fixed-Price Contract with the Greek Government.

The facility contains various customary restrictive covenants, including financial covenants. As of January 31, 2008, we were in compliance with all covenants under the credit facility.

Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain of our unconsolidated joint venture investments as described in Note 19 of the notes to consolidated financial statements. These off-balance sheet arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition.

Contractual Obligations

The following table summarizes our obligations to make future payments pursuant to certain contracts or arrangements as of January 31, 2008, as well as an estimate of the timing in which these obligations are expected to be satisfied:

	Payments Due by Fiscal Year				
	Total	2009	2010-2011	2012-2013	2014 and Thereafter
	As Restated (in millions)				
Contractual obligations:					
Long-term debt (including current portion) [(1)]	$ 2,250	$ 201	$ 139	$ 671	$ 1,239
Operating lease obligations [(2)]	310	117	124	42	27
Capital lease obligations	1	1			
Estimated purchase obligations [(3)]	21	19	1		1
Liabilities for uncertain tax positions [(4)]	32	32			
Other long-term liabilities [(5)]	148	42	48	20	38
Total contractual obligations	$ 2,762	$ 412	$ 312	$ 733	$ 1,305

(1) Includes total interest payments on our outstanding debt of $72 million in fiscal 2009, $138 million in fiscal 2010-2011, $120 million in fiscal 2012-2013 and $686 million in fiscal 2014 and thereafter.

(2) Excludes $78 million related to an operating lease on a contract with the Greek government as we are not obligated to make the lease payments to the lessee if our customer defaults on payments to us.

(3) Includes estimated obligations to transfer funds under legally enforceable agreements for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Excludes purchase orders for products or services to be delivered pursuant to U.S. Government contracts in which we have full recourse under normal contract termination clauses.

(4) Excludes obligations for uncertain tax positions of $26 million, which are included in other long-term liabilities.

(5) Other long-term liabilities were allocated by fiscal year as follows: a liability for our foreign defined benefit pension plan is based upon payments made in prior years and estimated future payments to the plan; liabilities under deferred compensation

arrangements are based upon the average annual payments in prior years upon termination of employment by participants; liabilities for uncertain tax positions are based upon the fiscal year that the statute of limitations is currently expected to expire, a liability to reimburse a customer for cash advances on a contract that is periodically renewed is based upon the fiscal year that the most recent contract renewal is ending; and other liabilities are based on the fiscal year that the liabilities are expected to be realized.

Commitments and Contingencies

Telkom South Africa

Our former Telcordia subsidiary instituted arbitration proceedings before the International Chamber of Commerce (ICC), against Telkom South Africa in March 2001 as a result of a contract dispute. Telcordia seeks to recover damages for breach of contract, plus interest at a rate of 15.5%. Telkom South Africa counterclaimed, seeking substantial damages from Telcordia. On September 27, 2002, the arbitrator found that Telkom South Africa repudiated the contract and dismissed Telkom South Africa s counterclaims against Telcordia. The damages to be recovered by Telcordia will be determined in the second phase of the arbitration. Although Telkom South Africa challenged the arbitrator s partial award in Telcordia s favor in the South African court system, the arbitrator s decision was ultimately upheld.

The second phase of the arbitration to determine the damages to be recovered by Telcordia has now commenced. Telcordia submitted its statement of claim and related document production on March 30, 2007, which seeks damages in excess of $200 million plus interest and legal fees and costs. As a result of a preliminary hearing with the arbitrator, Telkom South Africa paid Telcordia $9 million of uncontested damages relating to one aspect of the dispute. In July 2007, the arbitrator ruled that Telcordia is entitled to 15.5% simple interest per year on awarded damages, running from the date of breach by Telkom South Africa. Due to the complexity of the remaining issues, the arbitrator cancelled a September 2007 arbitration hearing to determine the amount of Telcordia s damages and scheduled an April 2008 hearing focusing only on damage issues. A final hearing with closing submissions was scheduled for June 2008 in London. In February 2008, the arbitrator

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appointed a third party expert to provide an independent opinion regarding specific technical issues. The parties disagree on the scope of the third party expert s mandate, as well as certain discovery issues. Consequently, the hearings originally scheduled for April and June have been cancelled and a hearing to address the outstanding procedural issues is scheduled for April 2008. As a result, the completion of the arbitration will likely be delayed. Pursuant to the definitive stock purchase agreement for the sale of Telcordia, we are entitled to receive all of the proceeds, net of the tax liability incurred by Telcordia, from any judgment or settlement. We received $4 million during the year ended January 31, 2008 related to amounts collected by Telcordia from Telkom South Africa.

Due to the complex nature of the legal and factual issues involved in the dispute, the damages that Telcordia will ultimately be awarded in the second phase of arbitration, and therefore the amounts we will be entitled to receive, net of applicable taxes, are not presently determinable. We do not have any assets or liabilities recorded related to this contract and the related legal proceedings as of January 31, 2008 and 2007.

Firm-Fixed-Price Contract with the Greek Government

Original Contract. In May 2003, we entered into a euro-denominated firm-fixed-price contract (the Greek contract) with the Hellenic Republic of Greece (the Customer) to provide a Command, Control, Communications, Coordination and Integration (C4I) System (the System), to support the 2004 Athens Summer Olympic Games (the Olympics), and to serve as the security system for the Customer s public order departments following completion of the Olympics. The System is comprised of 29 subsystems, organized into three major functional areas: the Command Decision Support System (CDSS), the Communication and Information System and the Command Center Systems. Under the Greek contract, the System was to be completed, tested, and accepted by September 1, 2004, at a price of approximately $199 million. The Greek contract also requires us to provide five years of System support and maintenance for approximately $15 million and ten years of TETRA radio network services for approximately $125 million. The Greek contract contains an unpriced option for an additional five years of TETRA network services.

The Customer took delivery of the System for use and operation during the Olympics beginning in August 2004, and continues to use significant portions of the System today. In November 2004, we delivered a revised version of the CDSS portion of the System to the Customer. Beginning in December 2004 and continuing through April 2005, the Customer performed subsystems acceptance testing on each of the subsystems comprising the System based on test procedures that had not been mutually agreed upon by the parties. The Customer identified numerous omissions and deviations in its test reports. We believe that certain of these omissions and deviations were valid, while others were not.

Modification of Contract. On March 29, 2007, we and the Customer executed a modification to the Greek contract which establishes specific requirements, contract terms, and a payment schedule under which the various subsystems can be completed and provides for, among other things, the following:

- acceptance of 20 specific subsystems of the 29 subsystems comprising the System within 70 days of the execution of the modification

- payment of $34 million within 30 days of our submitting invoices for certain work already performed on both the system development portion and service portion of the Greek contract

- reduction of the advance payment and performance bonds maintained by us in favor of the Customer by at least $123 million which represents the value of the 20 subsystems required to be accepted within 70 days of the execution of the modification

- credit for past warranty, maintenance and TETRA services

- a revised test and acceptance process for the remaining subsystems being re-delivered during 2008

- provision of subsystem maintenance for a period of up to 5 years following subsystem acceptance

In connection with the acceptance of 20 of the 29 subsystems referred to above, the Greek contract modification provides a framework for the parties to determine the price reduction for omissions and deviations relating to those subsystems. An agreement of the parties limits the total price reduction for these subsystems to a maximum of $11 million. On September 11, 2007, the Greek contract was further modified to provide for an extension of the system development portion of the Greek contract to October 2008, as previously agreed.

Performance of Modified Contract. Subsequent to the modification of the Greek contract on March 29, 2007, the following developments have occurred:

- 18 of the 20 subsystems to have been accepted within 70 days of March 29, 2007 have been fully and finally accepted by the Customer. A subcontractor, in consultation with us and the Customer, has chosen to remediate omissions and deviations in the remaining two subsystems it delivered, in an effort to minimize or eliminate the price reduction associated with them. The contract authorizes such remediation as long as it is completed before the System acceptance testing to be conducted in fiscal 2009.

The Customer has paid substantially all of the $34 million related to services previously performed required to be paid within 30 days of us submitting our invoices.

The initial price reduction assessed by the Customer for omissions and deviations on the 18 subsystems accepted to date totaled $14 million, which is $3 million in excess of the previously agreed-upon maximum price reduction limit of $11 million. Accordingly, the parties have entered into negotiation under the provisions of the Greek contract to resolve this discrepancy. We have an informal agreement with the Customer to resolve the omissions and deviations on these 18 subsystems for a total price reduction of $6 million which has not yet been finalized through a contract modification.

The Customer has reduced the advance payment, performance and offset bonds requirement by $154 million.

We and our subcontractors are performing work under the terms of the modified Greek contract and modified subcontracts, including the requirement to deliver a modified CDSS.

The parent corporation of our 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. Our subcontractor has represented to us that it did not make improper payments in connection with the Greek contract. We have taken a number of actions to confirm the accuracy of our subcontractor s representations. If the subcontractor s representations are ultimately determined to be false and improper payments were in fact made in connection with the Greek contract, the legal compliance and political issues that this would raise could impact our subcontractor s ability to perform the subcontract and our ability to perform the Greek contract. This could have a material adverse affect on our consolidated financial position, results of operations and cash flows.

Financial Status and Contingencies of the Greek Contract. We have recorded $124 million of losses under the Greek contract as of January 31, 2008. We recorded $1 million and $2 million of losses relating to foreign currency translation in fiscal 2008 and 2007, respectively, and $83 million of losses in fiscal 2006. The $124 million loss reflected our estimated total cost to complete the System under the original Greek contract and assumed the Greek contract value was limited to the cash received to date.

The Greek contract modification resulted in significant changes to the terms and conditions and the deliverables under the Greek contract and clarifies the parties responsibilities. If we complete the work and receive future payments as required under the modified Greek contract, we may reverse a portion of the losses previously recognized. However, based on the complex nature of this contractual situation and the difficulties encountered to date, significant uncertainties exist and we are unable to reliably estimate the ultimate outcome. Accordingly, we have not adjusted and will not adjust the losses on this contract until such time as we can reliably estimate the ultimate outcome of the modified contract. Also, as a result of the significant uncertainties that remain on this contract, we are utilizing the completed-contract method of accounting for the system development portion of this contract. Examples of these uncertainties include acceptance of the remaining subsystems and the overall system, receipt of the remaining payments, release of the remaining bonds, changes in the political representatives from the Greek government involved with the project and subcontractor performance and legal compliance issues. Accordingly, no additional revenue will be recognized on the development portion of the contract until it is completed. Revenue on the maintenance portion of the contract is recognized as maintenance payments are received from the Customer. Although we expect to receive additional payments in accordance with the terms of the modified Greek contract, our accounting as of January 31, 2008 was based on cash received to date. Through

January 31, 2008, we have recognized revenues of $157 million, which represents a portion of the $201 million of cash received to date. We recognized $37 million of revenues and equal amounts of costs on the maintenance portion of the Greek contract during the year ended January 31, 2008, primarily related to the receipt of payments from the Customer for services previously rendered.

We have $15 million of accounts receivable (classified as other assets) relating to value added taxes (VAT) that we have paid and believe we are entitled to recover either as a refund from the taxing authorities or as a payment under the Greek contract upon final billing. The Customer has paid to us all amounts owed for VAT to date for the subsystems accepted and services provided. Failure by the Customer to pay any future VAT amounts could result in an additional obligation payable by us to the Greek taxing authorities and could increase our total losses on the Greek contract.

In accordance with the terms of the Greek contract, we are required to maintain certain advance payment, performance and offset bonds in favor of the Customer. These bonding requirements have been met through the issuance of standby letters of credit. As of January 31, 2008, there were $111 million in advance payment and performance standby letters of credit and $7 million in offset bonds outstanding. If the standby letters of credit are called based on a future failure to fulfill our obligations under the Greek contract, we may have the right to call some of the $71 million of bonds provided by our subcontractors in connection with their work under the Greek contract if the performance failure relates to subcontracted work.

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If we and our subcontractors are unable to perform in accordance with the modified Greek contract, damages or claims by the Customer or subcontractors may be successfully asserted against us, our bonds may be called, and the Customer may be able to recover additional contract costs required to fulfill our obligations. This could have a material adverse affect on our consolidated financial position, results of operations and cash flows.

INTESA Joint Venture

We held a 60% interest in Informática, Negocios y Tecnología, S.A., (INTESA), a Venezuelan joint venture the Company formed in fiscal 1997 with Venezuela s national oil company, PDVSA, to provide information technology services in Latin America. INTESA derived substantially all its revenues from an outsourcing services agreement with PDVSA. The services agreement expired on June 30, 2002 and INTESA subsequently ceased operations. The operations of INTESA were classified as discontinued operations as of January 31, 2003 and INTESA is currently insolvent.

INTESA is a defendant in a number of lawsuits brought by former employees seeking unpaid severance and pension benefits. PDVSA, SAIC and SAIC Bermuda, our 100%-owned subsidiary and the entity that held our interest in INTESA, were added as defendants in a number of these suits. Based on the procedural standing of these cases and our understanding of applicable laws and facts, we believe that our exposure to any possible loss related to these employment claims is either remote or, if reasonably possible, immaterial.

DS&S Joint Venture

In March 2006, we sold our interest in DS&S, a joint venture in which we owned a 50% interest. As part of the sale, we agreed to indemnify the purchaser for certain legal costs and expenses, including those relating 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 us in repayment of a loan owed by DS&S. As of January 31, 2008, we have deferred the potential $9 million gain on this sale pending resolution of the investigation and any resulting litigation.

Other Joint Ventures

We are an investor in Danet Partnership GbR (Danet GbR), a German partnership accounted for under the equity method. Danet GbR has an internal equity trading market similar to the limited market that was formerly maintained by Science Applications International Corporation. We are required to provide liquidity rights to the other Danet GbR investors in certain circumstances. These rights allow Danet GbR investors who are withdrawing from the partnership to put their Danet GbR shares to us in exchange for the current fair value of those shares. We do not currently record a liability for these put rights because their exercise is contingent upon the occurrence of future events which we cannot determine will occur with any certainty. The carrying value of our investment in Danet GbR was $17 million as of January 31, 2008. The maximum potential obligation, assuming all the current Danet GbR investors were to put their Danet GbR shares to us, was $8 million as of January 31, 2008.

We have a guarantee that relates only to claims brought by the sole customer of another of our joint ventures, Bechtel SAIC Company, LLC, for specific contractual nonperformance of the joint venture. We also have a cross-indemnity agreement with the joint venture partner, pursuant to which we will only be ultimately responsible for the portion of any losses incurred under the guarantee equal to our ownership interest of 30%. Due to the nature of the guarantee, we are not able to project the maximum potential obligations we could be required to make under the guarantee as of January 31, 2008 but, based on current conditions, we believe the likelihood of having to make any payment is remote. Accordingly, no liability relating to this guarantee is currently recorded.

On September 15, 2004, we entered into an agreement with EG&G Technical Services, Inc. (EG&G), and Parsons Infrastructure & Technology Group, Inc. (Parsons), to form Research and Development Solutions, LLC (RDS), a Delaware limited liability company that will pursue contracts offered by the Department of Energy s National Energy Technical Laboratory. We, EG&G and Parsons, each have a one-third equal joint venture interest. In conjunction with a contract award to RDS, each joint venture partner was required to sign a performance guarantee agreement with the U.S. Government. Under this agreement, we unconditionally guarantee all of RDS s obligations to the U.S. Government under the contract award, which has a total value of up to $217 million. We also have a cross-indemnity agreement with each of the other two joint venture partners to protect us from liabilities for any U.S. Government claims resulting from the actions of the other two joint venture partners and to limit our liability to our share of the contract work. As of January 31, 2008, the fair value of the guarantee is not material.

Debt Guarantee

SAIC Inc. has fully and unconditionally guaranteed the obligations of Science Applications International Corporation, a 100%-owned subsidiary, under its revolving credit facility, $300 million 5.5% notes, $550 million 6.25% notes, $250 million 7.125% notes, and $100 million 6.75% notes and certain letters of credit. We paid $100 million to settle the 6.75% notes at maturity on February 1, 2008.

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Letters of Credit and Surety Bonds

We have outstanding letters of credit aggregating to $166 million at January 31, 2008, principally related to guarantees on contracts with domestic commercial and foreign government customers. Of the total outstanding letters of credit, $118 million was related to the firm-fixed-price contract with the Greek government described above, $5 million of which was issued under our revolving credit facility. We also have outstanding surety bonds aggregating to $169 million, principally related to performance and payment bonds.

Other

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

During the year ended January 31, 2008, we recorded $8 million in costs associated with actions taken to remediate a data security lapse affecting several customer contracts. As part of the remediation effort, we continue to review our technology assets to evaluate any other areas of potential information security risk.

We maintain self-insured medical and workers compensation insurance plans. We provided estimated accruals for claims incurred but not yet reported of $25 million and $27 million as of January 31, 2008 and 2007, respectively.

We are subject to periodic audits by state and local governments for taxes other than income taxes. We do not believe that the outcome of any such tax matters would have a material adverse effect on our consolidated financial position, results of operations, cash flows or our ability to conduct business.

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

As a result of a dispute over the proper interpretation of contract pricing terms, we have initiated a lawsuit against a state government customer seeking payment for certain technical services. Although the amount of the claim, based on three unpaid invoices, is only approximately $40,000, the resolution of the claim is expected to resolve the pricing interpretation dispute and could have significant implications for the contract going forward. While we are confident in our interpretation of the pricing terms, if the customer s interpretation prevails, given estimated future tasking over the five year term of the base contract and the two option years, we estimate that this could result in an aggregate loss on the contract of approximately $5 million to $50 million, with the lower end of the range more likely. We have not recorded a liability for this matter as of January 31, 2008.

In the normal conduct of our business, we seek to monetize our patent portfolio through licensing agreements. We have defended and will continue to defend our patent positions when we believe our patents have been infringed and are involved in such litigation from time to time. As described in Note 18 of the notes to consolidated financial statements, we sold our Telcordia subsidiary in fiscal 2006. Pursuant to the terms of the definitive stock purchase agreement, we will receive 50% of any net proceeds that Telcordia receives in the future in connection with the enforcement of certain patent rights.

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 period. Management evaluates these estimates and assumptions on an on-going basis. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

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We have several critical accounting policies that are both important to the portrayal of our financial condition and results of operations and require management s most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments complex and difficult have to do with making estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are as follows:

Revenue Recognition. Our revenues are primarily recognized using the percentage-of-completion method as discussed in Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Under the percentage-of-completion method, revenues are recognized based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimating total costs at completion. Estimating costs at completion on our long-term contracts, particularly due to the technical nature of the services being performed, is complex and involves significant judgment. Factors that must be considered in making estimates include labor productivity and availability, the nature and technical complexity of the work to be performed, potential performance delays, the availability and timing of funding from the customer, the progress toward completion and the recoverability of claims. Adjustments to original estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimates is made when facts develop, events become known or an adjustment is otherwise warranted, such as in the case of a contract modification. When estimates indicate that we will experience a loss on the contract, we recognize the estimated loss at the time it is determined. Additional information may subsequently indicate that the loss is more or less than initially recognized, which would require further adjustment in our financial statements. We have procedures and processes in place to monitor the actual progress of a project against estimates and our estimates are updated quarterly or more frequently if circumstances warrant.

Although our primary revenue recognition policy is the percentage-of-completion method, we do have contracts for which we use other acceptable methods to record revenue (see Note 1 of the notes to consolidated financial statements). Selecting the appropriate revenue recognition method involves judgment based on the contract and can be complex depending upon the structure and terms and conditions of the contract.

Costs incurred on projects accounted for under the percentage-of-completion method may be recognized as pre-contract costs and deferred as assets when we have been requested by the customer to begin work under a new arrangement. We record pre-contract costs when formal contracts have not yet been executed, and it is probable that we will recover the costs through the issuance of a contract. When the formal contract has been executed, the costs are recorded to the contract and revenue is recognized based on the percentage-of-completion method of accounting.

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.

Stock-Based Compensation. We account for stock-based compensation in accordance with SFAS No. 123(R), Share-Based Payment. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The estimation of stock option fair value requires management to make complex estimates and judgments about, among other things, employee exercise behavior, forfeiture rates, and the volatility of our common stock. These judgments directly affect the amount of compensation expense that will ultimately be recognized. As our common stock was not publicly-traded until October 13, 2006, the expected term of option awards granted is derived utilizing the simplified method presented in SEC Staff Accounting Bulletin Nos. 107 and 110, Share-Based Payment, and volatility is estimated based on a weighted average historical volatility of a group of publicly-traded, peer companies for a period consistent with the expected option term. We assumed weighted average volatilities of 26.8% and 33.4% for fiscal 2008 and 2007, respectively. All other assumptions held constant, a ten percentage point change in our fiscal 2008 volatility assumption would have increased or decreased the grant-date fair value of our fiscal 2008 option awards by approximately 23%.

Income Taxes. Provision for income taxes is recorded utilizing the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Under this method, changes in tax rates and laws are reflected in income in the period such changes are enacted. In addition, the provision for federal, state, foreign and local income taxes is calculated on reported financial statement income before income taxes based on current tax law and include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We also have recognized liabilities for uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. We recognize liabilities for uncertain tax positions on open

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tax years when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Our income taxes payable balance includes liabilities for uncertain tax positions. We have experienced years when liabilities for uncertain tax positions were settled for amounts different from recorded amounts as described in Note 13 of the notes to the consolidated financial statements. Including interest and penalties, we have liabilities for uncertain tax positions of $58 million at January 31, 2008, of which $32 million is classified as current income taxes payable on our consolidated balance sheet.

Recording our provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until final resolution of an examination by the IRS or State agencies. Additionally, recording liabilities for uncertain tax positions involves significant judgment in evaluating our tax positions and determining the amount of benefit to be recognized.

Business Combinations and Goodwill and Intangible Assets Impairment. We have engaged and expect to continue to engage in business acquisition activity. The accounting for business combinations requires management to make judgments and estimates of the fair value of assets acquired, including the identification and valuation of intangible assets, as well as the liabilities and contingencies assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with each acquisition.

Goodwill is assessed for impairment annually and whenever events or circumstances indicate a condition of impairment may exist. We perform our annual goodwill impairment assessment as of the beginning of the fourth quarter. The goodwill impairment test is a two-step process performed at the reporting unit level. The first step consists of estimating the fair values of each of the reporting units based on a combination of two valuation methods, a market approach and an income approach. Fair value computed using these two methods is determined using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable market data with a consistent industry grouping, and the cost of capital. The estimated fair values are compared with the carrying values of the reporting units, which include the allocated goodwill. If the fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit s identifiable assets and liabilities from its estimated fair value calculated in the first step. The impairment expense represents the excess of the carrying amount of the reporting units goodwill over the implied fair value of the reporting units goodwill. The goodwill impairment test process requires management to make significant judgments and assumptions, including revenue, profit and cash flow forecasts, about the business units to which goodwill is assigned. Misjudgments in this forecasting process could prevent management from taking an impairment charge when one may be required. Our goodwill impairment tests performed in fiscal years 2008, 2007, and 2006 did not result in any impairment of goodwill. The carrying value of goodwill as of January 31, 2008 was $1.08 billion.

Intangible assets with finite lives are evaluated for impairment whenever events or changes in circumstances indicate that a condition of impairment may exist. We did not recognize any impairment losses on intangible assets in fiscal 2008 and 2007. We recognized immaterial impairment losses on intangible assets in fiscal 2006. The carrying value of intangible assets as of January 31, 2008 was $102 million.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for us in the first quarter of fiscal 2009 and will be applied prospectively. Subsequent to the issuance of SFAS No. 157, the FASB issued FASB Staff Position No. FAS 157-1 and No. FAS 157-2, which exclude the lease classification measurements under SFAS No. 13 Accounting for Leases from the scope of SFAS No. 157 and delay the effective date on SFAS No. 157 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. We do not believe that the adoption of the provisions of SFAS No. 157 will materially impact our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (Including an Amendment of FASB Statement No. 115). SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. Most of the provisions in SFAS No. 159 are elective. This statement is effective for us in the first quarter of fiscal 2009 and may be applied prospectively. We do not intend to adopt the elective provisions of this statement.

In December 2007, the FASB issued SFAS No. 141(R) Business Combinations. SFAS No. 141(R) changes the requirements for an acquirer s recognition and measurement of the assets acquired and liabilities assumed in a business combination. This statement is effective for us with respect to all business combinations for which the acquisition date is after January 31, 2009. Adoption is not expected to materially impact our consolidated financial position or results of operations directly when it becomes effective, as the only impact that the statement will have on recorded amounts at that time is that related to disposition of uncertain tax positions related to prior acquisitions. Following the date of adoption of the statement, the resolution of such items at values that differ from recorded amounts will be adjusted through earnings, rather than through goodwill. Adoption of this statement is, however, expected to have significant effect on how acquisition transactions subsequent to January 31, 2009 are reflected in the financial statements.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements (an amendment of ARB No. 51). SFAS No. 160 requires that noncontrolling (minority) interests be reported as a component of equity, that net income attributable to the parent and to the noncontrolling interest be separately identified in the income statement, that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. This statement is effective for us as of February 1, 2009, and shall be applied prospectively except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. As of January 31, 2008, we do not have any consolidated subsidiaries in which there is a noncontrolling interest. The retrospective presentation and disclosure requirements of this statement will be applied to any prior periods presented in financial statements for the fiscal year ending January 31, 2010 and later periods during which we had a consolidated subsidiary with a noncontrolling interest.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (an amendment of FASB Statement No. 133). SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities and their effects on an entity s financial position, financial performance, and cash flows. The requirements of this statement are effective for us in the first quarter of fiscal 2010. Since this statement only pertains to disclosures in the notes to consolidated financial statements, it will not impact our consolidated financial position and results of operations.

Effects of Inflation

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

Item 8. *Financial Statements and Supplementary Data*

See our consolidated financial statements attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 31, 2008.

Item 9A. *Controls and Procedures*

Restatement of Financial Statements

As discussed elsewhere in this Amendment No.1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 31, 2008, we have restated our previously issued consolidated financial statements as of January 31, 2008 and 2007 and for the years ended January 31, 2008, 2007 and 2006. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Restatement contained in the notes to consolidated financial statements in Item 8 for more detailed information regarding the restatement.

In connection with this restatement, under the direction of our chief executive officer and chief financial officer, we reevaluated our disclosure controls and procedures and internal control over financial reporting. Based on our re-evaluation, we reconfirmed our previous conclusion that our disclosure controls and procedures and internal control over financial reporting were effective as of January 31, 2008.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer (our Chairman and Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of January 31, 2008, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities 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 Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes In Internal Control Over Financial Reporting

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

During the year ended January 31, 2008, our corporate operations and two of our twenty operating business units (representing approximately 10% of total consolidated revenues on a full year basis) were migrated to the new system. This migration did not materially affect our internal control over financial reporting because of the relatively low level of activity being performed in the new system. This phased implementation will materially affect our internal control over financial reporting. There have been no changes in our internal control over financial reporting that occurred in the fourth quarter of the annual period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report On Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness, as of January 31, 2008, of our internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has assessed in its evaluation the effectiveness of our internal control over financial reporting as of January 31, 2008 and has concluded that our internal control over financial reporting as of that date was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, audited our consolidated financial statements included in this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K and our internal control over financial reporting, and that firm s report on our internal control over financial reporting is set forth below.

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

SAIC, Inc.

San Diego, CA

We have audited the internal control over financial reporting of SAIC, Inc. and subsidiaries (the Company) as of January 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended January 31, 2008, of the Company and our report dated March 25, 2008, (August 29, 2008 as to the effects of the restatement discussed in Note 2), expressed an unqualified opinion on those financial statements and included explanatory paragraphs for the adoption of new accounting standards relating to share-based payment and defined benefit pension obligations and the restatement.

/s/ DELOITTE & TOUCHE LLP

San Diego, California

March 25, 2008

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

(a) Documents filed as part of the report:

1. *Financial Statements*

Our consolidated financial statements are attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 31, 2008.

2. *Financial Statement Schedules*

Financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

3. *Exhibits*

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, as amended and restated as of July 24, 2006, by and among Science Applications International Corporation, Registrant and SAIC Merger Sub, Inc. Incorporated by reference to Exhibit 2.1 to Registrant s Post-Effective Amendment No. 3 to Form S-4 Registration Statement No. 333-128022, filed on July 25, 2006.
3.1	Restated Certificate of Incorporation of Registrant. Incorporated by reference to Exhibit 3.2 to Registrant s Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2007 as filed December 11, 2007 with the SEC.
3.2	Restated Bylaws of Registrant. Incorporated by reference to Exhibit 3.3 to Registrant s Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2007 as filed December 11, 2007 with the SEC.
4.1	Form of Indenture between Science Applications International Corporation and The Chase Manhattan Bank, as Trustee. Incorporated by reference to Exhibit 4.1 to Science Applications International Corporation s Amendment No. 1 to Form S-3 Registration No. 333-37117 filed on November 19, 1997.
4.2	Indenture dated June 28, 2002 between Science Applications International Corporation and JPMorgan Chase Bank, as trustee. Incorporated by reference to Exhibit 4.2 to Science Applications International Corporation s Current Report on Form 8-K as filed July 3, 2002 with the SEC. SEC File No: 0-12771.
4.3	First Supplemental Indenture, dated October 13, 2006, by and among Science Applications International Corporation, Registrant and The Bank of New York Trust Company, N.A., as successor trustee to JPMorgan Chase f/k/a The Chase Manhattan Bank. Incorporated by reference to Exhibit 4.1 to Registrant s Current Report on Form 8-K as filed October 17, 2006 with the SEC.
4.4	First Supplemental Indenture, dated October 13, 2006, by and among Science Applications International Corporation, between Registrant and The Bank of New York Trust Company, N.A., as successor trustee to JPMorgan Chase Bank, N.A. Incorporated by reference to Exhibit 4.2 to Registrant s Current Report on Form 8-K as filed October 17, 2006 with the SEC.
10.1	Assignment and Assumption Agreement, dated October 16, 2006, between Registrant and Science Applications International Corporation. Incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K as filed October 17, 2006 with the SEC.

10.2	Guaranty of Registrant in favor of Citicorp USA, Inc, in its capacity as administrative agent, and other lenders. Incorporated by reference to Exhibit 10.2 to Registrant s Current Report on Form 8-K as filed October 17, 2006 with the SEC.
10.3*	Registrant s 2006 Equity Incentive Plan (as amended June 8, 2007). Incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K as filed on June 14, 2007 with the SEC.
10.4*	Science Applications International Corporation s Stock Compensation Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.3 to Science Applications International Corporation s Current Report on Form 8-K as filed on April 3, 2006 with the SEC.
10.5*	Science Applications International Corporation s Management Stock Compensation Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.2 to Science Applications International Corporation s Current Report on Form 8-K as filed on April 3, 2006 with the SEC.
10.6*	Science Applications International Corporation s Keystaff Deferral Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.4 to Science Applications International Corporation s Current Report on Form 8-K as filed on April 3, 2006 with the SEC.

PART IV

Exhibit Number	Description of Exhibit
10.7*	Science Applications International Corporation s Key Executive Stock Deferral Plan, as amended and restated effective January 1, 2005. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation s Current Report on Form 8-K as filed March 1, 2006 with the SEC.
10.8*	Registrant s 2006 Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.25 to Registrant s Post-Effective Amendment No. 3 to Form S-4 Registration Statement No. 333-128022, filed on July 25, 2006.
10.9*	Form of Stock Award Agreement of Registrant s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.3 to Registrant s Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2006 as filed on December 13, 2006 with the SEC.
10.10*	Form of Nonstatutory Stock Option Agreement of Registrant s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.2 to Registrant s Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2006 as filed on December 13, 2006 with the SEC.
10.11*	Form of Stock Award Agreement (Non-Employee Directors) of Registrant s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.11 to Registrant s original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
10.12*	Form of Nonstatutory Stock Option Agreement (Non-Employee Directors) of Registrant s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.12 to Registrant s original Annual Report on Form 10-K for the fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
10.13*	Science Applications International Corporation s 1999 Stock Incentive Plan, as amended through August 15, 1999. Incorporated by reference to Exhibit 10(e) to Science Applications International Corporation s Annual Report on Form 10-K for the fiscal year ended January 31, 2000. SEC File No: 0-12771.
10.14*	Science Applications International Corporation s Bonus Compensation Plan, as restated effective July 9, 1999. Incorporated by reference to Annex III to Science Applications International Corporation s Proxy Statement for the 1999 Annual Meeting of Stockholders as filed April 29, 1999 with the SEC. SEC File No: 0-12771.
10.15	Five Year Credit Agreement, dated June 6, 2006, by and among Science Applications International Corporation, Citicorp USA, Inc., as administrative agent, Wachovia Bank, National Association, as syndication agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation s Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2006 as filed on June 9, 2006 with the SEC.
10.16	Letter Amendment, dated effective August 23, 2006, to Five Year Credit Agreement, dated June 6, 2006, by and among Science Applications International Corporation, Citicorp USA, Inc., as administrative agent, Wachovia Bank, National Association, as syndication agent, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation s Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2006 as filed on September 5, 2006 with the SEC.
10.17*	Letter Amendment No. 2, dated effective July 31, 2007, to Five Year Credit Agreement, dated June 6, 2006, by and among Science Applications International Corporation, Citicorp USA, Inc., as administrative agent, Wachovia Bank, National Association, as syndication agent, and other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K as filed on August 1, 2007 with the SEC.
10.18*	Employment Agreement dated October 3, 2003, between Kenneth C. Dahlberg and Science Applications International Corporation. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation s Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2003 as filed on December 12, 2003 with the SEC.
10.19*	Stock Offer Letter dated October 3, 2003, to Kenneth C. Dahlberg from Science Applications International Corporation. Incorporated by reference to Exhibit 10.2 to Science Applications International Corporation s Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2003 as filed on December 12, 2003 with the SEC.

10.20	Stock Purchase Agreement between Science Applications International Corporation and TTI Holding Corporation dated as of November 17, 2004, as amended on February 14, 2005 and March 11, 2005. Incorporated by reference to Exhibit 99.1 to Science Applications International Corporation s Current Report on Form 8-K as filed on March 21, 2005 with the SEC.
10.21*	Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2007 as filed on June 7, 2007 with the SEC.
10.22*	Form of Severance Protection Agreement. Incorporated by reference to Exhibit 10.1 to Registrant s Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2006 as filed on December 13, 2006 with the SEC.
10.23*	Employment Letter Agreement between Science Applications International Corporation and Mark Sopp, dated as of November 17, 2005. Incorporated by reference to Exhibit 10.1 to Science Applications International Corporation s Current Report on Form 8-K as filed on November 28, 2005 with the SEC.

PART IV

Exhibit Number	Description of Exhibit
10.24*	Stock Offer Letter dated November 14, 2005 to Mark Sopp from Science Applications International Corporation. Incorporated by reference to Exhibit 10.2 to Science Applications International Corporation s Current Report on Form 8-K as filed on November 28, 2005 with the SEC.
14	Registrant s Code of Ethics for Principal Executive Officer and Senior Financial Officers. Incorporated by reference to Exhibit 14 to Science Applications International Corporation s Annual Report on Form 10-K for the fiscal year ended January 31, 2004 as filed with the SEC on April 16, 2004.
18.1	Letter dated March 25, 2008 from Deloitte & Touche LLP regarding change in Accounting Principle. Incorporated by reference to Exhibit 18.1 to Registrant s original Annual Report on Form 10-K for fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
21	Subsidiaries of Registrant. Incorporated by reference to Exhibit 21 to Registrant s original Annual Report on Form 10-K for fiscal year ended January 31, 2008 as filed with the SEC on March 28, 2008.
23.1	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
31.1	Certification of Chief Executive Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Executive Compensation Plans and Arrangements

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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.

SAIC, Inc.

By /s/ KENNETH C. DAHLBERG

Kenneth C. Dahlberg

Chairman of the Board and Chief Executive Officer

Dated: September 2, 2008

SAIC, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Financial statement schedules are omitted because they are not applicable or the required information is presented in the consolidated financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

SAIC, Inc.

San Diego, CA

We have audited the accompanying consolidated balance sheets of SAIC, Inc. and subsidiaries (the Company) as of January 31, 2008 and 2007, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended January 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SAIC, Inc. and subsidiaries as of January 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company changed its method of accounting for the adoption of SFAS No. 123(R), *Share-Based Payment*, effective February 1, 2006, and its method of accounting for the adoption of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,* effective January 31, 2007.

As discussed in Note 2, the accompanying consolidated financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2008, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

San Diego, California

March 25, 2008 (August 29, 2008 as to the effects of the restatement discussed in Note 2)

SAIC, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended January 31		
	2008	2007 As Restated (see Note 2)	2006
	(in millions, except per share amounts)		
Revenues	**$ 8,935**	$ 8,061	$ 7,518
Costs and expenses:			
Cost of revenues	**7,698**	6,974	6,568
Selling, general and administrative expenses	**571**	515	480
Operating income	**666**	572	470
Non-operating income (expense):			
Interest income	**56**	116	96
Interest expense	**(90)**	(92)	(88)
Minority interest in income of consolidated subsidiaries	**(3)**	(5)	(3)
Other income (expense), net	**(3)**	5	(7)
Income from continuing operations before income taxes	**626**	596	468
Provision for income taxes	**240**	231	133
Income from continuing operations	**386**	365	335
Discontinued operations (Note 18):			
Income from discontinued operations before minority interest in income of consolidated subsidiaries and income taxes (including net gain on sales of $34 million, $19 million and $871 million in fiscal 2008, 2007 and 2006, respectively)	**40**	40	902
Minority interest in income of consolidated subsidiaries	**(2)**	(9)	(11)
Provision for income taxes	**8**	6	307
Income from discontinued operations	**30**	25	584
Net income	**$ 416**	$ 390	$ 919
Earnings per share:			
Basic:			
Income from continuing operations	**$ .96**	$ 1.04	$ .96
Income from discontinued operations	**.07**	.07	1.68
	$ 1.03	$ 1.11	$ 2.64
Diluted:			
Income from continuing operations	**$ .93**	$ 1.00	$ .93
Income from discontinued operations	**.07**	.07	1.63
	$ 1.00	$ 1.07	$ 2.56
Weighted average shares outstanding:			
Basic	**404**	352	348
Diluted	**417**	364	359

See accompanying notes to consolidated financial statements.

SAIC, INC.

CONSOLIDATED BALANCE SHEETS

	January 31	
	2008	2007 As Restated (see Note 2)
	&nbs	