SAIC, Inc.
Form 10-Q
December 09, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2010

or

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

Commission file number: 001-33072

SAIC, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-3562868**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1710 SAIC Drive, McLean, Virginia	**22102**
(Address of principal executive offices)	**(Zip Code)**

(703) 676-4300

(Registrant s telephone number, including area code)

N/A

(Former name, former address and

former fiscal year, if changed since last report)

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

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

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

Large accelerated filer 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 November 26, 2010 the registrant had 371,816,623 shares of common stock, $.0001 par value per share, issued and outstanding.

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	October 31		October 31	
	2010	2009	**2010**	2009
	(in millions, except per share amounts)			
Revenues	**$ 2,869**	$ 2,765	**$ 8,348**	$ 8,163
Costs and expenses:				
Cost of revenues	**2,481**	2,378	**7,221**	7,042
Selling, general and administrative expenses	**130**	154	**389**	463
Operating income	**258**	233	**738**	658
Non-operating income (expense):				
Interest income		1	**1**	2
Interest expense	**(19)**	(19)	**(56)**	(57)
Other income, net	**7**	2	**5**	5
Income from continuing operations before income taxes	**246**	217	**688**	608
Provision for income taxes	**(92)**	(82)	**(251)**	(231)
Income from continuing operations	**154**	135	**437**	377
Discontinued operations (Note 1):				
Income (loss) from discontinued operations before income taxes	**26**	(1)	**77**	(5)
Benefit (provision) for income taxes	**(8)**	1	**(28)**	2
Income (loss) from discontinued operations	**18**		**49**	(3)
Net income	**$ 172**	$ 135	**$ 486**	$ 374
Earnings per share (Note 2):				
Basic:				
Income from continuing operations	**$ .42**	$ .34	**$ 1.16**	$ .94
Income from discontinued operations	**.04**		**.13**	
	$ .46	$ .34	**$ 1.29**	$ .94
Diluted:				
Income from continuing operations	**$ .41**	$ .34	**$ 1.15**	$ .93
Income from discontinued operations	**.05**		**.13**	
	$ .46	$ .34	**$ 1.28**	$ .93

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	October 31, 2010	January 31, 2010
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 644	$ 861
Receivables, net	2,203	2,044
Inventory, prepaid expenses and other current assets	324	288
Total current assets	3,171	3,193
Property, plant and equipment (less accumulated depreciation and amortization of $397 million and $383 million at October 31, 2010 and January 31, 2010, respectively)	361	389
Intangible assets, net	216	106
Goodwill	1,688	1,434
Deferred income taxes	36	103
Other assets	66	70
	$ 5,538	$ 5,295
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,182	$ 1,191
Accrued payroll and employee benefits	618	512
Income taxes payable	4	
Notes payable and long-term debt, current portion	3	3
Total current liabilities	1,807	1,706
Notes payable and long-term debt, net of current portion	1,101	1,103
Other long-term liabilities	145	195
Commitments and contingencies (Notes 9 and 10)		
Stockholders equity:		
Common stock, $.0001 par value, 2 billion shares authorized, 372 million and 388 million shares issued and outstanding at October 31, 2010 and January 31, 2010, respectively		
Additional paid-in capital	2,112	2,096
Retained earnings	410	239
Accumulated other comprehensive loss	(37)	(44)
Total stockholders equity	2,485	2,291
	$ 5,538	$ 5,295

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(UNAUDITED)

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total	Comprehensive income
			(in millions)			
Balance at January 31, 2010	388	$ 2,096	$ 239	$ (44)	$ 2,291	
Net income			486		486	$ 486
Other comprehensive income, net of tax				7	7	7
Issuances of stock	9	66			66	
Repurchases of stock	(25)	(141)	(315)		(456)	
Excess tax benefits from stock-based compensation		13			13	
Stock-based compensation		78			78	
Balance at October 31, 2010	**372**	**$ 2,112**	**$ 410**	**$ (37)**	**$ 2,485**	**$ 493**

See accompanying notes to condensed consolidated financial statements.

SAIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended October 31	
	2010	2009
	(in millions)	
Cash flows from operations:		
Net income	**$ 486**	$ 374
Loss (income) from discontinued operations	**(49)**	3
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	**80**	68
Stock-based compensation	**78**	80
Excess tax benefits from stock-based compensation	**(13)**	(16)
Impairment losses	**2**	1
Other items	**(2)**	(2)
Increase (decrease) in cash and cash equivalents, excluding effects of acquisitions and divestitures, resulting from changes in:		
Receivables	**(142)**	(212)
Inventory, prepaid expenses and other current assets	**30**	63
Deferred income taxes	**3**	2
Other assets	**4**	4
Accounts payable and accrued liabilities	**(24)**	7
Accrued payroll and employee benefits	**110**	136
Income taxes payable	**9**	12
Other long-term liabilities	**(8)**	2
Total cash flows provided by operations	**564**	522
Cash flows from investing activities:		
Expenditures for property, plant and equipment	**(53)**	(46)
Acquisitions of businesses, net of cash acquired of $10 million in fiscal 2011 and $7 million in fiscal 2010	**(358)**	(157)
Net receipts for purchase price adjustments related to prior year acquisitions		8
Other	**6**	8
Total cash flows used in investing activities	**(405)**	(187)
Cash flows from financing activities:		
Payments on notes payable and long-term debt	**(2)**	(17)
Sales of stock and exercises of stock options	**30**	46
Repurchases of stock	**(448)**	(331)
Excess tax benefits from stock-based compensation	**13**	16
Total cash flows used in financing activities	**(407)**	(286)
Increase (decrease) in cash and cash equivalents from continuing operations	**(248)**	49
Cash flows from discontinued operations:		
Cash used in operating activities of discontinued operations	**(22)**	(1)
Cash provided by investing activities of discontinued operations	**54**	
Increase (decrease) in cash and cash equivalents from discontinued operations	**32**	(1)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(1)**	7
Total increase (decrease) in cash and cash equivalents	**(217)**	55
Cash and cash equivalents at beginning of period	**861**	936
Cash and cash equivalents at end of period	**$ 644**	$ 991

See accompanying notes to condensed consolidated financial statements.

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SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 Summary of Significant Accounting Policies:

Nature of Operations and Basis of Presentation

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

The condensed consolidated financial statements include the accounts of SAIC, Inc. and all majority-owned and 100%-owned subsidiaries (collectively referred to as the Company), including Science Applications International Corporation. All intercompany transactions and accounts have been eliminated in consolidation.

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

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

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

Discontinued Operations

The Company s results of discontinued operations for the three and nine months ended October 31, 2010 and 2009 relate primarily to the Company s former subsidiary Telcordia Technologies, Inc. (Telcordia). In March 2001, Telcordia instituted arbitration proceedings against a customer, Telkom South Africa, as a result of a contract dispute. Pursuant to the definitive stock purchase agreement for the fiscal 2006 sale of Telcordia, the Company was entitled to receive the net proceeds from any settlement after deduction for tax liabilities incurred by Telcordia. In July 2010, Telcordia and Telkom South Africa settled all claims related to these arbitration proceedings. Under the settlement, Telkom South Africa paid $80 million plus amounts for value added taxes (VAT). During the three months ended October 31, 2010, the Company and Telcordia executed an agreement which resolved matters related to the Telkom South Africa settlement and certain other contingencies related to the fiscal 2006 sale of Telcordia. The Company recorded after-tax gains of $18 million and $49 million in discontinued operations related to these actions during the three and nine months ended October 31, 2010, respectively.

Revenue Recognition Accounting Change

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

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

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(UNAUDITED)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Selling, General and Administrative Expenses

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

Supplementary Cash Flow Information

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

	Nine Months Ended October 31	
	2010	2009
	(in millions)	
Stock exchanged upon exercise of stock options	**$ 32**	$ 81
Stock issued for settlement of accrued employee benefits	**$ 4**	$ 3
Decrease in accrued stock repurchases	**$ (24)**	$
Fair value of assets acquired in acquisitions	**$ 445**	$ 198
Less: cash paid in acquisitions, net of cash acquired of $10 million in fiscal 2011 and $7 million in fiscal 2010	**(358)**	(157)
Liabilities assumed in acquisitions	**$ 87**	$ 41
Cash paid for interest	**$ 35**	$ 35
Cash paid for income taxes	**$ 246**	$ 185

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Accounting Standards Updates Issued But Not Yet Adopted

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

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

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

Note 2 Earnings Per Share (EPS):

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

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2010	2009	**2010**	2009
	(in millions)			
Income from continuing operations, as reported	**$ 154**	$ 135	**$ 437**	$ 377
Less: allocation of undistributed earnings to unvested stock awards	**(5)**	(4)	**(14)**	(12)
Income from continuing operations, for computing EPS	**$ 149**	$ 131	**$ 423**	$ 365
Net income, as reported	**$ 172**	$ 135	**$ 486**	$ 374
Less: allocation of undistributed earnings to unvested stock awards	**(6)**	(4)	**(15)**	(12)
Net income, for computing EPS	**$ 166**	$ 131	**$ 471**	$ 362

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2010	2009	**2010**	2009
	(in millions)			
Basic weighted average number of shares outstanding	**359**	384	**366**	387
Dilutive common share equivalents stock options	**1**	4	**2**	4
Diluted weighted average number of shares outstanding	**360**	388	**368**	391

SAIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2010	2009	**2010**	2009
Basic:				
Income from continuing operations	**$ .42**	$ .34	**$ 1.16**	$ .94
Income from discontinued operations	**.04**		**.13**	
	$ .46	$ .34	**$ 1.29**	$ .94
Diluted:				
Income from continuing operations	**$ .41**	$ .34	**$ 1.15**	$ .93
Income from discontinued operations	**.05**		**.13**	
	$ .46	$ .34	**$ 1.28**	$ .93

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2010	2009	**2010**	2009
	(in millions)			
Antidilutive stock options excluded	**20**	11	**20**	11
Performance-based stock awards excluded	**1**	1	**1**	1
Weighted average number of unvested stock awards outstanding excluded	**13**	13	**12**	13

Note 3 Stock-Based Compensation:

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2010	2009	**2010**	2009
	(in millions)			
Stock options	**$ 5**	$ 8	**$ 16**	$ 24
Vesting stock awards	**21**	20	**58**	54
Performance-based stock awards	**1**	1	**4**	2
Total stock-based compensation expense	**$ 27**	$ 29	**$ 78**	$ 80

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

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

The weighted average grant-date fair value of stock options granted during the nine months ended October 31, 2010 and 2009 using the Black-Scholes option-pricing model was $3.96 and $4.79, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Stock option activity for the nine months ended October 31, 2010 was as follows:

	Shares of stock under stock options (in millions)	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding at January 31, 2010	31.6	$ 16.26	2.0	$ 66
Options granted	5.3	17.44		
Options forfeited or expired	(1.7)	16.07		
Options exercised	(6.8)	13.90		32
Outstanding at October 31, 2010	**28.4**	**17.05**	**2.2**	**8**
Exercisable at October 31, 2010	**14.7**	**16.12**	**1.1**	**8**

Vesting Stock Awards. Vesting stock award activity for the nine months ended October 31, 2010 was as follows:

	Shares of stock under stock awards (in millions)	Weighted average grant-date fair value
Unvested at January 31, 2010	12.1	$ 18.60
Awards granted	4.4	17.41
Awards forfeited	(0.9)	18.13
Awards vested	(3.5)	19.14
Unvested at October 31, 2010	**12.1**	**18.05**

The fair value of vesting stock awards that vested during the nine months ended October 31, 2010 and 2009 was $62 million and $53 million, respectively.

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

	Expected number of shares of stock to be issued under performance-based stock awards (in millions)	Weighted average grant-date fair value
Outstanding at January 31, 2010	0.6	$ 18.35
Awards granted	0.6	17.45

Awards forfeited	(0.1)	18.12
Outstanding at October 31, 2010	**1.1**	**17.89**

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

Note 4 Acquisitions:

Cloudshield Technologies, Inc. On February 5, 2010, the Company acquired all of the outstanding equity interests of Cloudshield Technologies, Inc., a provider of cyber security and management solutions services, for $140 million in cash (net of cash acquired of $1 million). The preliminary purchase price is subject to contractual adjustments. This acquisition enhances the Company s cyber security offerings and positions the Company to bring to market deep packet inspection solutions for high speed networks, enabling it to better meet emerging customer requirements. The preliminary purchase price allocation resulted in goodwill of $114 million and identifiable intangible assets of $41 million (neither of which are tax deductible). Identifiable intangible assets consisted of finite-lived intangible assets of $24 million (amortizable over a weighted average life of four years) and in-process research and development intangible assets of $17 million that will become amortizable upon completion of the related technology. The Company has not yet obtained all of the information required to complete the purchase price allocations related to this acquisition. The final purchase price allocation will be completed after the information identified by the Company has been received.

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Reveal Imaging Technologies, Inc. On August 13, 2010, the Company acquired all of the outstanding equity interests of Reveal Imaging Technologies, Inc., a provider of threat detection products and services, for $218 million in cash (net of cash acquired of $9 million). The preliminary purchase price is subject to contractual adjustments. This acquisition enhances the Company s existing homeland security solutions portfolio by adding U.S. Transportation Security Administration approved explosive detection systems for baggage screening to its passenger and cargo inspection systems product offerings. The preliminary purchase price allocation resulted in goodwill of $139 million and identifiable intangible assets of $97 million (neither of which are tax deductible). Identifiable intangible assets consisted of finite-lived intangible assets of $87 million (amortizable over a weighted average life of eight years) and in-process research and development intangible assets of $10 million that will become amortizable upon completion of development of the related technology. The Company has not yet obtained all of the information required to complete the purchase price allocations related to this acquisition. The final purchase price allocation will be completed after the information identified by the Company has been received.

Subsequent Event. Subsequent to October 31, 2010, the Company acquired technology, intellectual property and related assets from three affiliated companies (AppTek Partners, LLC, Applications Technology, Inc. and MediaMind, LLC) that develop human language technologies for a preliminary purchase price of $24 million in cash and up to $12 million in additional contingent consideration. The acquired technology and assets enhance the Company s existing capabilities and offerings in translation, interpretation and analysis services.

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

Note 5 Goodwill and Intangible Assets:

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

	Government	Commercial (in millions)	Total
Goodwill at January 31, 2010	$ 1,403	$ 31	$ 1,434
Acquisitions	253		253
Foreign currency translation Adjustments	1		1
Goodwill at October 31, 2010	**$ 1,657**	**$ 31**	**$ 1,688**

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

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

	October 31, 2010			January 31, 2010		
	Gross carrying value	**Accumulated amortization**	**Net carrying value**	Gross carrying value	Accumulated amortization	Net carrying value
			(in millions)			
Finite-lived intangible assets:						
Customer relationships	**$ 126**	**$ 64**	**$ 62**	$ 119	$ 48	$ 71
Software and technology	**160**	**41**	**119**	58	31	27

Other	**2**	**1**	**1**	2	1	1
Total finite-lived intangible assets	**288**	**106**	**182**	179	80	99
Indefinite-lived intangible assets:						
In-process research and development	**30**		**30**	3		3
Trade names	**4**		**4**	4		4
Total indefinite-lived intangible assets	**34**		**34**	7		7
Total intangible assets	**$ 322**	**$ 106**	**$ 216**	$ 186	$ 80	$ 106

Amortizable intangible assets with a gross carrying value of $3 million became fully amortized during the nine months ended October 31, 2010 and are no longer reflected in the gross carrying value after becoming fully amortized. Amortization expense related to amortizable intangible assets was $12 million and $29 million for the three and nine months ended October 31, 2010, respectively, and $7 million and $20 million for the three and nine months ended October 31, 2009, respectively.

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

The estimated annual amortization expense related to finite-lived intangible assets as of October 31, 2010 was as follows (in millions):

Fiscal Year Ending January 31	
2011 (remainder of the fiscal year)	$ 11
2012	39
2013	31
2014	27
2015	18
2016 and thereafter	56
	$ 182

Actual amortization expense in future periods could differ from these estimates as a result of future acquisitions, divestitures, impairments, the outcome and timing of completion of in-process research and development projects (the assets of which will become amortizable upon completion and placement into service, or will be impaired if abandoned), adjustments to preliminary valuations of intangible assets and other factors.

Note 6 Financial Instruments:

The Company had cash and cash equivalents of $644 million as of October 31, 2010. The Company s cash equivalents were primarily comprised of investments in several large institutional money market funds that invest primarily in bills, notes and bonds issued by the U.S. Treasury, U.S. Government guaranteed repurchase agreements fully collateralized by U.S. Treasury obligations, U.S. Government guaranteed securities and investment-grade corporate securities. The Company s cash equivalents are recorded at historical cost which equals fair value based on quoted market prices (Level 1 input as defined by the accounting standard for fair value measurements).

The Company utilizes foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers, payments to suppliers and certain intercompany transactions denominated in currencies other than the Company s (or one of its subsidiaries) functional currency. As of October 31, 2010, outstanding foreign currency forward contracts had an aggregate notional amount of $13 million with an immaterial fair value. Since the foreign currency forward contracts do not qualify as cash flow hedges in accordance with the accounting standard for derivative and hedging instruments, gains and losses are recognized in earnings immediately. During the three and nine months ended October 31, 2010 and 2009, the Company recognized a net gain from foreign currency forward contracts (included in other income, net) of $1 million. The Company does not use derivatives for trading or speculative purposes.

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

	October 31, 2010	January 31, 2010
	(in millions)	
$550 million 6.25% notes due fiscal 2013	$ 550	$ 549
$300 million 5.5% notes due fiscal 2034	296	296
$250 million 7.125% notes due fiscal 2033	248	248
Capital leases and other notes payable	10	13
	1,104	1,106

Less: current portion	**3**	3
Total	**$ 1,101**	$ 1,103

The fair value of notes payable and long-term debt was $1.19 billion and $1.16 billion as of October 31, 2010 and January 31, 2010, respectively. The fair value of long-term debt is determined based on interest rates available for debt with terms and maturities similar to the Company s existing debt arrangements (Level 2 input as defined by the accounting standard for fair value measurements).

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

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Note 7 Comprehensive Income and Accumulated Other Comprehensive Loss:

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2010	2009	**2010**	2009
	(in millions)			
Net income	**$ 172**	$ 135	**$ 486**	$ 374
Other comprehensive income:				
Foreign currency translation adjustments	**2**	1	**(1)**	16
Deferred taxes	**(1)**			(5)
Foreign currency translation adjustments, net of tax	**1**	1	**(1)**	11
Reclassification of realized loss on settled derivative instruments to net income			**1**	
Deferred taxes				
Reclassification of realized loss on settled derivative instruments to net income, net of tax			**1**	
Pension liability adjustment			**10**	(5)
Deferred taxes		(1)	**(3)**	1
Pension liability adjustment, net of tax		(1)	**7**	(4)
Total other comprehensive income, net of tax	**1**		**7**	7
Comprehensive income	**$ 173**	$ 135	**$ 493**	$ 381

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

The components of accumulated other comprehensive loss were as follows:

	October 31, 2010	January 31, 2010
	(in millions)	
Foreign currency translation adjustments, net of taxes of $2 million as of October 31, 2010 and January 31, 2010	**$ (3)**	$ (2)
Unrecognized net loss on settled derivative instruments associated with outstanding debt, net of taxes of $4 million as of October 31, 2010 and January 31, 2010	**(5)**	(6)
Unrealized loss on defined benefit plan, net of taxes of $11 million and $14 million as of October 31, 2010 and January 31, 2010, respectively	**(29)**	(36)
Total accumulated other comprehensive loss, net of taxes of $17 million and $20 million as of October 31, 2010 and January 31, 2010, respectively	**$ (37)**	$ (44)

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

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Note 8 Business Segment Information:

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2010	2009	**2010**	2009
	(in millions)			
Revenues:				
Government segment	**$ 2,778**	$ 2,649	**$ 8,062**	$ 7,819
Commercial segment	**93**	118	**291**	349
Intersegment elimination	**(2)**	(2)	**(5)**	(5)
Total revenues	**$ 2,869**	$ 2,765	**$ 8,348**	$ 8,163
Operating income (loss):				
Government segment	**$ 252**	$ 222	**$ 735**	$ 643
Commercial segment	**8**	12	**11**	31
Corporate and Other segment	**(2)**	(1)	**(8)**	(16)
Total operating income	**$ 258**	$ 233	**$ 738**	$ 658

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

Note 9 Legal Proceedings:

National Center for Critical Information Processing and Storage Contract

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

The Company cooperated with the government s investigation of this matter since the government initially contacted the Company in September 2006. The Company also conducted its own internal review of the allegations made by the government. Based on the Company s internal review, discussions with the government and the results of discovery, the Company believes the government s claims lack merit and intends to vigorously defend itself against the allegations raised in the complaint. Discovery in the case concluded as of November 2010. The Company and each of the co-defendants have filed pending motions for summary judgment on various grounds. The court has set the case for trial in April

2011. Due to the complex nature of the legal and factual issues involved in this case, the outcome is uncertain. The Company has recorded a liability for an insignificant amount related to this matter as of October 31, 2010. However, there is a reasonable possibility of additional exposure to loss estimated to be up to approximately $230 million, representing the amount of the trebling of the claim for damages minus the value received by the customer, plus penalties. As the case progresses, many factors will affect the ultimate amount of the potential loss if the Company is not successful in its defense of this lawsuit, including the outcome of pre-trial motions, and the court s rulings on certain legal issues, such as the applicable measure of damages. An adverse outcome could have a material adverse effect on the Company s consolidated financial position, results of operations and cash flows.

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Greek Government Contract

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

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

In November 2008, the Customer accepted the System in writing pursuant to the requirements of the modified contract. At the time, the Customer determined that the System substantially complied with the terms of the contract and accepted the System with certain alleged minor omissions and deviations. The Customer valued the omissions and deviations at $29 million, and the modified contract established a process for negotiating the final amount of the omissions and deviations. Approximately $1 million of this amount relates to work performed directly by the Company and the balance relates to work performed by the Company s subcontractors. Upon System acceptance, the Company invoiced the Customer for approximately $19 million, representing the undisputed portion of the contract balance owed to the Company. The Customer has not paid this final invoice or reduced the advance payment and performance bonds as required by the modified contract, and has refused to initiate the contractually required process to resolve the remaining alleged omissions and deviations.

In June 2009, the Company initiated arbitration before the International Chamber of Commerce against the Customer seeking redress for these breaches of contract by the Customer. Under the terms of the Greek contract, disputes are subject to ultimate resolution by binding arbitration in Greece before a panel of three Greek arbitrators. In December 2009, the arbitration panel was selected. The Company seeks (i) aggregate damages in excess of $98 million for payment of amounts owed and other claims and damages, (ii) recovery of advance payment and performance bond amounts totaling $26 million and (iii) costs and expenses associated with the arbitration. The Customer filed an answer to the complaint denying liability on various grounds. In April 2010, the Customer filed a supplementary answer asserting set-off claims against amounts sought by the Company and issued a letter purporting to disapprove of its November 2008 acceptance of the System. Due to the complex nature of the legal and factual issues involved, the outcome of the arbitration is uncertain.

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

The Company has $17 million of receivables relating to VAT as of October 31, 2010 that the Company has paid and believes it is entitled to recover either as a refund from the taxing authorities or as a payment under the Greek contract. The Company has invoiced the Customer for $35 million for VAT and the Customer has failed to make payment. If the Customer fails to pay the outstanding VAT amounts or the Company is unable to recover the amount as a refund from the taxing authorities, the Company s total losses on the Greek contract could increase.

The Company has met certain advance payment and performance bonding requirements as discussed above through the issuance of euro-denominated standby letters of credit. The maximum value of the standby letters of credit outstanding under this contract was approximately $250 million, which has been reduced over time as the Customer has accepted portions of the System and services provided by the Company. In May 2010, the Customer issued a letter purporting to

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terminate the portion of the contract relating to delivery of the System and to confirm the Company s ongoing obligations to provide network services and System support and maintenance under the contract. Shortly thereafter, the Customer drew, and the Company funded, $26 million on the Company s standby letters of credit relating to the delivery of the System. As of October 31, 2010, there were $7 million in standby letters of credit outstanding relating to the support and maintenance of the System. The Company is seeking recovery of the amounts drawn by the Customer on the standby letters of credit in the ongoing arbitration. The principal subcontractor has provided to the Company euro-denominated standby letters of credit in the amount of $27 million as of October 31, 2010, of which $20 million relates to the delivery of the System. The Company may draw on the subcontractor s standby letters of credit under certain circumstances by providing a statement to the responsible bank that the subcontractor has not fulfilled its obligations under the subcontract. The Company continues to believe that the loss recorded to date is sufficient to account for the ultimate outcome of this contractual situation and therefore no additional loss is expected to be recorded as a result of the draw on the standby letters of credit.

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

Nuclear Regulatory Commission

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

Other

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

Note 10 Other Commitments and Contingencies:

VirnetX, Inc.

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

In May 2010, VirnetX and Microsoft entered into a settlement and license agreement to settle all claims asserted by VirnetX against Microsoft in two lawsuits. Under the agreement, Microsoft made a one-time payment to VirnetX of $200 million in cash in exchange for dismissal of both lawsuits and VirnetX granting to Microsoft a worldwide, irrevocable, nonexclusive, non-sublicensable fully paid up license under VirnetX s patents. Under the Company s agreements with VirnetX, the

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Company was entitled to receive 35% of the proceeds from the settlement of litigation with Microsoft after reduction for out-of-pocket costs, including legal fees and expenses, of VirnetX and the Company incurred in connection with the litigation. During the second quarter of fiscal 2011, the Company received a royalty payment of $56 million in connection with this agreement, which was recognized as revenue, and reimbursement of approximately $3 million of legal fees and costs it incurred in connection with the litigation. The Company also paid $2 million as a royalty to the customer for which it developed some of the patented technologies to satisfy the Company s obligation under the initial customer contract.

DS&S Joint Venture

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

Acquisition Indemnification Claims

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

Government Investigations and Reviews

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

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

Both contractors and the U.S. Government agencies conducting these audits and reviews have come under increased scrutiny. For example, it was determined that the audit procedures the DCAA used in reviewing some of the Company s systems were not in compliance with the requirements of Generally Accepted Government Auditing Standards. As a result, in April and July 2009, the DCAA rescinded its most recent audit reports on the Company s accounting, billing, and indirect and other direct cost systems issued in 2005 and 2006 and is currently auditing these systems again. The current audits and reviews have become more rigorous and the standards to which the Company is held are being more strictly interpreted, increasing the likelihood of an audit or review resulting in an adverse outcome. A finding of significant control deficiencies in the Company s system audits can result in decremented billing rates to its U.S. Government customers until the control deficiencies are corrected and accepted. In addition, due to uncertainty created by the lack of timely completion of system and other audits, the Company has agreed to an insignificant downward adjustment to its provisional billing rates pending resolution of such uncertainty. During the course of its current audits, the DCAA is closely examining and questioning several of the Company s long established and disclosed practices that it had previously audited and accepted, increasing the uncertainty as to the ultimate conclusion that will be reached.

Government audits and reviews may conclude that the Company s practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds. In addition, the Company changed its indirect rate structure used in its indirect cost system and its direct labor bid structure used for its estimating system for fiscal 2011 and future years. These changes are currently being reviewed by the DCAA.

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

The Company s indirect cost audits by the DCAA have not been completed for fiscal 2005 and subsequent fiscal years. Although the Company has recorded contract revenues subsequent to fiscal 2004 based upon costs that the Company believes will be approved upon final audit or review, the Company does not know the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed the Company s estimates, its profitability would be adversely affected. The Company has recorded a liability of $27 million for its current best estimate of net amounts to be refunded to customers for potential adjustments from such audits or reviews of contract costs incurred subsequent to fiscal 2004.

Tax Audits and Reviews

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

During the next 12 months, it is reasonably possible that resolution of these reviews by taxing authorities, both domestic and international, could be reached with respect to $1 million of the Company s unrecognized tax benefits, depending on the timing of ongoing examinations, any litigation and expiration of statute of limitations, either because the Company s tax positions are sustained on audit or because the Company agrees to their disallowance and pays the related income tax. These unrecognized tax benefits are primarily related to certain recurring deductions customary for the Company s industry. As of October 31, 2010, the Company had liabilities for uncertain tax positions of $27 million.

During the nine months ended October 31, 2010, the Company s uncertain tax positions were reduced by $22 million resulting from the resolution of certain tax uncertainties. While the Company believes it has adequate accruals for uncertain tax positions, the tax authorities may determine that the Company owes taxes in excess of recorded accruals or the recorded accruals may be in excess of the final settlement amounts agreed to by the tax authorities.

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

Letters of Credit and Surety Bonds

The Company had outstanding letters of credit aggregating to $52 million at October 31, 2010, principally related to guarantees on contracts with foreign government customers. Of the total outstanding letters of credit, $7 million was related to certain advance payment and performance bonding requirements on a firm-fixed-price contract with the Greek government. The Company also has outstanding surety bonds in the amount of $325 million, principally related to performance and payment bonds.

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(UNAUDITED)

Other

The U.S. Department of Defense is in the process of restructuring one of the Company s largest programs, Army Brigade Combat Team Modernization. As a result of this restructuring, certain efforts associated with the program were terminated for convenience by the U.S. Department of Defense in July 2009 and January 2010. The Company received an undefinitized change order which required the Company to submit a restructure proposal. The Company submitted its restructure proposal to its prime contractor in April 2010 and the prime contractor submitted its restructure proposal to the customer in May 2010. The Company continues to perform on this program in accordance with the revised scope of work under a reduced provisional billing rate that allows the Company to receive a lesser amount of the projected fee until the contract negotiations are completed. The Company has recognized revenues of approximately $283 million from October 2009 through October 31, 2010 under the undefinitized change order. The future volume and profitability of this program is dependent on the outcome of the change order negotiations.

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

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

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

Overview

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

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

- achieving internal, or non-acquisition related, annual revenue growth through better leveraging of key differentiators across our Company and the deployment of resources and investments into higher growth markets;

- improving our operating income margin through strong contract execution and growth in higher-margin business areas, as well as continued improvement in our information technology (IT) systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;

- investing in our people, including enhanced training and career development programs, with a focus on retention and recruiting; and

- disciplined deployment of our cash resources and use of our capital structure to enhance growth and shareholder value through strategic acquisitions, share repurchases and other uses as conditions warrant.

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

Revenues for the three months ended October 31, 2010 increased 4% over the same period in the prior year, reflecting an internal revenue growth rate (as defined in Non-GAAP Financial Measures) of 2%. Internal revenue growth was driven by higher demand for materials and subcontract efforts on a number of programs in our Government segment partially offset by a decline in revenues in our Commercial segment due to the expiration of an IT outsourcing contract in the United Kingdom.

Operating income as a percentage of revenues increased from 8.4% for the three months ended October 31, 2009 to 9.0% for the three months ended October 31, 2010 primarily due to strong program performance, particularly on certain fixed-price contracts, and increased cost recovery on cost reimbursable contracts.

Income from continuing operations for the three months ended October 31, 2010 increased $19 million, or 14%, over the same period in the prior year primarily due to increased operating income of $25 million offset by the resulting increase in the provision for income taxes of $10 million.

Diluted earnings per share (EPS) from continuing operations for the three months ended October 31, 2010 increased $.07 per share, or 21%, as compared to the same period in the prior year primarily due to the increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 28 million, or 7%, primarily due to stock repurchases.

Cash and cash equivalents increased $40 million during the three months ended October 31, 2010 primarily due to $315 million generated from operations partially offset by $218 million used to acquire businesses and $49 million for obligations related to discontinued operations.

Net bookings (as defined in Key Financial Metrics Bookings and Backlog) were approximately $3.1 billion for the three months ended October 31, 2010. Total backlog was $16.3 billion at October 31, 2010 as compared to $16.0 billion at July 31, 2010.

Reportable Segments

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

Key Financial Metrics

Bookings and Backlog. We received net bookings worth an estimated $3.1 billion and $9.0 billion during the three and nine months ended October 31, 2010, respectively. Bookings generally represent the estimated amount of revenue to be earned in the future from funded and unfunded contract awards that were received during the period, net of any adjustments to previously awarded backlog amounts. We calculate net bookings as the period s ending backlog plus the period s revenues less the prior period s ending backlog and less the backlog obtained in acquisitions during the period.

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

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

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

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

	October 31, 2010	January 31, 2010
	(in millions)	
Government segment:		
Funded backlog	$ 5,795	$ 4,684
Negotiated unfunded backlog	9,873	10,168
Total Government segment backlog	$ 15,668	$ 14,852
Commercial segment:		
Funded backlog	$ 482	$ 568
Negotiated unfunded backlog	157	155
Total Commercial segment backlog	$ 639	$ 723
Total:		
Funded backlog	$ 6,277	$ 5,252
Negotiated unfunded backlog	10,030	10,323
Total backlog	$ 16,307	$ 15,575

Total backlog may fluctuate from period to period depending on our success rate in winning contracts and the timing of contract awards, renewals, modifications and cancellations. Backlog continues to be impacted by on-going industry-wide delays in procurement decisions and an increase in proposals awaiting decision.

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

The DoD is in the process of restructuring one of our largest programs, Army Brigade Combat Team Modernization. As a result of this restructuring, certain efforts associated with the program were terminated for convenience by the DoD in July 2009 and January 2010. We received an undefinitized change order which required us to submit a restructure proposal. We submitted the restructure proposal to our prime contractor in April 2010 and the prime contractor submitted its restructure proposal to the customer in May 2010. We continue to perform on this program in accordance with the revised scope of work under a reduced provisional billing rate that allows us to receive a lesser amount of the projected fee until the contract negotiations are completed. The future volume and profitability of this program is dependent on the outcome of the change order negotiations. Included within the Government segment backlog above is approximately $80 million in funded backlog and $350 million in negotiated unfunded backlog related to this program, which represents our best estimate of our remaining effort under this restructured contract to be performed through fiscal 2014. Of these amounts, we expect to recognize revenues of approximately $60 million during the remainder of fiscal 2011.

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

Cost-reimbursement contracts provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee. These contracts include cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee contracts.

Time-and-materials (T&M) contracts typically provide for negotiated fixed hourly rates for specified categories of direct labor plus reimbursement of other direct costs. Fixed-price-level-of-effort (FP-LOE) contracts are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time.

Firm-fixed-price (FFP) contracts provide for a fixed price for specified products, systems and/or services.

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

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

	Nine Months Ended October 31	
	2010	2009
Cost-reimbursement	**46%**	48%
T&M and FP-LOE	**31**	31
FFP	**23**	21
Total	**100%**	100%

Revenues from FFP contracts increased by 2% primarily due to a $56 million royalty payment received in the second quarter of fiscal 2011 and increased deliveries of logistics, readiness and sustainment products and proprietary products.

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

	Three Months Ended October 31			Nine Months Ended October 31		
	2010	Percent change	2009	**2010**	Percent change	2009
	(dollars in millions)					
Labor-related revenues	**$ 1,611**	%	$ 1,605	**$ 4,791**	1%	$ 4,753
As a percentage of revenues	***56%***		*58%*	***57%***		*58%*
M&S revenues	**1,258**	8	1,160	**3,557**	4	3,410
As a percentage of revenues	***44%***		*42%*	***43%***		*42%*

M&S revenues for the three and nine months ended October 31, 2010 increased primarily due to increased activity as a prime contractor on large programs involving significant subcontracted efforts and increased volume of material deliveries under certain programs primarily with DoD customers while M&S revenues for the nine months ended October 31, 2010 also increased due to a $56 million royalty payment received in the second quarter of fiscal 2011. The labor-related revenues were relatively consistent for the three and nine months ended October 31, 2010 as compared to the same periods in the prior year.

Results of Operations

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

	Three Months Ended October 31			Nine Months Ended October 31		
	2010	Percent change	2009	**2010**	Percent change	2009
	(dollars in millions)					
Revenues	**$ 2,869**	4%	$ 2,765	**$ 8,348**	2%	$ 8,163
Cost of revenues	**2,481**	4	2,378	**7,221**	3	7,042
Selling, general and administrative expenses:						
General and administrative (G&A)	**80**	(22)	102	**233**	(24)	308
Bid and proposal (B&P)	**36**	(12)	41	**117**	(2)	119
Internal research and development (IR&D)	**14**	27	11	**39**	8	36
Operating income	**258**	11	233	**738**	12	658
As a percentage of revenues	***9.0%***		*8.4%*	***8.8%***		*8.1%*
Non-operating expense, net	**(12)**		(16)	**(50)**		(50)
Income from continuing operations before income taxes	**246**	13	217	**688**	13	608
Provision for income taxes	**(92)**	12	(82)	**(251)**	9	(231)
Income from continuing operations	**154**	14	135	**437**	16	377
Income (loss) from discontinued operations, net of tax	**18**			**49**		(3)
Net income	**$ 172**	27	$ 135	**$ 486**	30	$ 374

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

Revenues. Our revenues increased $104 million, or 4%, and $185 million, or 2%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year. Our internal revenue growth rate (as defined in Non-GAAP Financial Measures) was 2% and 0% for the three and nine months ended October 31, 2010, respectively, due to internal revenue growth in our Government segment, which was partially offset by contraction in our Commercial segment. Internal revenue growth for the nine months ended October 31, 2010 was also favorably impacted by a $56 million royalty payment received in the second quarter of fiscal 2011 in the Government segment.

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

	Three Months Ended October 31			Nine Months Ended October 31		
	2010	Percent change	2009	**2010**	Percent change	2009
	(dollars in millions)					
Government segment revenues	**$ 2,778**	5%	$ 2,649	**$ 8,062**	3%	$ 7,819
As a percentage of total revenues	***97%***		*96%*	***97%***		*96%*
Commercial segment revenues	**93**	(21)	118	**291**	(17)	349
As a percentage of total revenues	***3%***		*4%*	***3%***		*4%*
Intersegment elimination	**(2)**		(2)	**(5)**		(5)
Total revenues	**$ 2,869**	4	$ 2,765	**$ 8,348**	2	$ 8,163

Government segment revenues increased $129 million, or 5%, and $243 million, or 3%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year. Internal revenue growth in the Government segment was 3% and 1% for the three and nine months ended October 31, 2010, respectively. While revenue growth continues to be impacted by on-going delays in procurement decisions and new program starts across the intelligence and defense sectors, we had growth in a number of areas, most significantly in our systems integration and logistics programs for tactical and mine resistant ambush protected vehicles (increases of $59 million and $148 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year), systems engineering solutions for the U.S. Navy (increases of $36 million and $58 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year), certain intelligence, surveillance, and reconnaissance systems solutions for a variety of national security customers (increases of $53 million and $91 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year), and systems and software maintenance and upgrades program with the U.S. Army (increases of $26 million and $54 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year). In addition, we recognized a $56 million royalty payment received in connection with patents previously transferred to a third party in the second quarter of fiscal 2011 (for a discussion of this matter, see Note 10 of the notes to the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q). These growth areas were partially offset by programs that declined year-over-year. The most significant declines arose from fewer deliveries of emergency responder equipment (decreases of $24 million and $84 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year), a reduction in scope under the Army Brigade Combat Team Modernization program (decreases of $29 million and $48 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year) and a decline in revenues under an IT services contract with NASA (decreases of $17 million and $51 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year).

Commercial segment revenues decreased $25 million, or 21%, and $58 million, or 17%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year primarily due to the expiration of an IT outsourcing contract in the United Kingdom in the first quarter of fiscal 2011 (representing a $12 million and $30 million decline in revenues for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year) and reduced volume in our consulting services and information technology business area, which we believe was due to general economic conditions.

Operating Income. Total operating income increased $25 million, or 11%, and $80 million, or 12%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year. The increase in operating income for the three and nine months ended October 31, 2010 is primarily due to increased profitability in the Government segment for the reasons discussed below.

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

	Three Months Ended October 31			Nine Months Ended October 31		
	2010	Percent change	2009	**2010**	Percent change	2009
			(dollars in millions)			
Government segment operating income	**$ 252**	14%	$ 222	**$ 735**	14%	$ 643
As a percentage of related revenues	***9.1%***		*8.4%*	***9.1%***		*8.2%*
Commercial segment operating income	**8**	(33)	12	**11**	(65)	31
As a percentage of related revenues	***8.6%***		*10.2%*	***3.8%***		*8.9%*
Corporate and Other segment operating loss	**(2)**		(1)	**(8)**		(16)
Total operating income	**$ 258**	11	$ 233	**$ 738**	12	$ 658
As a percentage of revenues	***9.0%***		*8.4%*	***8.8%***		*8.1%*

Government segment operating income increased $30 million, or 14%, and $92 million, or 14%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year. The increase in Government segment operating income for the three months ended October 31, 2010 is primarily due to strong program performance, particularly on certain fixed-price contracts, and increased cost recovery on cost reimbursable contracts. Government segment operating income for the nine months ended October 31, 2010 was also favorably impacted by a $56 million royalty payment received in the second quarter of fiscal 2011. These increases in Government segment operating income were partially offset by increased amortization expense for intangible assets (increases of $5 million and $9 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year) and increased severance charges related to organizational streamlining (increases of $3 million and $4 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year).

Commercial segment operating income decreased $4 million, or 33%, and $20 million, or 65%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year primarily due to declines in revenue and associated profit resulting from the expiration of an IT outsourcing contract in the United Kingdom in the first quarter of fiscal 2011 ($5 million and $12 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year) and reduced volume in our consulting services and information technology business area, which we believe was due to general economic conditions. In addition, we incurred pension charges related to the IT outsourcing contract of $3 million and severance costs of $2 million during the nine months ended October 31, 2010 for actions taken to reduce infrastructure costs.

Corporate and Other segment loss represents corporate costs that are unallowable under U.S. Government Cost Accounting Standards and the net effect of various items that are not directly related to the business units operating performance in the Government or Commercial segments. Corporate and Other segment operating loss increased by $1 million and decreased by $8 million for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year. The Corporate and Other segment loss for the nine months ended October 31, 2010 decreased primarily due to a decline in stock option expense ($4 million) as a result of a decrease in the number of stock options issued in recent years and $3 million received for reimbursement of legal-related costs in connection with the resolution of a patent infringement matter in the second quarter of fiscal 2011 (for a discussion of this matter, see Note 10 of the notes to the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q).

Provision for Income Taxes. The provision for income taxes increased $10 million, or 12%, and $20 million, or 9%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods of the prior year. As a percentage of income from continuing operations before income taxes, the provision of income taxes was 37.4% and 36.5% for the three and nine months ended October 31, 2010, respectively, as compared to 37.8% and 38.0%, respectively, for the same periods in the prior year. The decrease in the effective income tax rate for the nine months ended October 31, 2010 as compared to the same period of the prior year was primarily due to an $11 million reduction in the provision for income taxes resulting from the resolution of certain tax uncertainties during the first half of fiscal 2011.

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

Income from Continuing Operations. Income from continuing operations increased $19 million, or 14%, and $60 million, or 16%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year primarily due to the increases in operating income partially offset by the related increases in the provision for income taxes discussed above.

Diluted Earnings per Share (EPS) from Continuing Operations. Diluted EPS from continuing operations increased $.07 per share, or 21%, and $.22 per share, or 24%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year. These increases were primarily due to the increases in income from continuing operations over the same respective periods for the reasons discussed above and a decline in the diluted weighted average number of shares outstanding of 28 million, or 7%, and 23 million, or 6%, for the three and nine months ended October 31, 2010, respectively, primarily due to share repurchases.

Discontinued Operations. Discontinued operations for the three and nine months ended October 31, 2010 reflects after-tax net gains of $18 million and $49 million, respectively, primarily related to the settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary Telcordia Technologies, Inc. in the second quarter of fiscal 2011 and resolution of other contingencies related to the sale of this former subsidiary in the third quarter of fiscal 2011.

Net Income and Diluted EPS. Net income increased $37 million, or 27%, and $112 million, or 30%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year. The increase in net income for the three and nine months ended October 31, 2010 as compared to the same periods in the prior year reflects an increase in income from continuing operations of $19 million and $60 million for the three and nine months ended October 31, 2010, respectively, and an increase in income from discontinued operations of $18 million and $52 million for the three and nine months ended October 31, 2010, respectively. Diluted EPS increased $.12 per share, or 35%, and $.35 per share, or 38%, for the three and nine months ended October 31, 2010, respectively, as compared to the same periods in the prior year due to increases in net income and declines in the diluted weighted average number of shares outstanding discussed above.

Liquidity and Capital Resources

We had $644 million in cash and cash equivalents at October 31, 2010, which were primarily comprised of investments in several large institutional money market funds that invest primarily in bills, notes and bonds issued by the U.S. Treasury, U.S. Government guaranteed repurchase agreements fully collateralized by U.S. Treasury obligations, U.S. Government guaranteed securities, and investment-grade corporate securities and that have original maturities of three months or less. We anticipate our principal sources of liquidity for the next 12 months and beyond will be our existing cash and cash equivalents and cash flows from operations. We may also borrow under our $750 million revolving credit facility. Our revolving credit facility, which is backed by ten financial institutions, matures in fiscal 2013 and, by its terms, can be accessed on a same-day basis. We anticipate our principal uses of cash for the next 12 months and beyond will be for operating expenses, capital expenditures, acquisitions of businesses, stock repurchases and funding of pension obligations. We anticipate that our operating cash flows, existing cash and cash equivalents, which have no restrictions on withdrawal, and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

Historical Trends

Cash and cash equivalents were $644 million and $861 million at October 31, 2010 and January 31, 2010, respectively. The following table summarizes cash flow information for the periods noted:

	Nine Months Ended October 31	
	2010	2009
	(in millions)	
Total cash flows provided by operations	**$ 564**	$ 522
Total cash flows used in investing activities	**(405)**	(187)
Total cash flows used in financing activities	**(407)**	(286)
Increase (decrease) in cash and cash equivalents from discontinued operations	**32**	(1)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(1)**	7
Total increase (decrease) in cash and cash equivalents	**$ (217)**	$ 55

Cash Provided by Operations. Cash flows from operations increased $42 million for the nine months ended October 31, 2010 as compared to the same period in the prior year. Cash flows from operations for the nine months ended October 31, 2010 as compared to the same period in the prior year were positively impacted by an increase in income from continuing operations, including the receipt of a $56 million royalty payment, partially offset by the funding of performance bonds on our contract with the Greek Government ($23 million).

Cash Used in Investing Activities. We used $405 million of cash in support of investing activities during the nine months ended October 31, 2010 including $358 million (net of cash acquired) to acquire two businesses and $53 million to purchase property, plant and equipment. We used $187 million of cash in support of investing activities during the nine months ended October 31, 2009, including $157 million (net of cash acquired) to acquire two businesses and $46 million to purchase property, plant and equipment offset by $12 million in proceeds from sales of investments and an $8 million receipt for purchase price adjustments related to a fiscal 2009 acquisition.

Cash Used in Financing Activities. We used $407 million of cash in support of financing activities during the nine months ended October 31, 2010, including $448 million to repurchase shares of our stock partially offset by $30 million in proceeds from the sale of stock under our employee stock purchase plan (ESPP) and exercises of stock options and $13 million in excess tax benefits associated with stock-based compensation. We used $286 million of cash in support of financing activities during the nine months ended October 31, 2009, including $331 million to repurchase shares of our stock and $17 million for payments on notes payable and debt partially offset by $46 million in proceeds from the sale of stock under our ESPP and exercises of stock options and $16 million in excess tax benefits associated with stock-based compensation.

Cash Flows from Discontinued Operations. Cash flows from discontinued operations for the nine months ended October 31, 2010, include proceeds of $89 million from the settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary Telcordia Technologies, Inc. partially offset by payments of $54 million to our former subsidiary and taxing authorities in connection with this settlement.

Stock Repurchase Program

In December 2006, our board of directors authorized a stock repurchase program (the 2006 Repurchase Program) under which we could repurchase shares of our common stock as part of our overall strategy for capital allocation. From inception through October 31, 2010, we repurchased an aggregate of 82 million shares under the 2006 Repurchase Program. As of October 31, 2010, there were 7 million shares remaining authorized for repurchase under the 2006 Repurchase Program. In December 2010, our board of directors authorized a new stock repurchase program (the 2010 Repurchase Program) under which we may repurchase up to 40 million shares of our common stock. In connection with the adoption of the 2010 Repurchase Program, the 2006 Repurchase Program was terminated. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements.

Underfunded Pension Obligation

We sponsor a defined benefit pension plan for eligible employees of our United Kingdom subsidiary that primarily performed services on a specific customer contract, which expired on March 31, 2010. As of January 31, 2010, the pension plan had an underfunded projected benefit obligation of $42 million and an unrecognized actuarial loss (pre-tax) of $50 million. In February 2010, we were notified by the customer that it had entered into a follow-on contract with a successor contractor. In April 2010, employees then performing services on the customer contract transferred to the successor contractor following contract expiration. During the nine months ended October 31, 2010, we recognized charges (pre-tax) of $3 million from severance and additional contractual retirement benefits related to reductions in pension eligible personnel who were not transferred to the successor contractor. Upon the completion of these actions, we expect that there will be no active employees participating in the pension plan. We will have continuing defined benefit pension obligations with respect to former employees who performed services on the customer contract that remain covered by the plan.

We expect to recognize charges (pre-tax) of $20 million to $30 million during fiscal 2011 and 2012 from recognition of losses related to the underfunded pension obligations associated with certain employees whose pension plan assets and obligations are expected to transfer to the successor contractor and from related costs. We expect these remaining charges will be primarily non-cash. The definitive amount of the charges we will incur depends on the number of employees who elect to transfer their pension benefits to the successor contractor, the amount of assets and obligations to be transferred, the performance of the pension plan assets and the date on which the pension plan assets and obligations actually transfer.

Outstanding Indebtedness

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

	October 31, 2010	January 31, 2010
	(in millions)	
$550 million 6.25% notes due fiscal 2013	**$ 550**	$ 549
$300 million 5.5% notes due fiscal 2034	**296**	296
$250 million 7.125% notes due fiscal 2033	**248**	248
Capital leases and other notes payable	**10**	13
	1,104	1,106
Less: current portion	**3**	3
Total	**$ 1,101**	$ 1,103

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

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

Off-Balance Sheet Arrangements

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

Commitments and Contingencies

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

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-GAAP Financial Measures

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

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

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

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

	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2010
	(dollars in millions)	
Government segment:		
Prior year period s revenues, as reported	$ 2,649	$ 7,819
Revenues of acquired businesses for the comparable prior year period	45	177
Prior year period s revenues, as adjusted	$ 2,694	$ 7,996
Current year period s revenues, as reported	2,778	8,062
Internal revenue growth	$ 84	$ 66
Internal revenue growth percentage	3%	1%
Commercial segment:		
Prior year period s revenues, as reported	$ 118	$ 349
Revenues of acquired businesses for the comparable prior year period		
Prior year period s revenues, as adjusted	$ 118	$ 349
Current year period s revenues, as reported	93	291
Internal revenue growth	$ (25)	$ (58)
Internal revenue growth percentage	(21)%	(17)%
Total:		
Prior year period s revenues, as reported	$ 2,765	$ 8,163
Revenues of acquired businesses for the comparable prior year period	45	177
Prior year period s revenues, as adjusted	$ 2,810	$ 8,340
Current year period s revenues, as reported	2,869	8,348
Internal revenue growth	$ 59	$ 8
Internal revenue growth percentage	2%	%

Effects of Inflation

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

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

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

Item 4. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

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

Changes In Internal Control Over Financial Reporting

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

PART II

OTHER INFORMATION

Item 1. *Legal Proceedings.*

We have provided information about legal proceedings in which we are involved in Note 9 of the notes to condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

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

Item 1A. *Risk Factors.*

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

Our business is subject to reviews, audits and cost adjustments by the U.S. Government, which, if resolved unfavorably to us, could adversely affect our profitability, cash position or growth prospects.

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

Both contractors and the U.S. Government agencies conducting these audits and reviews have come under increased scrutiny. For example, it was determined that the audit procedures the DCAA used in reviewing some of our systems were not in compliance with the requirements of Generally Accepted Government Auditing Standards. As a result, in April and July 2009, the DCAA rescinded its most recent audit reports on our accounting, billing, and indirect and other direct cost systems issued in 2005 and 2006 and is currently auditing these systems again. The current audits and reviews have become more rigorous and the standards to which we are held are being more strictly interpreted, increasing the likelihood of an audit or review resulting in an adverse outcome. A finding of significant control deficiencies in our system audits can result in decremented billing rates to our U.S. Government customers until the control deficiencies are corrected and accepted. In addition, due to uncertainty created by the lack of timely completion of system and other audits, we have agreed to an insignificant downward adjustment to our provisional billing rates pending resolution of such uncertainty. During the course of its current audits, the DCAA is closely examining and questioning several of our long established and disclosed practices that it had previously audited and accepted, increasing the uncertainty as to the ultimate conclusion that will be reached.

Government audits and reviews may conclude that our practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds. In addition, we changed our indirect rate structure used in our indirect cost system and our direct labor bid structure used for our estimating system for fiscal 2011 and future years. These changes are currently being reviewed by the DCAA.

In addition, our receipt of adverse audit findings or the failure to obtain an adequate determination of our various accounting and management internal control systems, including changes to our indirect cost and direct labor estimating systems, from the responsible U.S. Government agency could significantly and adversely affect our business, including our ability to bid on new contracts and our competitive position in the bidding process. A determination of non-compliance with applicable contracting and procurement laws, regulations and standards could also result in the U.S. Government imposing penalties and sanctions against us, including withholding of payments, suspension of payments and increased government scrutiny that could delay or adversely affect our ability to invoice and receive timely payment on contracts, perform contracts or compete for contracts with the U.S. Government.

Our indirect cost audits by the DCAA have not been completed for fiscal 2005 and subsequent fiscal years. Although we have recorded contract revenues subsequent to fiscal 2004 based upon costs that we believe will be approved upon final audit or review, we do not know the outcome of any ongoing or future audits or reviews and adjustments and, if future adjustments exceed our estimates, our profitability would be adversely affected.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

(c) Purchases of Equity Securities by the Company

In December 2006, our board of directors authorized a stock repurchase program (the 2006 Repurchase Program) under which we could repurchase shares of our common stock as part of our overall strategy for capital allocation. From inception through October 31, 2010, we repurchased an aggregate of 82 million shares under the 2006 Repurchase Program. As of October 31, 2010, there were 7 million shares remaining authorized for repurchase under the 2006 Repurchase Program. In December 2010, our board of directors authorized a new stock repurchase program (the 2010 Repurchase Program) under which we may repurchase up to 40 million shares of our common stock. In connection with the adoption of the 2010 Repurchase Program, the 2006 Repurchase Program was terminated. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements.

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

Period	(a) Total Number of Shares (or Units) Purchased [1]	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [2]	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
August 1, 2010 August 31, 2010	37,792	$ 16.38		6,802,503
September 1, 2010 September 30, 2010	101,741	15.58		6,802,503
October 1, 2010 October 31, 2010	148,278	15.96		6,802,503
Total	287,811	15.88		

(1) Includes shares purchased as follows:

	August	September	October

Under publicly announced plans or programs			
Upon surrender by stockholders of previously owned shares in payment of the exercise price of non-qualified stock options	27,018	25,029	54,664
Upon surrender by stockholders of previously owned shares to satisfy statutory tax withholding obligations related to vesting of stock awards	10,774	76,712	93,614
Total	37,792	101,741	148,278

(2) The 2006 Repurchase Program which initially authorized the repurchase of up to 40 million shares of our common stock, was publicly announced in December 2006. In March 2008 and September 2009, our board authorized the repurchase of additional shares under the 2006 Repurchase Program, in each case, restoring the number of shares authorized to be repurchased under the program to 40 million shares. The 2006 Repurchase Program was terminated in December 2010 in connection with the adoption of the 2010 Repurchase Program.

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

None.

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

Item 5. ***Other Information.***

None.

Item 6. ***Exhibits.***

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data File.

SIGNATURE

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

Date: December 8, 2010

SAIC, Inc.

/s/ Mark W. Sopp

Mark W. Sopp

Executive Vice President and Chief Financial Officer and as a duly authorized officer

Exhibit Index

Exhibit Number	Description of Exhibit
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