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Further background  
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by requestor.

**New Hire  
Orientation  
Guide: 1995**

**Package 1**

**SAIC**  
Science Applications  
International Corporation  
An Employee Owned Company

## Table of Contents for Section 4

Overview .....	74
SAIC Stock Program Objectives .....	74
1. Develop Employee Commitment to Company Interests .....	75
2. Motivate Employees to High Quality and Productivity .....	75
3. Reward Employees in Proportion to Their Contributions .....	75
4. Attract and Retain Competent and Energetic Employees .....	75
5. Provide Working Capital for the Company and Liquidity for the Owners .....	75
A History of Growth .....	76
SAIC Stock Price History .....	76
How is SAIC Stock Valued?.....	77
SAIC Stock Ownership Distribution .....	77
How SAIC Stock Is Traded .....	78
The Internal Market .....	78
Liquidity .....	78
Restrictions .....	78
Taxes .....	79
For More Information.....	79
The SAIC Stock Programs .....	79
How You Can Acquire SAIC Stock.....	79
Types of Offers .....	80
Direct Purchases .....	80
Stock Loan Program .....	80
Employee Stock Purchase Plan (ESPP) .....	81
CODA .....	81
How to Participate in SAIC's Stock Programs .....	82
Your Stock Program Choices as a New Employee .....	82
Stock Ownership.....	83
Stock Options .....	83
How A Non-Qualified Option Works .....	83
Stock Bonuses .....	84
Looking Ahead .....	84

## Section 4

### SAIC Stock Programs

**Guidepost**

Video: View Section 4

## Overview

Up to this point in the Orientation Guide, we have focused on the advantages of employee ownership. Now let's talk about the various ways you can acquire SAIC stock.

This section of the Guide presents an overview of SAIC's stock programs, its objectives and how it works. You can participate in many of the stock programs right away. You can also own SAIC stock through the company's retirement plans, which you will learn more about in the next section.

We urge you to become familiar with the various stock programs, so that you can make an informed decision about your participation. For more information, refer to the current Prospectus. After you have been with the company a few months, you also may wish to view a video titled *SAIC Stock Ownership "A Formula for Success."* At the end of this section, you will be shown how to enroll in the stock programs available to you now as a new SAIC employee.

## SAIC Stock Program Objectives

"Those who contribute to the company should own it, and that ownership should be proportional to an individual's contribution and performance as much as feasible." *J. Robert Beyster*

Since its inception, SAIC has endeavored to maintain a working environment that attracts and retains the best available professional talent. We are firmly convinced that employee stock ownership has been a vital ingredient in that effort, and in the company's continued success. We intend to continually refine and strengthen our stock ownership programs to enhance SAIC's future growth and profitability — and to enable you to share more fully in our company's prosperity.

Your ownership of SAIC stock achieves its greatest potential when the company grows. In the broadest context this means:

- Growth in the value of ownership through stock price appreciation;
- Growth in the opportunities for career advancement;
- Growth in opportunities for performing significant and intellectually challenging work;
- Growth in the "quality of life" factors that make up the working environment;
- Growth in the reputation of SAIC for high quality technical performance within cost.

The intent of SAIC's stock ownership program is to distribute stock in ways that contribute most powerfully to these growth goals. In keeping with the spirit of reward for performance, we believe that SAIC stock should be made available to the people who are most productive and who work vigorously to make the company grow in all of these dimensions.

In order to achieve our company's growth goals, SAIC's stock programs are designed to achieve the following five objectives:

## **1. Develop Employee Commitment to Company Interests**

Being an owner ties you more closely to the company than simply being an employee. As your share in the ownership of SAIC builds, your net worth becomes more and more dependent upon the quality and future growth of the company. Through this process you are given strong incentives to think and act with more of an ownership attitude regarding the company's interests.

## **2. Motivate Employees to High Quality and Productivity**

By providing an opportunity for ownership on a continuing basis, the company provides an incentive for outstanding performance. The fact that your performance is rewarded by a greater share of ownership — and that the value of your ownership is also increased by your good performance — is a convincing inducement.

## **3. Reward Employees in Proportion to Their Contributions**

Both commitment and motivation are dependent upon having a compensation system that provides rewards consistent with achievements. Those who contribute and achieve the most must be recognized with appropriate compensation.

## **4. Attract and Retain Competent and Energetic Employees**

The opportunity to share in ownership is one of the most powerful tools that SAIC has to attract and retain key people.

## **5. Provide Working Capital for the Company and Liquidity for the Owners**

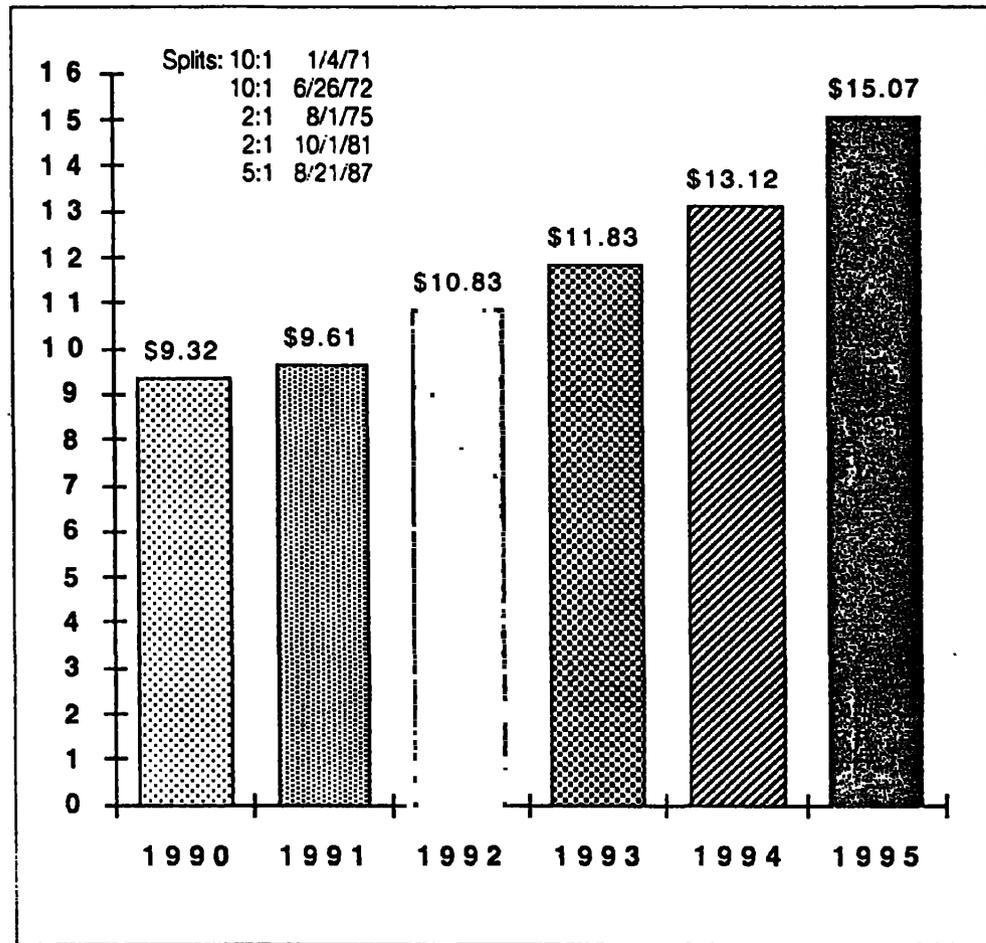
The SAIC stock system has been an important element in the capital structure of the company, providing the working capital to allow the company to grow. At the same time, the stock system seeks to provide stockholder liquidity so that, as an owner, if necessary, you may convert your shareholdings into cash and realize the returns for which your investment was intended. This liquidity must be achieved in a way that both protects the principle of employee ownership, and provides adequate capital to meet the company's operating needs.

## A History of Growth

Over the years, SAIC stock has appreciated in value, which has contributed to the net worth of employee owners who have invested in SAIC.

### SAIC Stock Price History

Since the stock is not publicly traded, the stock price is set by the Board of Directors, based on a formula, with the assistance of an independent appraisal firm. The formula includes a market factor which takes into consideration the condition of existing securities markets to ensure that the formula reflects the fair market value of the stock.



As of January 1

*SAIC's stock price has grown at a compounded annual rate of 23% over the past 20 years, and the recent appreciation rate has been approximately 15%.*

## How is SAIC Stock Valued?

SAIC's stock price is derived from a formula based on net income, stockholders' equity, the number of outstanding shares and a market factor which is intended to reflect existing securities market conditions. The formula price is reviewed by the Board of Directors each fiscal quarter to ensure that it reflects "fair market value." The Board uses an independent appraisal firm to support this review.

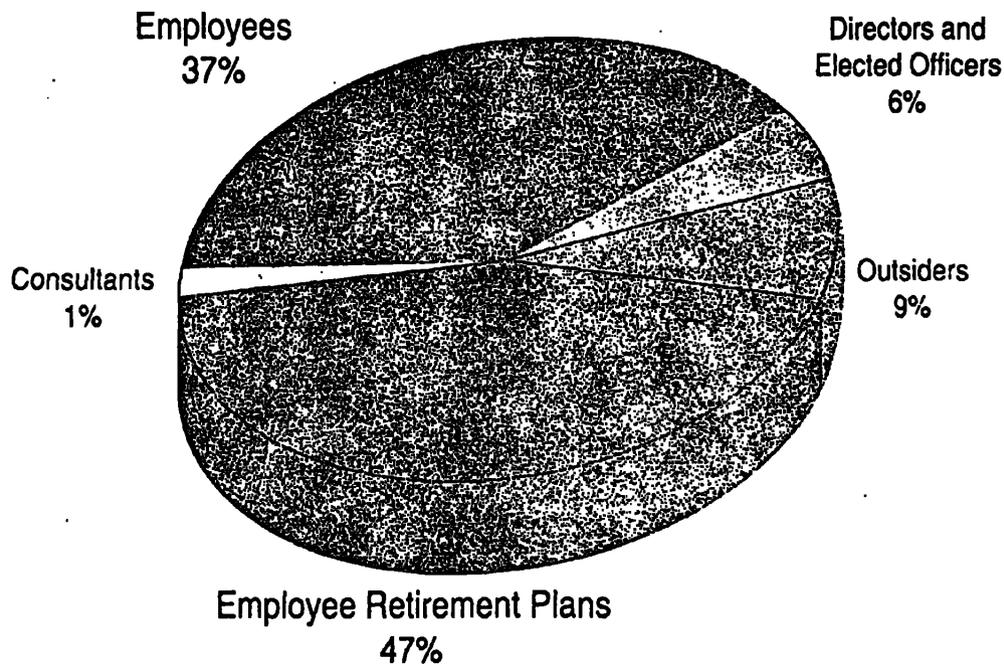
### **Price Per Share = $E/W_1 + 5.66 MP/W$**

- E = Stockholder's equity (assets minus liabilities)
- P = Net income for previous four quarters
- $W_1$  = Common stock and "equivalents" outstanding at end of quarter
- W = Weighted average number of common stock and "equivalents" for the previous four quarters.
- M = A "market factor" set by the Board of Directors to reflect existing securities market conditions.

Over time SAIC's stock programs and objectives have given rise to the distribution of stock shown below, representing a total shareholder population of approximately 17,500 individuals:

## SAIC Stock Ownership Distribution

*Pie chart: December 1994*



*Over 90% of SAIC stock is owned either directly or through retirement plans by SAIC employees and active consultants. Outside owners consist largely of former SAIC employees and their families.*

**A History of Growth**  
*continued*

## **A History of Growth** *continued*

## **How SAIC Stock Is Traded**

SAIC is one of the few large companies that emphasizes broad ownership by its employees. This is in contrast to companies in which ownership is concentrated, limited mainly to non-employees and/or a few principal insiders. Companies predominantly owned by their ESOPs also have fairly broad employee participation, but they don't have SAIC's flexibility in meeting other important growth objectives. These ESOPs often have a large debt to repay before the stock is allocated to their employees. (You will learn more about SAIC's ESOP program in the Retirement Plans section of this Orientation Guide.)

## **The Internal Market**

SAIC stock is not listed on any stock exchange. Instead, the stock is traded in an internal market established by the company through Bull, Inc., a wholly owned broker-dealer subsidiary. Bull, Inc., trades SAIC stock four times per year, on a quarterly schedule. Bull, Inc., acts simply as a clearinghouse, matching stock purchases with sales, and does not hold shares for its own account. SAIC stock may be purchased only by approved buyers. In addition, any stockholder can participate in the internal market as a seller of fully vested shares of stock. To cover the cost of operation, Bull, Inc., assesses a 2% handling charge to sellers. No charge is assessed to the buyer.

## **Liquidity**

Achieving liquidity—the ability to convert your SAIC stockholdings into cash when needed—is one of the key objectives of SAIC's stock program. You can offer shares for sale during the quarterly internal market trades at the then-current price. If more stock is offered for sale than there is demand for purchases, SAIC may (but is not obligated to) repurchase the difference. If the company does not elect to purchase the remaining shares, sales will be made on a pro-rata basis after the first 500 Class A shares of each seller are sold. Therefore, there is no guarantee that all shares offered for sale will be sold. If demand for stock purchases exceed shares offered for sale, SAIC may (but is not obligated to) issue more shares to meet the excess demand.

## **Restrictions**

SAIC has certain restrictions on its stock. The purpose of these restrictions is to limit, as far as possible, stock ownership to employees, directors and consultants who remain with the company and thereby contribute to its growth.

A major restriction is the "right of repurchase," giving SAIC the right to buy back shares acquired after October 1, 1951, from a stockholder who is no longer affiliated with the company. The repurchase price is the formula price in effect on the date of termination. Another provision is the company's "right of first refusal." If a stockholder desires to sell shares of SAIC stock, other than through the internal market, the stock must first be offered to the company.

In certain situations, vesting requirements apply such that any unvested portion of the stock is subject to reversion if employment with the company terminates. Additionally, transfers of stock are limited to immediate family, trusts and charities, subject to SAIC approval.

## Taxes

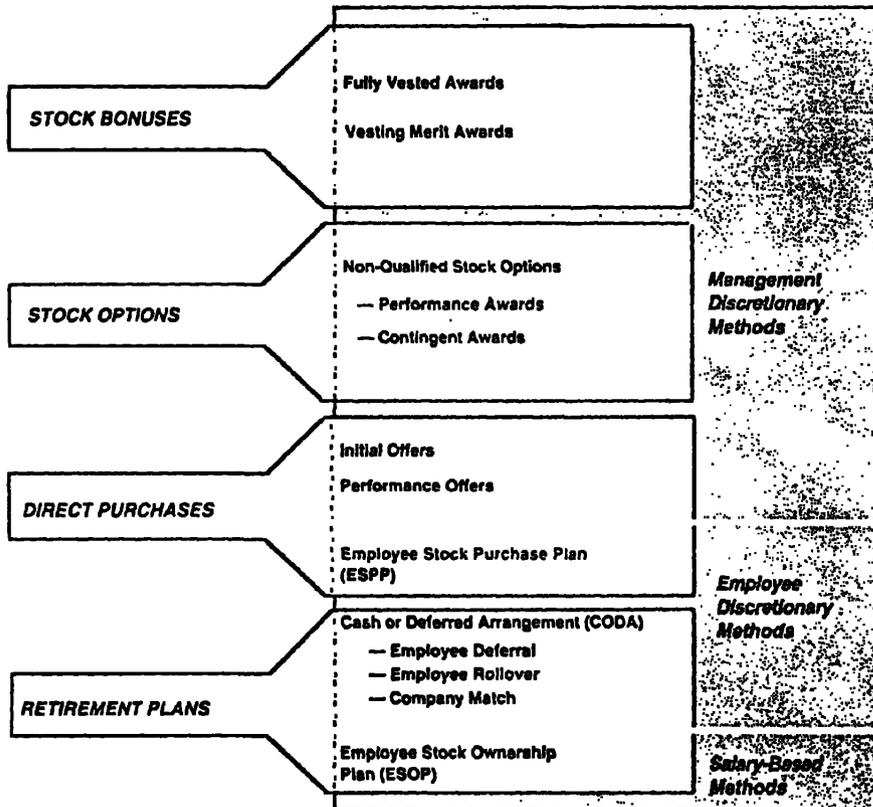
State and federal income tax regulations apply to stock purchases and sales. The specific tax consequences you will experience as a result of stock transactions under SAIC stock programs are beyond the scope of this Orientation Guide. We recommend that you consult your tax specialist to determine what and when any taxes may be due.

## For More Information

You can learn more about buying and selling SAIC stock by contacting the Stock Programs Department. (800) 785-7764. Your supervisor, division manager, and group stock coordinator are helpful resources as well. The rest of this section will focus on how the various SAIC stock programs work, and how you can benefit by participating in them.

As a new employee, you can acquire SAIC stock through direct purchases and through the retirement plans. The following chart shows these methods:

## How You Can Acquire SAIC Stock



**How SAIC Stock Is Traded**  
*continued*

**The SAIC Stock Programs**

## **The SAIC Stock Programs** *continued*

### **Types of Offers**

In this section on stock programs, we will focus on how you can make direct purchases of SAIC stock. We will then look at SAIC's retirement plans in the following section of this Orientation Guide.

### **Direct Purchases**

Direct purchases in the quarterly trade involve approval by the SAIC Operating Committee of recommendations submitted by your division management. These recommendations generally are based on outstanding performance, meeting business development goals or for use in hiring new key employees. If approved, a formal stock offer is mailed to your home address approximately three weeks prior to the trade date allowing you to purchase shares in the internal market. A direct purchase may be accompanied with stock options that would be awarded upon completing the direct purchase.

In addition, the First Year Anniversary Program is a special one-time offer at the quarterly stock trade following your first year anniversary with SAIC, to acquaint you with the programs. This offer to purchase stock is matched with options and vesting shares.

The minimum stock purchase in a quarterly trade is approximately \$500. The minimum number of shares is re-adjusted each year. A check for the full amount of the purchase must be received by Bull, Inc., prior to the close of business on the trade date. Your SAIC stock certificate representing your purchase will be mailed to you within three business days.

### **Stock Loan Program**

SAIC has established a loan program to assist individuals with approved credit-worthiness to acquire company stock. Under the program, you can borrow from an approved bank up to 90% (85% for loans under \$5,000) of the purchase price of the stock and repay the loan through monthly payroll withholdings. The interest rate is prime plus 1%. The minimum amount you can borrow is \$2,500, and the maximum amount is \$20,000. SAIC guarantees the loan, and the underlying stock certificate is held by the company as collateral until the loan is repaid.

In addition your SAIC stock may be used for collateral on personal loans, subject to SAIC approval. For more information about the stock loan programs refer to the following summary, or contact the Corporate Treasury Department, (619) 552-4842.

## Employee Stock Purchase Plan (ESPP)

The easiest way to make a direct purchase is through the Employee Stock Purchase Plan (ESPP). The ESPP allows you to withhold between 3% and 10% of your after-tax compensation from each paycheck. These funds accumulate to purchase SAIC stock in each quarterly trade. A special feature of this plan enables you to acquire the stock at a discount, with SAIC contributing 5% of the purchase price.

Shares purchased in the trades are held by the plan Trustee and distributed to you within 90 days of the end of the plan year. Shares acquired under this plan may not be sold or transferred until after the annual distribution.

As a new SAIC employee, you are immediately eligible to participate in ESPP—but enrollment is not automatic. It's easy to enroll in the Employee Stock Purchase Plan. All you need is the "ESPP Deduction Authorization Form" found in your New Employee Home Orientation Package. If you don't find it, contact your Human Resources representative or the Stock Programs Department to obtain one.

Take a moment to look through the form. Here are some important items for you to note and information you need to provide:

- It takes approximately 10 days to process your ESPP enrollment, and ESPP payroll deductions begin the first pay date after the processing is completed.
- Please make sure you have supplied your *employee #, SAIC location # and location name*, along with the other items requested. You will receive this information at the on-site orientation.
- Allowable payroll deductions for ESPP are a minimum of 3% and a maximum of 10% of your salary, expressed in *whole percentages*. Be sure to indicate the percentage you want to withhold in the space provided.
- Don't forget to sign and date the form where indicated.
- Confirmation of your enrollment in ESPP, along with a "New Account Form," will be sent to you within two weeks of submitting the form. Since you currently do not own SAIC stock, you must complete the "New Account Form" and return it to Bull, Inc.

When you have finished completing the ESPP enrollment form, hold on to it. You will be bringing it with you, along with the other employment forms we will have talked about, to the new employee orientation.

## CODA

You may also invest in SAIC stock through the Cash Or Deferred Arrangement (CODA) plan, which is a 401(k) type of retirement plan. CODA, like ESPP, enables you to purchase company stock using voluntary payroll deductions. The key advantage of CODA is that you are using pre-tax dollars to purchase the stock — making a portion of your salary tax-deferred. Plus the company provides a matching contribution once you become eligible. The company match and the appreciation of your investments are also tax-deferred.

You will learn more about CODA and the other SAIC retirement plans, including the Employee Stock Ownership Plan (ESOP), in the upcoming section of this Orientation Guide. In the meantime, keep in mind that, as a new employee, you are eligible to participate in both the ESPP and CODA stock plans starting on the first day of your employment with SAIC.

All the information you need to enroll in these plans will be provided to you in this Guide. If, after you read through this material, you have any questions about plan participation, please make sure to discuss them with your Human Resources representative at the new employee orientation.

## Types of Offers

*continued*

## How to Participate in SAIC's Stock Programs

### Your Stock Program Choices as a New Employee

Let's recap what you've learned so far about SAIC's stock programs, and the choices available to you now as a new employee:

- You can acquire SAIC stock through direct purchases, and through the company retirement plan.
- Direct stock purchases may be made in the quarterly trades.
- Stock may be purchased through payroll withholdings in the Employee Stock Purchase Plan (ESPP) or CODA.

Before you make a final decision, you may want to wait until you go through the next Orientation Guide section on retirement plans. Then, if you choose to enroll in the Employee Stock Purchase Plan, complete the ESPP enrollment form.

There are many reasons why SAIC employees choose to participate in the various stock programs. For some, stock investment offers a way of accumulating funds for a down-payment on a house or getting a head start on a personal savings program. For others, SAIC stock investments will lay the foundation for a child's college education. For still others, investing in SAIC stock is a way of supplementing retirement plans — providing that extra cushion for a carefree active adult lifestyle.

The potential financial benefits of stock ownership should be clear by now. But before you decide whether and how much to invest, you should stop and consider your current financial needs, and long-term savings goals. Then with the advice of your financial consultant you can choose a program that makes sense for you and your family.

Remember, the money you invest in ESPP is in after-tax dollars. Since you have already paid taxes on that income, you can convert an equivalent amount of SAIC stock into cash after the annual distribution into your account. This liquidity is the principal advantage of ESPP over CODA. Since CODA funds are intended for your retirement, the rules make it more difficult to access earlier, except through the loan program. CODA's advantages in comparison to ESPP, however, are that you contribute to the plan with pre-tax dollars, and SAIC makes substantial matching contributions when you participate.

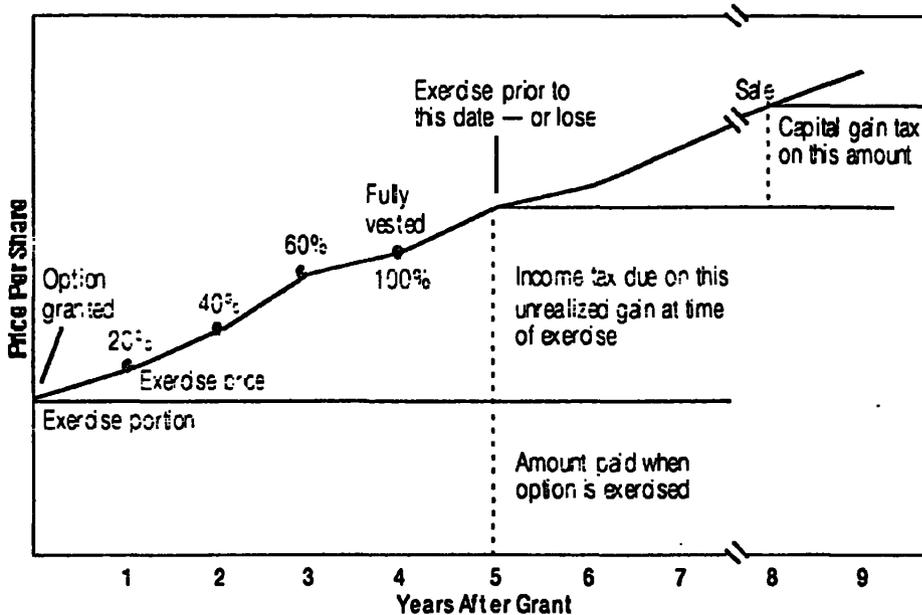
## Stock Options

Stock options are granted by the Stock Option Committee for achieving outstanding performance or for meeting specific contingent goals in the areas of technical, management and marketing performance. Option awards are based on recommendations from the employee's managers. Options provide the recipient the right to purchase stock at the price in effect at the time when the option is granted (termed the option price). The options vest cumulatively (20%, 40%, 60%, 100%) at the end of each of the first four years respectively, following the grant date, and expires at the end of the fifth year. If an employee terminates employment, only the vested portion of the option may be exercised. If the stock price rises above the option price, the option award becomes valuable for the recipient. The so-called "bargain element" of a nonqualified option (i.e. the price in effect when exercised less the option price) is taxable to the recipient as ordinary income in the year when exercised.

Similar to outstanding shares, options can have a dilutive impact on reported earnings per share—even before the options are vested or exercised. Accounting rules require that the bargain element of outstanding options be included in the calculation of "share equivalents" for the purpose of reporting earnings per share. Therefore, additional earnings are required to offset this dilutive effect to maintain future stock price growth.

## How A Non-Qualified Option Works

(Assuming the Stock Price Increases)



## **Stock Ownership** *continued*

### **Looking Ahead**

## **Stock Bonuses**

Stock bonuses are awarded by the Bonus Compensation Committee for outstanding performance based on management recommendations. There are two types of stock bonuses, fully vested awards (i.e. fully owned when granted) and four-year vesting merit awards. The latter vest cumulatively (20%, 40%, 60%, 100%) over a four-year period. If an employee terminates employment before the end of the vesting period, the unvested portion of the award reverts to the Company. Bonuses are generally taxed to the employee as ordinary income as they vest.

In the next section of this Orientation Guide we will take a closer look at SAIC's retirement plans. You will learn how the plans operate, how they can contribute to your long-term financial security and what choices are available to you now as a new SAIC employee.

## Table of Contents for Section 5

Making Your Retirement Plan Choices .....	86
SAIC Retirement Plans .....	87
CODA, the Voluntary Plan .....	87
Eligibility .....	87
Enrolling in CODA .....	87
Voluntary and Company Contributions .....	88
Investment Alternatives .....	89
Vesting .....	89
Effect on Other Retirement Plans Benefits .....	89
Access to Funds .....	89
The Advantages of CODA .....	90
Value of CODA Deferrals .....	90
Your Bottom Line .....	90
How Your CODA Investments Can Grow .....	91
CODA Investment Accumulation .....	91
SAIC's Loan Programs .....	91
Company-Funded Retirement Plans .....	92
The PSRP and ESOP Plans .....	92
Eligibility .....	92
Company Contributions .....	92
1994 Actual Retirement Plan Contributions .....	93
Investment Alternatives .....	93
Vanguard Investment Fund Alternatives .....	93
Vesting .....	94
Distribution of Benefits .....	94
Tax Advantages .....	94
Enrollment Procedures .....	94
How Your PSRP and ESOP Investments Can Grow .....	95
Estimated Growth of Company-Funded Plans .....	95
Summary .....	95
Your Retirement Program .....	96
The Big Picture .....	96
Potential Retirement Program Accumulation .....	96
SAIC Retirement Plans Summary .....	97
Vesting Schedule .....	97
Investment Choices for SAIC Retirement Plans .....	98
Investment Growth Illustration—Company-Funded Plans .....	98
Loan Program .....	99
Profit Sharing and CODA Loans .....	99
Looking Ahead .....	100

## Section 5

## SAIC Retirement Plans

## SAIC's Retirement Plans

### Guidepost

Video: View Section 5  
Forms: CODA Account Form  
Other Info: Planning for the Future

## SAIC Retirement Plans

### Making Your Retirement Plan Choices

Your retirement planning is truly an "individual matter." At SAIC you have a great deal of choice — in selecting both the timing and direction of your retirement investments. To help sort through these choices, we've identified some things you might want to think about as you begin this section.

- As a new SAIC employee, you are immediately eligible to participate in the Cash or Deferred Arrangement (CODA) plan. CODA is SAIC's 401(k) retirement plan. It is a voluntary contribution plan, which means you may defer receiving part of your compensation and contribute it to the CODA plan, where it is maintained in your plan account. And since CODA is a tax-qualified plan, you will reduce the amount of your compensation that is subject to current income taxes. After you satisfy certain eligibility requirements, the company will match a percentage of your voluntary contribution, which is also tax-deferred. Your CODA plan account is held in trust by the Plan Trustee and invested in the investment alternatives you have selected.
- Think about your current income needs. Do you have a spouse? Is he or she working? What are your current monthly expenses? How much can you afford to set aside each month for your retirement? How much cash do you need to set aside in easy-to-access savings accounts?
- Then consider your future income needs, after you retire from SAIC. Remember to factor in inflation and its impact on the living standard you hope to maintain. What income sources will you have beyond SAIC's retirement plans — from Social Security, your spouse's retirement income, other investments you may have? Now add in what you hope to receive from your SAIC retirement plan investments. How much will you need to invest now and over your projected earning years to achieve your retirement goals?
- Finally, what are the tax consequences of the various retirement alternatives you are considering? When you retire, as well as the size and timing of your plan distributions, greatly affects your tax liability in any given year.

These are just some of the questions you should start thinking about as you begin your retirement planning. Your future income and financial security will be determined by the choices you make today. Remember that your income-earning years are not unlimited, and that making the most of them is the key to a happy and secure retirement.

After reading this section and viewing the video, for even more information about retirement planning and SAIC's retirement programs, be sure to contact the Retirement Programs Department. You may also want to consult with your personal financial advisor to find out how best to coordinate your retirement investment activities.

In addition to CODA, the voluntary retirement savings plan, there are two basic company-funded retirement plans. Each of these plans is "tax-qualified." A tax-qualified plan allows tax-deferred contributions — enabling you to defer taxation on those contributions, and associated earnings, until the benefits are distributed to you in the future.

# SAIC Retirement Plans

	Employee Funded Plan	Company-Funded Plans
Immediate Participation Available	Cash or Deferred Arrangement (CODA -Employee Deferrals)	
Participation Available After Meeting Eligibility Requirements		<ul style="list-style-type: none"><li>• Cash or Deferred Arrangement (CODA) - Company Match</li></ul>
Automatic After Meeting Eligibility Requirements		<ul style="list-style-type: none"><li>• Profit Sharing Retirement Plan (PSRP)</li><li>• Employee Stock Ownership Plan (ESOP)</li></ul>

*The two company-funded retirement plans each have minimum employment requirements that must be met before you are eligible to participate. You can enroll in CODA starting the first day of your employment with SAIC.*

## Eligibility

You are immediately eligible to enroll and begin deferrals into the SAIC CODA plan upon your date of hire. There are no minimum age or service requirements to participate in the plan. You will receive a company match on CODA deferrals from your paychecks dated on or after the next January 1 or July 1 after you have been continuously employed for twelve calendar months during which you have completed 850 or more hours of service.

## Enrolling in CODA

A CODA enrollment package has been included in your New Employee Home Orientation Package. It contains the CODA Account Form. If you do not find a CODA Account Form, contact your Human Resources representative.

CODA is a voluntary 401(k) retirement plan. You may defer receiving part of your compensation and contribute it to the CODA plan, where it is maintained in your plan account. The company will match a percentage of your voluntary contribution once you satisfy the eligibility requirement described above. Both your contributions and company contributions are tax-deferred. Your CODA plan account is held in trust by the Plan Trustee and invested in the investment alternatives you have selected.

If you are interested in enrolling in CODA now, we encourage you to look through the "Planning for the Future" booklet, which you will receive at your on-site orientation. You will also receive a CODA Summary Plan Description in your SAIC Employee Handbook, which outlines the plan. These documents contain useful information that will help familiarize you with the specifics of the CODA plan benefits, responsibilities and investment choices. After you have done that, pull out the "CODA Account Form," and follow the instructions on the following page for completing this form.

**Making Your Retirement Plan Choices**  
*continued*

**CODA, the Voluntary Plan**

## **CODA, the Voluntary Plan** *continued*

Take a moment to look through these forms. Here are some important items for you to note and information you need to provide:

- It takes about three weeks to process your CODA enrollment. Payroll deductions begin the first pay date after the processing is completed.
- In the Enrollment section of the form, indicate the percent of your biweekly salary that you want withheld from your paycheck. This percentage currently may not exceed certain IRS limitations (see "Voluntary and Company Contributions") and must be expressed as a whole number.)
- The maximum amount of salary that you can defer in a calendar year, according to current tax laws, is indicated on the form.
- You are then asked to indicate the Investment Direction of your CODA salary deferrals. You may split your investment percentages however you want among the listed investment fund selections. Make sure that each percentage you list is a multiple of 10 (i.e., 10%, 20%, 30%, etc.), and that the total of all the percentages you enter equals 100%.
- Since you are a new plan enrollee, you may skip the sections about Percentage Change and Investment Direction Changes.
- Please make sure you have supplied your employee number, SAIC location number and location name, along with the other items requested. You will receive this information in your on-site orientation your first day of work.
- Don't forget to sign and date this form where indicated.
- Confirmation of your enrollment in CODA will be sent to you within three weeks after submitting these forms.

When you have finished completing the CODA Account Form, hold on to it. Please bring it with you, along with your other employment forms, to the new employee orientation.

### **Voluntary and Company Contributions**

Your CODA account is funded by your tax-deferred salary plus a company matching contribution. Beginning with the date you are first eligible to receive a match, SAIC matches your deferred salary contribution of up to 10% of your eligible compensation according to the following two-step schedule:

- 30% for the first \$2,000 you contribute in each calendar year
- 15% for voluntary contributions above \$2,000

For example, assume you contribute \$3,000 a year. The SAIC match on the first \$2,000 would be \$600 (30% of \$2,000). The match on the next \$1,000 would be \$150, for a total SAIC matching contribution of \$750 for the year.

Under the CODA plan, you are allowed to make biweekly contributions of up to the maximum percentage of your eligible compensation allowed under IRS rules and also subject to a dollar statutory limit set each year by the IRS. Subject to these rules, you may make contributions in excess of 10% of your eligible compensation, but such additional deferrals will not receive a company matching contribution. Contact the Retirement Programs Department, (619) 552-4827, for information on deferrals in excess of 10% of eligible compensation.

## **Investment Alternatives**

You may invest your deferred salary contribution in the SAIC Stock Fund-Exchangeable and/or within the spectrum of other investment funds offered within the plan through the Vanguard Group of Investment Companies. "Exchangeable" means you may exchange that stock for other investments available through the Vanguard Funds, subject to plan and SAIC's internal market liquidity limitations. Exchangeable SAIC Stock Fund balances may only be exchanged during the four regularly scheduled trade dates each year. One week's notice is required for stock exchanges. Balances from other investment choices may not be exchanged into the SAIC Stock Funds.

You may also contribute up to 100% of lump-sum distributions from any other tax-qualified retirement plan or rollover from an IRA account you had prior to joining SAIC. (These contributions are not matched.)

The company matching contribution is currently invested in the SAIC Stock Fund-Nonexchangeable. In other words, company matching funds invested in SAIC stock must remain invested in SAIC stock until distributed.

## **Vesting**

You become vested in your CODA Company contributed account based on your years of service with SAIC. Your interest vests at 25% per year, starting with your third year, and you will become fully vested after six years of service. Full vesting also occurs upon retirement after age 59 1/2, total disability or death.

You are 100% vested in your salary deferrals and rollover contributions to the CODA at all times; there is no waiting period during which any portion of these funds is subject to forfeiture should you terminate your employment with SAIC.

## **Effect on Other Retirement Plans Benefits**

Your elective salary deferrals contributed to CODA will reduce your compensation for purposes of receiving allocations under the SAIC Profit Sharing Retirement Plan and the SAIC Employee Stock Ownership Plan. Consequently, your allocations under these plans may be somewhat reduced.

## **Access to Funds**

You may receive a cash distribution, upon request, at any time after terminating your employment with SAIC, or after age 59-1/2. For account balances greater than \$3,500, cash distributions may be deferred for approximately five years after termination of employment, or until age 62. Hardship withdrawals are also available under rules specified by the Retirement Plans Committee. The exact timing of distributions depends on individual circumstances and can be determined by reviewing plan documents on file with the Retirement Programs Department. As an employee, you are also eligible to borrow from your balances, which we will get to a little later.

## The Advantages of CODA

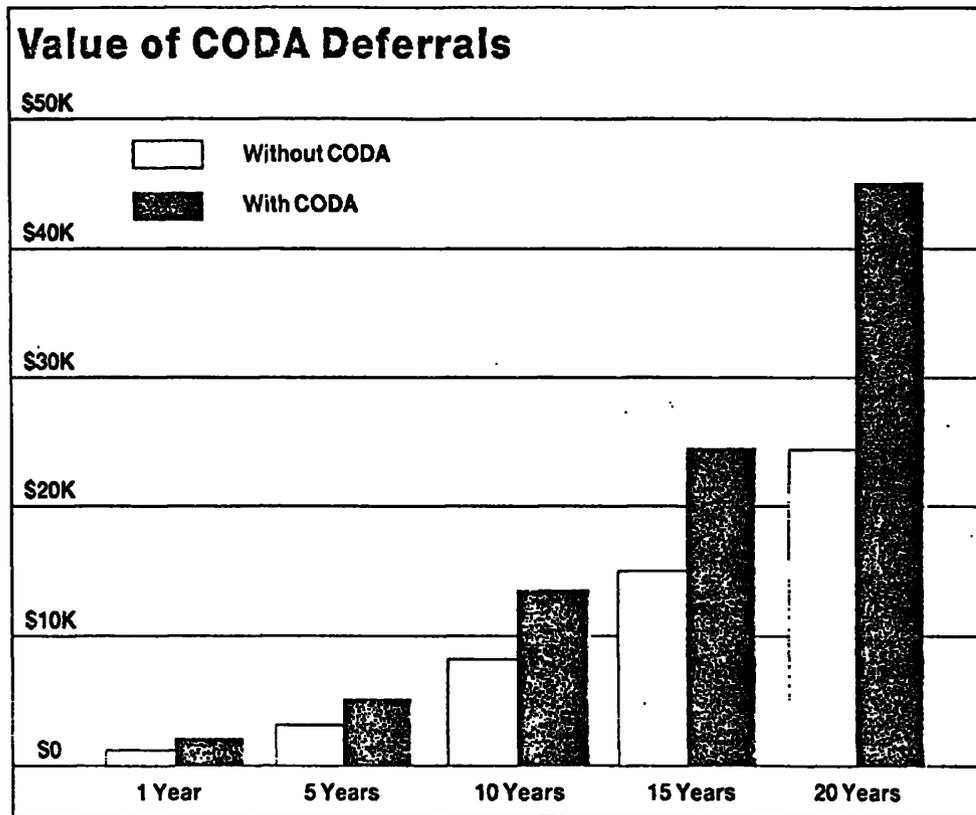
When you save with CODA, you have the benefit of two distinct advantages that you don't have with conventional savings:

- Your savings are tax-deferred. You pay no taxes on the money you set aside until you withdraw it from your account, and
- SAIC makes tax-deferred matching contributions to your account on your behalf, once you become eligible. These matching contributions become fully vested after six years of service.

What are the dollars and cents advantages over conventional savings?

The following graph demonstrates the advantage saving pre-tax amounts with a company match has over a conventional savings account.

**Note:** The assumptions include a \$1,000 annual contribution, a 35% marginal tax bracket, eligibility for the company match, an average investment return of 9%, and a taxable distribution from CODA at the end of the period shown.



*After tax value of \$1,000 annual contributions with 30% Company match, a marginal tax rate of 35% and 9% annual investment return.*

### Your Bottom Line

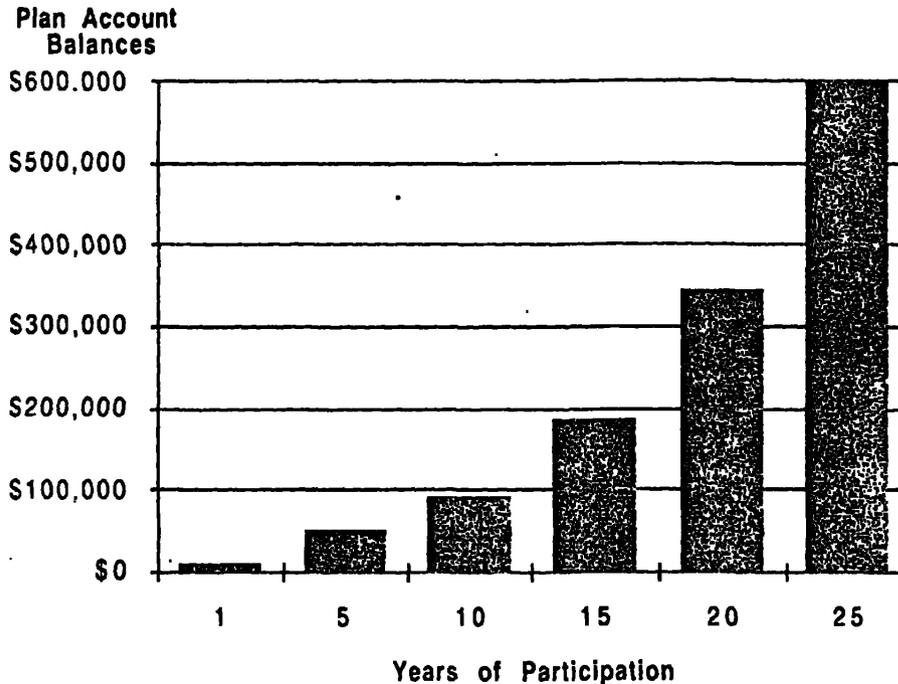
The bottom line is simple: With CODA, your current tax savings and company contributions can result in significant advantages over a conventional savings program.

## How Your CODA Investments Can Grow

The best way to understand how CODA can contribute to your future financial security is to take an example salary level and extend the CODA participation out for a number of years in the future. Once again, this is an example of returns using the listed assumptions; there is no guarantee you will experience these returns in the future.

### CODA Investment Accumulation

*Annual Income of \$40,000*



*This bar graph represents an example assuming a deferral rate of 10%, annual salary increases at a rate of 4%, and annual CODA plan investment returns of 9%. If actual results are different from these assumptions, the account values will vary.*

With SAIC's CODA plan, you benefit both now and in the future. You have the opportunity of being fully vested, realizing tax reductions through salary deferrals and receiving tax-deferred company contributions — all benefits you can have starting the first day of your employment. And you can accumulate sizable savings for your retirement years the longer you participate in the plan.

Standard and home loans are available from your CODA account, vested Profit Sharing and ESOP accounts. You may borrow funds from the combined vested portion of your interest in SAIC retirement accounts, and then repay the loan through payroll withholdings. Both principal and interest are repaid to your account. To be eligible, you must be a current plan participant and an active SAIC employee. These loans must be repaid when you terminate your employment with SAIC.

**The Advantages  
of CODA**  
*continued*

**SAIC's Loan  
Programs**

## **SAIC's Loan Programs** continued

The minimum loan amount is \$1,000, and the maximum amount is limited by the IRS to \$50,000—further limited to 50% of your total vested balance in all eligible plan accounts. For standard loans, the interest rate is 2% above the three-year Treasury Bill rate. The rate for home loans is an average of the Federal Home Loan Mortgage rates. Maximum loan payback terms are five years for standard loans, and 25 years for home loans (principal residence only). You may have several outstanding loans, only one of which may be a home loan.

For more information about SAIC's retirement plan loans, contact the Retirement Programs Department at (619) 552-4827.

## **Company-Funded Retirement Plans**

SAIC's employee benefit programs help meet current financial and health care needs for you and your family. In this section of the Orientation Guide, we will direct our attention to the SAIC-funded retirement plans, and how they can help provide for your *future* financial security.

"Retirement" at SAIC is an individual matter, not something that happens automatically for everyone at a specific time. Self-direction is the theme that best describes the general approach of our retirement plans. You direct the investment choices during your employment, and you decide how to invest your lump-sum payout after leaving the company.

It is also important to note that Social Security benefits—to which you and the company jointly contribute—play an important part in your future security.

Only the highlights of each of the plans are presented in this Orientation Guide. You may want to refer to the Summary Plan Descriptions contained in the SAIC Employee Handbook for details regarding your benefits and rights.

## **The PSRP and ESOP Plans**

There are two company-funded retirement plans: the Profit Sharing Retirement Plan (PSRP or "Profit Sharing" plan) and the Employee Stock Ownership Plan (ESOP). Since these plans have many similarities in the way they operate, we will look at them together. With both plans, all contributions are made by the company. Your account is held in trust by the Plan Trustee and invested either in the investment alternatives you have selected or in SAIC stock funds.

### **Eligibility**

Your eligibility to participate in the SAIC Profit Sharing and ESOP plans is automatic and is based on age and service with the company. The general rule is that if you have attained age 21, you will be eligible to participate when you have been continuously employed for twelve calendar months during which you have completed 850 or more hours of service. Once you meet the eligibility requirement, you will become a participant of the plans on the next earliest January 1 or July 1.

### **Company Contributions**

SAIC has historically made annual contributions to the Profit Sharing and ESOP plans. These contributions are then allocated to the plan accounts of those participants who have completed 850 hours of service in the plan year and are current employees on December 31 of that year. The allocations to your account are made once following each year using a formula based on your eligible compensation for the year.

# 1994 Actual Annual Retirement Plan Contributions

(For 1993 Plan Participation)

## SAIC Profit Sharing & ESOP Plans

	Example 1	Example 2	Example 3
Eligible Compensation	\$25,000	\$45,000	\$65,000
SAIC Combined Profit Sharing Contribution and Forfeitures	950	1,710	2,751
SAIC Combined ESOP Contribution and Forfeitures	875	1,575	2,275
Total Allocation	1,825	3,285	5,026
Percentage of Compensation	7.3%	7.3%	7.7%

As illustrated in these examples, company contributions for both Profit Sharing and ESOP plans reflect your level of eligible compensation.

Company contributions for all company-funded retirement plans generally range between 7% and 10% of your annual salary. You'll find the SAIC retirement plan contributions formula explained, along with other details about company contributions, in the Summary Plan Descriptions.

## Investment Alternatives

With the Profit Sharing Plan, you have a choice of investment funds available through the Vanguard Group of Investment Companies. These investment alternatives represent a combination of growth and income funds that invest in portfolios of stocks, money market instruments, bonds, and U.S. Government and agency securities. The funds are professionally managed and their performance is carefully monitored and evaluated to assure that they operate according to their stated objectives.

## Vanguard Investment Fund Alternatives

### Profit Sharing Plan

- Prime Portfolio Fund
- Short-Term Federal Portfolio
- Intermediate-Term Corporate Portfolio
- GNMA Portfolio
- Wellesley Income Fund
- Index Trust-500 Portfolio
- Windsor Fund
- U.S. Growth Portfolio
- International Growth Portfolio

### ESOP Plan

- SAIC Stock Fund-Nonexchangeable

The Profit Sharing Plan offers a variety of investment fund alternatives with a range of income and growth objectives. ESOP funds are invested primarily in SAIC stock through the SAIC Stock Fund — Nonexchangeable.

The PSRP and  
ESOP Plans  
continued

## **The PSRP and ESOP Plans** *continued*

ESOP accounts are principally invested in the SAIC Stock Fund — Nonexchangeable. This fund pools ESOP accounts which invest in SAIC stock. Although the ESOP trustee controls the account investments, you do have voting privileges for shares of SAIC stock in proportion to your ESOP investment amounts.

### **Vesting**

You become vested in your Profit Sharing and ESOP retirement accounts based on your years of service with the company. Vesting simply means that, as time goes by, an increasing percentage of your account will be available for distribution to you after you terminate employment with the company. Your interest vests at 25% per year starting with the third year and you will become fully vested after six years of service. Full vesting also occurs upon retirement after age 59-1/2, total disability or death (with payment of account balances to your designated beneficiary).

### **Distribution of Benefits**

Generally, you receive cash or SAIC stock (under certain circumstances for ESOP only) distributions from your vested account balances when you retire, or, upon request, as soon as practicable after you leave the company. In certain cases, you or your surviving beneficiary may defer the distributions for approximately five years after termination of your employment, or until age 62. The exact timing of distributions depends on individual circumstances and may be determined by reviewing plan documents on file with the Retirement Programs Department.

### **Tax Advantages**

Both Profit Sharing and ESOP are tax-qualified retirement plans. That means taxes on retirement plan contributions and investment earnings are deferred until distribution. When you receive it, your plan distribution will be taxed as ordinary income. If your distribution occurs prior to age 59-1/2, you normally will be subject to an additional 10% tax on early withdrawals.

To defer or reduce your tax liability, you may be eligible to "roll over" distributions from your plan accounts into an IRA or other qualified plan. Also, if you participated in a tax-qualified retirement plan before coming to SAIC, it may be possible for you to rollover some or all of those funds into the CODA Plan. For more information on tax consequences and eligibility requirements for rollovers, contact Retirement Programs at (619) 552-4827 and your personal tax advisor.

### **Enrollment Procedures**

You will automatically be enrolled in the SAIC Profit Sharing and ESOP plans as of the date you are first eligible to begin participation. A new participant package will be mailed to you by Retirement Programs approximately one month after the eligibility requirements are met.

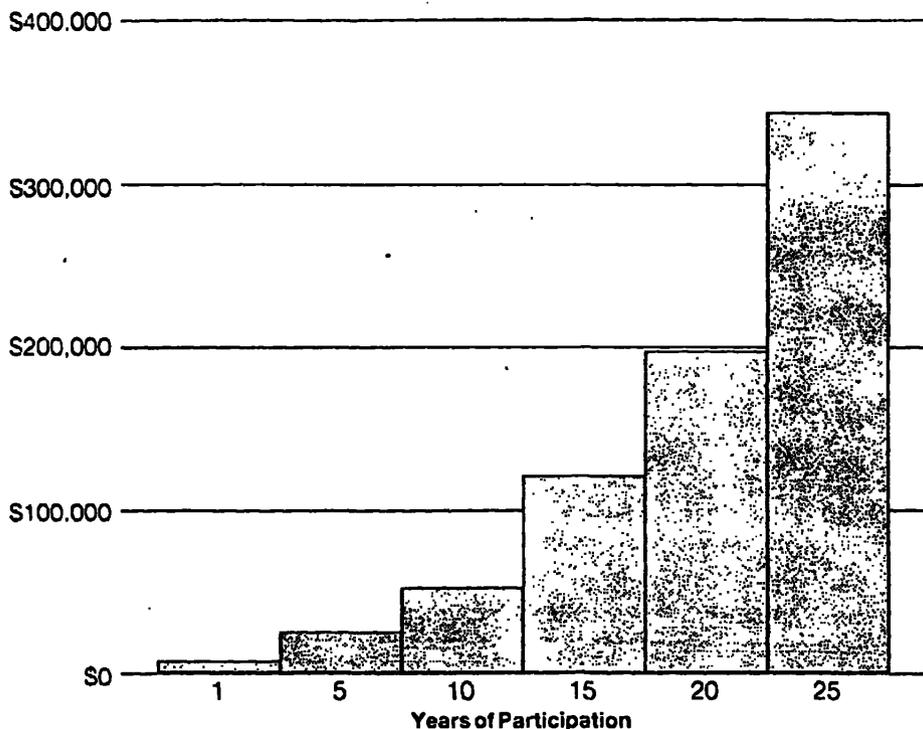
The best way to understand how SAIC's company-funded retirement plans work — and how they can contribute to your future financial security — is to look at an example. The following investment illustration is based on one salary level of income and participation in the plans.

**How Your PSRP  
and ESOP  
Investments  
Can Grow**

## Estimated Growth of Company-Funded Plans

### Annual Income of \$40,000

Plan Account  
Balances



*This bar graph represents an example assuming annual FICA base increases of 4%, annual salary increases at a rate of 4%, annual Profit Sharing and ESOP plan earnings or gains of 9.0%, and company contributions and forfeiture allocations of approximately 7.3% of eligible compensation. If actual results turn out to be different from those shown, the account values will vary.*

SAIC's company-funded plans provide an important foundation for your retirement program. By offering you a mix of company stock and outside investment fund alternatives, the Profit Sharing and ESOP plans seek to diversify your retirement investment base — while at the same time making it possible for you to share in the company's growth and profitability. Best of all, you receive these retirement benefits automatically as an eligible SAIC employee. The longer you stay with the company, the more valuable they will become.

**Summary**

## Your Retirement Program

### The Big Picture

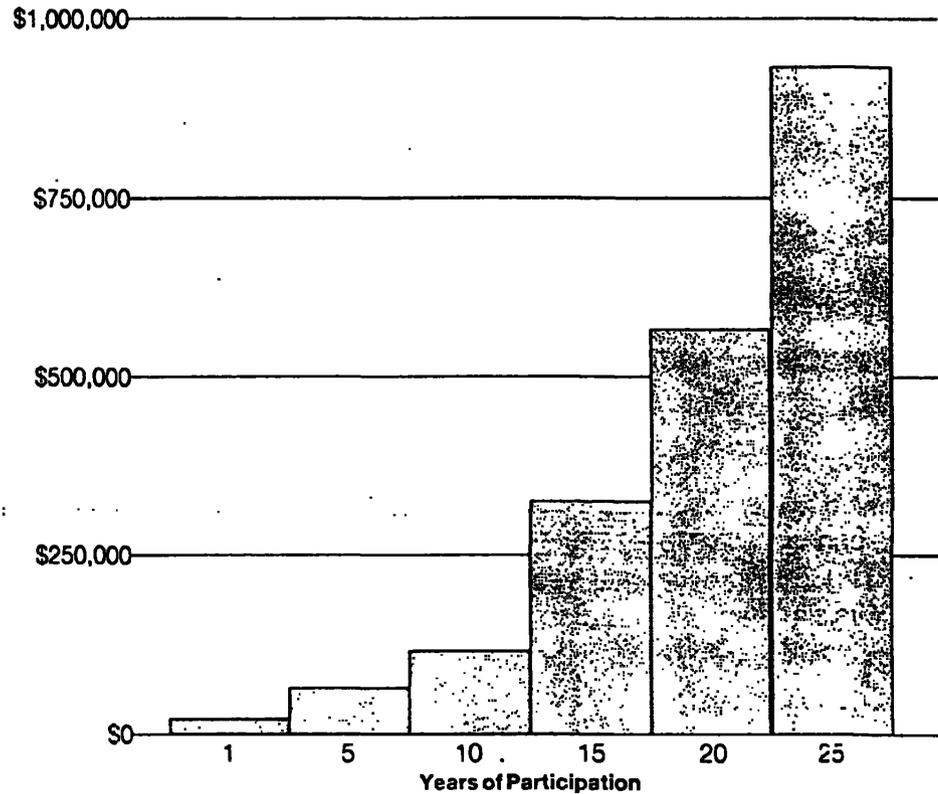
Now that you've seen how SAIC's retirement plans work individually, let's take a step back and look at how these plans can work together to create an overall retirement program.

The following investment illustration combines the assumptions we used in our previous examples for the SAIC Profit Sharing, ESOP and CODA plans.

### Potential Retirement Program Accumulation

#### Annual Income of \$40,000

Plan Account Balances



*This bar graph represents the assumptions underlying SAIC stock and retirement plan accumulation examples used earlier in this Orientation Guide. If actual results turn out to be different from those shown, your account values will vary.*

The message from these examples is clear: The earlier you get started, and the broader your participation, the greater your rewards will be — and that's true at every level of income. Once you are vested, you will receive a basic level of retirement benefits, just by being an SAIC employee. How much more retirement security you want beyond that is up to you. Please refer to the following SAIC Retirement Plans Summary.

## SAIC Retirement Plans Summary

There are several Retirement Plans which may purchase SAIC stock and/or other investments:

### Cash or Deferred Arrangement—CODA

- The CODA is funded by your tax-deferred salary plus a company matching contribution.
- You are immediately eligible for salary deferrals, but must sign up to participate.
- You will become eligible to receive a company matching contribution on the next January 1 or July 1 after completing 850 hours of service and twelve months of employment.
- Maximum deferral for company matching contribution is 10%; additional deferrals may be made in certain circumstances, and total deferrals may not exceed statutory limits established each year by the IRS.
- 30% company match for up to \$2,000 of deferred salary; 15% for amounts greater than \$2,000.
- All CODA salary deferrals and rollover accounts are always 100% vested; company matching contributions vest as described below.
- CODA salary deferral investments are self-directed and may also be used to purchase "exchangeable" SAIC stock.

(\*Note: Exchangeable stock means that stock may be exchanged for other investments available within the CODA Plan. Exchanges are subject to plan rules and liquidity.)

Company contributions to ESOP and PSRP are made automatically after you become eligible.

- Age 21; 850 hours in 12 month period.
- Profit Sharing Retirement Plan (PSRP).
- Employee Stock Ownership Plan (ESOP).

Your retirement plan account balances grow as a result of:

- Annual contributions from the company to your Profit Sharing and ESOP accounts and any voluntary pre-tax salary deferrals you elect through CODA. Once you are eligible, the company will match your CODA deferrals at 30% or 15%.
- Forfeitures of unvested balances of those who leave the company.
- Contributions and forfeitures over recent years have provided an annual contribution of 7% to 10% of your salary to your retirement plan accounts.
- Earnings on the investment of your account balances in the Vanguard Group of investment funds and SAIC stock fund. Taxes on retirement plan investment earnings are deferred until distribution.

A vesting schedule applies to your CODA company matching contributions, Profit Sharing and ESOP account balances.

- After being credited with three years of service, you are entitled to a portion of these accounts.

### Vesting Schedule

Cumulative Years Service	Percent Vested
0-2	0
3	25
4	50
5	75
6	100

Full vesting also occurs at age 59-1/2, total disability or death.

**SAIC Retirement  
Plans Summary**  
*continued*

**Investment Choices for SAIC Retirement Plans**

Plan	Nine Vanguard Funds	SAIC Stock	
		Exchangeable	Non-Exchangeable
Profit Sharing	•		
ESOP			•
CODA (410K)	Deferred Salary Account	•	
	Company Match		•

• = 1994

The following table illustrates the growth in an employee's accounts under the following principal assumptions:

1. Employee is at least 21 and is otherwise eligible and employed on a full-time regular basis.
2. FICA base increases at a rate of 4.0% per year.
3. Salary increases at a rate of 4.0% per year.
4. Employee NOT making voluntary CODA deferrals.
5. Investment earnings of:
  - Profit Sharing Plan at an annual rate of 9.0%;
  - Employee Stock Ownership plan at an annual rate of 9.0%.
6. Company contributions and forfeiture allocations to combined Profit Sharing and ESOP accounts are approximately 7.3% of eligible compensation based on experience for the past several years. Additionally, an allocation is made to Profit Sharing accounts of individuals with eligible compensation in excess of the FICA base which tends to equalize, for such employees, the percent of salary contributed by the company for all retirement plans including Social Security.

**Investment Growth Illustration —  
Company-Funded Plans**

*(See Assumptions above)*

**Combined Account Balances Based on Salary and Years in Plans.**

Starting Salary	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
15,000	7,000	19,000	40,000	75,000	130,000	220,000
25,000	12,000	32,000	67,000	125,000	217,000	366,000
35,000	16,000	45,000	94,000	174,000	304,000	512,000
45,000	21,000	58,000	121,000	224,000	391,000	659,000
55,000	26,000	71,000	148,000	274,000	478,000	805,000
65,000	31,000	87,000	180,000	334,000	583,000	980,000
75,000	39,000	106,000	221,000	410,000	715,000	1,203,000
85,000	46,000	126,000	262,000	485,000	847,000	1,425,000

*These figures are calculated under the assumptions indicated above. Many factors such as changes in the Plans, tax laws, funding levels, inflation rates, investment yields, etc. will affect future results. Therefore, there is no guarantee or obligation that these figures will actually be realized or that the company will continue these plans.*

## Profit Sharing and CODA Loans

## Loan Program

<b>Purpose</b>	<ul style="list-style-type: none"><li>• To borrow funds from combined vested portion of Retirement Plans for personal use or purchase of principal residence.</li></ul>
<b>Interest Rate</b>	<ul style="list-style-type: none"><li>• Interest rate is 2 percentage points higher than 3-year government note rates for standard loans.</li></ul>
<b>Maximum Term</b>	<ul style="list-style-type: none"><li>• Loan term is 5 years for standard loans or;</li><li>• 25 Years for purchase of principal residence.</li></ul> <p><b>Loan Amount:</b></p> <p><i>Minimum:</i></p> <ul style="list-style-type: none"><li>• \$1,000</li></ul> <p><i>Maximum:</i></p> <ul style="list-style-type: none"><li>• \$50,000 (limited by the IRS)</li><li>• 50% of vested interest (SAIC stock is used in the vested calculation, but is not included in the loan amount).</li></ul>
<b>Restrictions &amp; Repayment</b>	<ul style="list-style-type: none"><li>• Payments must be made through payroll withholding.</li><li>• Payments must continue after termination and the loan must be fully repaid within 12 months following termination.</li></ul>
<b>Eligibility</b>	<ul style="list-style-type: none"><li>• Must be a Plan participant and be currently employed.</li><li>• Must be actively employed by SAIC or affiliated company on the date that disbursement instructions are sent to Vanguard.</li></ul>

You may request additional Retirement Plan information by calling:

Corporate Retirement Programs (619) 552-4827  
Vanguard Group Services (800) 523-1188

## Looking Ahead

In the next section of this Orientation Guide we will discuss policies and resources you need to understand and forms you will need to complete.