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NETSOL INTERNATIONAL INC

Form PRER14A

June 05, 2001

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 3)

Filed by the Registrant /X/

Filed by a Party other than the Registrant / /

Check the appropriate box:

/X/ Preliminary Proxy Statement
/ / CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED
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/ / Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Section 240.14a-12

NETSOL INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the
Registrant)

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PRELIMINARY PROXY AND CONSENT SOLICITATION STATEMENT,
SUBJECT TO COMPLETION, DATED JUNE 5, 2001

[NETSOL INTERNATIONAL LETTERHEAD]

June , 2001

Dear Fellow Stockholder:

As required by the SEC's rules, we mailed to you a notice of special meeting dated June 1, 2001 and NetSol Shareholders Group, LLC mailed to you their proxy and consent solicitation statement dated June , 2001 related to a special meeting of our stockholders to be held on June 11, 2001 at our principal executive offices in Calabasas, California.

NetSol Shareholders Group, LLC, or the group, is soliciting proxies to take the following actions at the special meeting, or in the alternative, written consents to take the following actions without a shareholders meeting: (1) to amend our bylaws to increase the size of your eight member board of directors to fifteen directors, and (2) to elect seven new directors to fill the vacancies created on our board of directors by the board expansion. If the group's first proposal, expanding the board of directors to almost twice its current size, fails, its second proposal, electing the seven additional directors, will not be considered. However, if the group's first proposal is successful, we ask that you vote to fill the newly created vacancies with our nominees rather than the group's nominees. If the group's first proposal fails, we ask that you approve amendments to our articles of incorporation and bylaws to prevent future insurgents, such as the group, from bringing proxy challenges which distract our management team from its job of growing your company.

Let us tell you briefly in this letter, and in detail in the attached proxy and consent solicitation statement, why you should vote to keep your board of directors and management team in place.

1. In the past year we have focused on our core competency of software development for the leasing and finance industries, and it is paying off. We curtailed our non-core businesses which will significantly reduce our operating losses and our expenses. We are now driving our team of engineers in Lahore, Pakistan to truly capitalize on our software cost advantages. We are ISO 9001 certified in Pakistan, and have signed contracts with three units of Daimler-Chrysler.

2. We plan to begin introducing our Enterprise Resource Planning software applications into the North American market during the first half of fiscal 2002.

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3. We have a large portion of our net worth invested in your company. Four of our directors have over fifty percent of their personal wealth invested in our common stock. Each of our current directors owns at least 50,000 shares of our common stock. As you can see, our interests are aligned with yours in a very serious way.

4. As mentioned in their proxy and consent statement, the group's proposed expanded board may explore the sale of your company when valuations in the software sector are the lowest they have been in several years.

5. Members of the group have encouraged management to consider a transaction with Netgateway, Inc. The group's nominees include Don Danks and Shelly Singhal, both directors of Netgateway, the very company which the group may intend to combine with NetSol. Mr. Danks is also chief executive officer of Netgateway. Mr. Danks and Mr. Singhal would, therefore, sit on both sides of the negotiating table.

6. We have serious concerns about the ability of the group's proposed expanded board to operate our business. They have failed to propose any individual who has experience in running an international company with a major development facility in the Indian sub-continent. According to their biographies, the proposed slate includes a hedge fund manager, a racing car company owner and a couple of Wall Street financiers.

No matter how few shares you hold, please return the enclosed WHITE proxy card and YELLOW consent card as soon as possible.

Sincerely yours,

Najeeb Ghauri
Irfan Mustafa

Nasim Ashraf
Naeem Ghauri

Waheed Akbar
Shahab Ghauri

Salim Ghauri

We first sent or gave this proxy and consent solicitation statement to our stockholders on or about June , 2001.

NETSOL INTERNATIONAL, INC.
24025 PARK SORRENTO, SUITE 220
CALABASAS, CA 91302

PROXY AND CONSENT SOLICITATION STATEMENT
SPECIAL MEETING OF STOCKHOLDERS

JUNE , 2001

Your board of directors, not including Mr. Burch, are providing this proxy and consent solicitation statement and the accompanying WHITE proxy card and YELLOW consent card to you in connection with your board of directors' solicitation of (a) proxies for use at a special meeting of our common stockholders to be held on June 11, 2001, beginning at 9:00 a.m. (local time), at our principal executive offices, 24025 Park Sorrento, Calabasas, California,

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and any and all adjournments or postponements of the special meeting and (b) written consents, in lieu of a special meeting, from the shareholders of NetSol International, Inc.

The special meeting has been called solely to consider and act on the following:

- 1) A proposal submitted by the Netsol Shareholder Group, LLC to amend our bylaws to increase and fix the number of authorized directors of the company at fifteen;

AND IF THE FIRST PROPOSAL IS SUCCESSFUL,

- 2) The election of seven persons to fill the newly created vacancies by electing nominees of your board named in this proxy and consent solicitation statement or nominees of the group named in its proxy and consent statement dated May 17, 2001, to serve as directors of your company;

AND IF THE FIRST PROPOSAL IS NOT SUCCESSFUL, CONSIDER AND ACT ON OUR PROPOSALS TO,

- 3) Amend our articles of incorporation to remove cumulative voting in the election of our directors;
- 4) Amend our articles of incorporation to provide for a classified board of directors so each of our directors is elected for a three year term with one-third of our board standing for election each year;
- 5) Amend our articles of incorporation and bylaws to provide that any action required or permitted to be taken by the stockholders may be effected only at an annual or special meeting of stockholders, and not by written consent of stockholders;
- 6) Amend our articles of incorporation and bylaws to provide that only our chief executive officer, president, chairman of the board or board of directors may call a special meeting of stockholders;
- 7) Amend our articles of incorporation and bylaws to provide for an advance notice procedure for the nomination, other than by or at the direction of the board of directors or a committee of the board of directors, of candidates for election as directors as well as for other proposals to be considered at meetings of stockholders;
- 8) Amend our articles of incorporation and bylaws to provide that our directors may only be removed from office for cause;
- 9) Amend our articles of incorporation and bylaws to provide that the affirmative vote of holders of at least 66-2/3% vote of the outstanding voting stock be required to amend our bylaws or amended articles of incorporation;
- 10) Amend our articles of incorporation to authorize 5,000,000 shares of undesignated preferred stock with right, preferences and privileges to be designated by our board without your vote; and
- 11) Amend our articles of incorporation to provide for limited liability for our directors, officers and other agents of our company.

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In addition to your board's solicitation of proxies for use at our June 11, 2001 special meeting, your board of directors, not including Mr. Burch, is soliciting consents to approve and enact our proposals by an action by written consent, in lieu of a special meeting, from stockholders holding not less than a majority of the shares of our common stock outstanding and entitled vote. If consents from stockholders holding the required majority voting power are not obtained prior to our June 11, 2001 special meeting and if the proposals are not approved at our June 11, 2001 special meeting, your board will continue to solicit consents to enact our proposals through August 1, 2001. See "Written Consent Procedures" for additional important information about procedures for taking action by written consent.

We will bear the cost of preparing and mailing the notice of the special meeting, this proxy and consent solicitation statement, the WHITE proxy card and YELLOW consent card and the cost of charges made by brokerage houses and other custodians, nominees and fiduciaries for forwarding documents to our stockholders. We engaged MacKenzie Partners, Inc., or MacKenzie, to assist our board of directors in its solicitation. We will pay MacKenzie \$5,000, reimburse it for its expenses and indemnify it against liabilities, including liabilities under the securities laws. Our officers or employees may solicit proxies or consents either in person, by telephone or other electronic means and they will not receive separate or additional compensation for their solicitation efforts. Our total costs in connection with our board's solicitation of proxies and consents are currently expected to total approximately \$175,000 and to date are approximately \$95,000.

We are holding a special meeting of stockholders in response to an April 27, 2001, request letter by the Blue Water Master Fund, L.P. This request conformed with our current bylaws, which allows any one or more stockholders holding shares in the aggregate entitled to cast not less than 10% of the votes at a meeting to call a special meeting. On the same date, the group filed its preliminary proxy statement with the SEC. In response, on May 7, 2001, we filed a preliminary proxy statement opposing the group's solicitation. The group's request and proxy statement, as originally filed, asked our stockholders to vote in favor of their proposed amendment to our bylaws increasing the size of our board from eight to fifteen directors and to elect new board members comprised of their hand-picked nominees to fill the newly created vacancies.

PROPOSAL NO. 1 OF THE GROUP AND PROPOSAL NO. 2.

A group of five dissident stockholders led by Blue Water Master Fund, L.P., calling themselves NetSol Shareholders Group, LLC, are attempting to take complete control of your company. One member of the group of five dropped out so the group is now four stockholders. Rather than risking their capital in support of their ability to grow your company through purchasing your shares in order to get control, they are soliciting your proxy to vote at the special meeting or, alternatively, your written consent in lieu of the special meeting, to (1) amend our bylaws to expand your current eight member board of directors by increasing and fixing the number of authorized directors of the company at fifteen directors and (2) appoint seven of their hand-picked nominees to the board, by means of BLUE proxy cards.

YOU SHOULD NOT SIGN ANY BLUE PROXY CARD OR GREEN CONSENT CARD OR OTHER FORMS THAT MAY BE FURNISHED TO YOU BY THE SHAREHOLDER GROUP.

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In December 2000, your board of directors and management conducted a comprehensive strategic analysis of our global operations. Historically, we were an offshore-based software development company. In recent years, while continuing our software development business, we expanded into the areas of information technology and management consulting, systems integration and outsourcing services. As part of its analysis, your board decided to focus on building our software development and services business, which is now our core business again, and to significantly scale down other business activities, such as Internet and infrastructure businesses. In focusing on its software development and design business, your board also adopted a plan to expand into North America and Asia. In connection with this effort, during 2001, we scaled down our Internet-focused and e-commerce operations in the United Kingdom and in Germany and our Internet service provider operation in Karachi, all of which were not tied to our core business. All that remains to be implemented under our strategic plan outlined in our December 2000 board meeting is expanding our software development and services business into North America and Asia.

We believe the operational performance over the past nine months of our core competency of software development has been strong. In the past eighteen months, we added, as customers four of our largest software customers by revenue to date, VoiceStream Wireless USA, Daimler-Chrysler Financial Services Australia, Daimler-Chrysler Financial Services Singapore, and Daimler-Chrysler Financial Services Taiwan. We are continuing to target high revenue customers and grow our customer base. Since your board refocused our company on software development in December 2000, we added, as software customers with orders in excess of \$25,000, Wells Fargo Bank, Askari Leasing and Citibank Pakistan. We also launched new products, including a product called our Contract Management System, or CMS, which is our comprehensive lease asset-based application suite.

Since the April 2000 Nasdaq market decline, many technology companies have been delisted, or worse, dissolved. We, on the other hand, are managing our way through difficult times. Our revenues in each period this year have increased over or stayed consistent with the same periods last year, despite the global decrease in technology related spending. Our net sales were \$1,850,249 for our third quarter of fiscal 2001, which ended March 31, 2001. This was comparable to net sales of \$1,858,348 for the same quarter in fiscal 2000. Current year-to-date sales are \$5,761,234, a 14% increase from year-to-date sales for the comparable period of fiscal 2000.

We announced on May 14, 2001 that we divested our German subsidiary, Supernet AG. We took this action to continue on our plan of focusing on our core business. A positive by-product of this action is our expectation that more than \$600,000 of liabilities will be shed. The formal agreement will be closed on June 15, 2001. We also announced we are moving forward on our previously declared intention to significantly scale down our network focused operations at our U.K. subsidiary, Network Solutions Group, which was acquired in August 1999. As a result of this scaling down, we recorded a one-time non-cash charge to earnings in the third quarter for impairment losses on purchased intangible assets.

Since your board refocused our company on software development in December 2000, our Asian operations in Pakistan have reported increased revenues. In Pakistan, our products have been validated through ISO 9001 certification. Unfortunately, recent improvements in our business, its prospects and our financial results have not been rewarded in the equity market. Since the market downturn in the technology sector in April 2000, we believe our stock has, in general, done slightly better than competitor software stocks such as Scient Corp., Viant Corporation and iGate Capital.

As you know, members of your board of directors are substantial stockholders of ours. As a result, your board has their own money on the line awaiting a return of proper valuations in the software sector of the U.S. equity markets.

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Your board views enhancing stockholder value as its primary objective. Over the past year, while taking the actions described above to improve operating

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performance, your board of directors also examined many strategies for enhancing stockholder value through expansion into North American and Asian markets, acquisitions and other transactions.

Having proved our software in the Asian market by adding customers and generating higher margin revenue, we are poised to begin introducing our Enterprise Resource Planning software applications into the North American market by the first half of fiscal 2002. We plan to do this by setting up a team of marketing and sales experts to market and sell our products and services in North America. As you know, each additional sale of software has a low marginal cost. This means that if we are successful in our plans to introduce our products into North America, we expect to achieve significant growth in our operating ratio.

You can act today to protect your investment in NetSol. Whether or not you have previously signed a blue proxy card or green consent card, please sign and date the enclosed WHITE proxy card and YELLOW consent card and return them in the enclosed postage-paid envelope. Our special meeting will be held on June 11, 2001, so it is important that you send in the WHITE proxy card and YELLOW consent card today.

YOUR BOARD OF DIRECTORS UNANIMOUSLY (WITH MR. BURCH ABSTAINING) URGES YOU TO OPPOSE THE GROUP'S SOLICITATION.

YOUR BOARD'S PROPOSALS

In addition to urging you to oppose the group's solicitation, your board of directors, not including Mr. Burch, solicits your vote to approve proposals 3 through 11 to amend and restate our amended articles of incorporation and bylaws to:

- provide for the elimination of cumulative voting in the election of directors;
- provide for a classified board of directors so each of our directors is elected for a three year term with one-third of your board standing for election each year;
- provide that any action to be taken by our stockholders take place only at our annual meetings or a special meeting of our stockholders, and not by written consent of our stockholders;
- provide that only our chief executive officer, president, chairman of the board or board of directors may call a special meeting of stockholders;
- provide for an advance notice procedure for the nomination, other than by your board of directors, of candidates for election as your directors as well as for other proposals to be considered at our meetings of stockholders;
- provide that our directors may only be removed from office for cause;
- provide that the holders of at least 66 2/3% of our outstanding voting stock vote in favor of any amendment to our bylaws and some amendments to our articles of incorporation;

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- authorize 5,000,000 shares of undesignated preferred stock, with rights, preferences and privileges to be designated by your board without your vote; and
- provide for limited liability for our directors, officers and other agents.

We believe that, if approved, proposals 3 through 10 to amend our bylaws and articles of incorporation would provide for greater continuity, stability and independence of your board of directors and discourage non-negotiated takeover attempts, particularly those involving unequal treatment of our stockholders. In addition, we believe proposal 11 to amend the bylaws and articles of incorporation to permit our company to limit the liability of our directors and to provide indemnification to our officers, directors, and employees will assist us in attracting and retaining the most capable individuals to serve as our officers and directors.

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The above descriptions are only a summary of our proposals to amend and restate our articles of incorporation and bylaws and are qualified in their entirety by reference to the full text of the amended and restated articles and bylaws, copies of which are included in this proxy and consent solicitation statement as Appendix A and B.

See also "Overall Anti-Takeover Effect of Proposals 3--10 of your Board" and "Purpose and Effect of Specific Board Proposals" below for additional important information about your board's proposals.

OVERALL ANTI-TAKEOVER EFFECT OF PROPOSALS 3--10 OF YOUR BOARD

Currently, our corporate governance provisions do not provide anti-takeover protections to discourage unsolicited attempts to take control of our company, nor are there contractual provisions such as employment agreements or loan agreements with material anti-takeover impacts. If adopted, the overall effect of proposals 3 through 10 to amend our bylaws and articles of incorporation may be to discourage or hinder proxy contests, tender offers or unsolicited merger transactions. This may be disadvantageous to you to the extent that it has the effect of discouraging a future takeover attempt which is not approved by your board of directors, but which a majority of our stockholders may deem to be in their best interests or in which our stockholders may receive a substantial premium for their shares over the current market value or over their cost basis in such shares. As a result of proposals 3 through 10, stockholders who might want to participate in potential change of control transactions may not have an opportunity to do so. In addition, to the extent that our proposals enable your board of directors to resist a takeover or a change of control of our company, your board could make it more difficult to remove your existing board and management, even if removing them was beneficial to you. Other than the amendments to our bylaws and articles of incorporation described in this proxy and consent statement, your board of directors does not currently intend to propose other anti-takeover measures in the future. See "Purpose and Effect of Specific Board Proposals" below for additional information on the possible anti-takeover effects of a specific proposal.

PURPOSE AND EFFECT OF SPECIFIC BOARD PROPOSALS

A summary of the material effects and purposes of the board's specific

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proposals to amend and restate our articles of incorporation and bylaws include:

PROPOSAL NO. 3 TO ELIMINATE CUMULATIVE VOTING. Our articles of incorporation currently allow cumulative voting. Under cumulative voting, each of you is entitled to cast as many votes as there are directors to be elected multiplied by the number of shares registered in your name. You may cast all of your votes for a single nominee or may distribute them among any two or more nominees. Without cumulative voting, the holders of a majority of the shares present or represented at an annual meeting will be able to elect all our directors to be elected at that meeting, and no person could be elected without the support of a majority of the stock held by those stockholders. For example, a person or persons holding shares or proxies representing less than a majority of the shares present will not be able to elect any directors as they might if cumulative voting were applicable. The elimination of cumulative voting would prevent minority stockholder interests adverse to our company and adverse to a majority of our stockholders from obtaining representation on our board of directors. The absence of cumulative voting would also mean that minority stockholders, like the group, lose a means of having their voice heard in the management of our company.

PROPOSAL NO. 4 FOR A CLASSIFIED BOARD OF DIRECTORS. Under our current bylaws, all your directors are elected at each annual meeting of our stockholders and hold office until our next annual meeting. A classified board is permitted under Nevada law if at least one fourth of a corporation's directors are elected annually. Our proposed amended and restated articles of incorporation will divide your board of directors into three classes. Each of your directors will be elected to a three year term and each year

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only one-third of the seats on your board will be up for election. If your board is classified, at least two annual stockholders meetings, instead of one, may be required to replace a majority of your board. The division of your board into classes so only one-third of your board is up for election annually may have the effect of discouraging or delaying efforts to acquire control of the your company through a change in the composition of your board and may make it more difficult for our stockholders to change the majority of our board even when the reason for the change may be the performance of your board.

Our proposal to amend our articles of incorporation to create a classified board would also permit your board of directors to fill vacancies on your board. Individuals appointed by your board to fill vacancies on your board would hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until the director's successor had been duly elected and qualified. Under our current bylaws, a vacancy on your board of directors is filled by the vote of a majority of the outstanding voting shares present or represented and entitled to vote at a meeting of our stockholders or by the written consent of the majority of our outstanding voting shares. This means that any vacancy on your board would continue unfilled until our next stockholders meeting. Currently, an elected director holds office until the next annual meeting, which is approximately a one year term. If our proposal is approved and a vacancy on your board occurred, an individual might be appointed by your board who could potentially serve for as long as a director's full three year term.

PROPOSAL NO. 5 AND NO. 6 REGARDING ACTION BY WRITTEN CONSENT; SPECIAL STOCKHOLDER MEETINGS. Under our current bylaws, our stockholders may take any action permitted at an annual or special meeting without a meeting if done by written consent, and stockholders may call a special meeting of our stockholders. Under Nevada law, stockholders' ability to take action by written consent may be eliminated in the articles or bylaws of a corporation. If you approve the proposed amended and restated bylaws and articles of incorporation,

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the power of our stockholders to act without a meeting by written consent and to call a special meeting of our stockholders will be eliminated.

Elimination of the ability of our stockholders to act unilaterally by written consent and to call special meetings would mean that proposals for stockholder action such as proposed amendments to our bylaws or removal of our directors could be delayed until our next annual stockholders meeting. This means your board would need to devote time and energy to stockholder proposals only once a year, permitting them to spend the remainder of the year running your company. Eliminating unilateral stockholder action by written consent and the ability to call special meetings may have the effect of discouraging or delaying efforts to acquire control of our company. Elimination of these provisions would make more difficult or discourage a hostile merger, proxy contest or the assumption of control of our company by a large stockholder or group of stockholders without consent of your board. Because these provisions may allow your board of directors to resist a takeover or change in control by requiring that actions of our stockholders be submitted at a duly called and convened meeting, your board has greater power in negotiating with any potential acquiror.

PROPOSAL NO. 7 REGARDING NOTIFICATION REQUIREMENTS FOR STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS. Our current bylaws do not require stockholders to provide us with advance notice of any proposals or director nominations that stockholders seek to make at our annual or a special meeting of our stockholders. Our proposed amended and restated bylaws require that stockholders seeking to make stockholder proposals must: (i) notify us of the proposal not fewer than 120 days before the date of the meeting; (ii) disclose adequate information about the proposal to our board of directors; and (iii) provide information about our stockholders making the proposal. In addition, our amended bylaws would require that stockholders' director nominations be in writing and contain adequate information about the nominee. These prior notice provisions would give our board of directors advance notice of possible hostile stockholder proposals and director nominations, and provide our board of directors with additional time to develop a response.

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PROPOSAL NO. 8 REGARDING PROHIBITION AGAINST REMOVAL OF DIRECTORS WITHOUT CAUSE. Our current bylaws provide that our directors may be removed without cause from office, in accordance with Nevada law, if holders of two-thirds of our outstanding voting stock vote for removal. If approved, the proposed amendments to our bylaws and articles will provide that unless our board determines that removal of a director is in the best interest of our company, directors may only be removed from office for cause. These amendments may make a change of control of our company more difficult, and therefore less likely which would have the effects described above in Proposal 4. The proposed amendments may also make the removal of directors more difficult even if beneficial to our stockholders.

PROPOSAL NO. 9 REGARDING STOCKHOLDER APPROVAL TO AMEND BYLAWS AND ARTICLES. Nevada law provides that stockholders holding at least a majority of a corporation's outstanding shares may amend its articles of incorporation, unless otherwise provided in that corporation's articles of incorporation. Our bylaws and articles of incorporation currently permit a group of stockholders holding at least a majority of the outstanding shares of our stock to amend our bylaws and articles. Under our proposed amended and restated articles of incorporation and bylaws, the vote of stockholders holding 66 (2)/(3)% of our company's stock will be required for stockholders to amend or repeal our bylaws and the portion of our amended and restated articles of incorporation related to our board of directors and stockholders' meetings. These provisions will make it more difficult for a group of insurgent stockholders to amend your bylaws and articles of incorporation.

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PROPOSAL NO. 10 TO AUTHORIZE UNDESIGNATED PREFERRED STOCK. Authorizing undesignated preferred stock will provide your board with the flexibility to issue up to 5,000,000 shares of preferred stock in series and with rights, preferences and privileges, as your board may determine, without requiring your prior vote. From time to time, your board may determine that the designation and issuance of preferred stock with rights and preferences is necessary to serve corporate purposes. THIS MAY INCLUDE INSTANCES, LIKE THIS CURRENT PROXY CONTEST, INVOLVING UNSOLICITED ATTEMPTS TO TAKE OVER OUR COMPANY.

If approved, this proposal could serve as an anti-takeover measure because your board, without requiring prior stockholder approval, could issue preferred stock with particular rights and preferences, including preferable voting, liquidation, dividend or other rights. Your board could authorize issuance of the preferred stock to a party friendly to the existing management, to hinder the efforts of those seeking to effect a merger or gain control of our company.

Shares of authorized and unissued stock could, within the limits imposed by applicable law, be given terms or be issued in one or more transactions that would make a takeover of our company more difficult, and therefore less likely. The issuance of additional shares of preferred stock could also be used to dilute the stock ownership of persons seeking to obtain control of our company through a "poison pill." Shares of undesignated preferred stock could be used to make acquisitions or to enter into other transactions that might frustrate potential acquirors. This could have the effect of decreasing the market price of our common stock. In addition, any preferred stock designated and issued could have rights equal to or superior to those of our outstanding common stock and could adversely affect your voting or other rights in our common stock.

Finally, any issuance of additional stock could have the effect of diluting the earnings per share and book value per share of all outstanding shares of our common stock, and not just diluting the stock ownership or voting rights of persons seeking to obtain control of our company. While this proposal would permit your management to privately place preferred stock with friendly parties or to create a poison pill, your board currently does not intend to enter into this type of transaction with any parties. Your board does not presently contemplate the designation and issuance of any undesignated preferred stock.

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PROPOSAL NO. 11 REGARDING DIRECTOR LIMITED LIABILITY. Today our bylaws provide only limited liability protection to our directors. The proposed amendments to our articles of incorporation would eliminate any personal liability of a director or officer to us or to our stockholders for monetary damages for breach of fiduciary duty as a director or officer, as permitted under Nevada laws. A director or officer could still be liable for (i) acts or omissions involving intentional misconduct, fraud or a knowing violation of the law or (iii) the payment of unlawful distributions to stockholders.

Our proposal will provide liability protection to our directors and officers to the extent permitted under current applicable laws. Under our proposal, if these laws are amended in the future to further limit the liability exposure of directors and officers, our directors and officers may not receive the additional protections afforded under these revised laws. If approved, our proposal would not apply retroactively to provide our current directors liability protection for actions taken prior to approval of this proposal. Following approval, a current or future director or officer of our company could not be held liable for monetary damages to our company or our stockholders for gross negligence or lack of due care in carrying out his or her fiduciary duties as our director or officer. A director could still, however, be liable if the director acted in bad faith or in a manner he or she actually believed to be opposed to the best interests of our company.

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In addition, our directors and officers could still be liable for their actions under federal laws, including securities laws, and our proposal would not eliminate the rights of our stockholders to pursue equitable remedies or any other causes of action against our directors under these federal laws.

We seek to retain the most capable individuals available to serve as our officers and directors. Your board of directors believes that providing limited liability protection to our directors and officers will be a significant factor in attracting talented individuals and in encouraging existing directors and officers to continue to serve in these capacities and freeing them to make corporate decisions on their own merits rather than out of a desire to avoid personal liability. To date, we have not experienced difficulty in attracting and retaining qualified directors but the matter of personal liability is potentially a matter of concern in serving as a director. You should note, however, that there may be an inherent conflict of interest in our board of directors' recommendation of the proposed amended and restated bylaws and charter due to the interest of the members of the board of directors in obtaining the protection of these limited liability provisions.

WHAT YOU SHOULD DO NOW

- SIGN AND MAIL BACK THE WHITE PROXY CARD AND YELLOW CONSENT CARD; AND
- DO NOT SIGN OR MAIL IN THE BLUE PROXY CARD OR GREEN CONSENT CARD OR ANY OTHER FORMS WHICH MAY BE SENT TO YOU BY THE SHAREHOLDER GROUP.

Even if you previously signed and returned a BLUE proxy or GREEN consent card, you have a right to change your vote. You may revoke your BLUE proxy card by (1) signing and returning the WHITE proxy card dated after the date of your BLUE proxy card or (2) by giving written notice of your revocation to us either (a) by mail, fax machine, email or other transmission or (b) in person at the special meeting before your BLUE proxy card is voted. You may revoke your GREEN consent card by giving written notice of your revocation to us either by mail, fax machine, email or other transmission. See "Proxy Procedures" and "Written Consent Procedures" below.

If your shares are held in "street name," only your broker or banker can vote your shares. Please contact the person responsible for your account and instruct that person to vote the WHITE proxy card and YELLOW consent card on your behalf today.

We have retained MacKenzie Partners, Inc. to assist in communicating with you in connection with our solicitation and to assist in our efforts to obtain proxies and revocations of consent. If you have any questions about how to complete or submit either your WHITE proxy card or your YELLOW consent card or any other questions, MacKenzie Partners, Inc., will be pleased to assist you. You can reach MacKenzie Partners, Inc. toll-free at (800) 322-2885 or at proxy@mackenziepartners.com.

PROXY PROCEDURES

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If you give a proxy on the enclosed WHITE proxy card or on the BLUE proxy card, you may revoke it at any time prior to the actual voting at the special meeting by:

- attending the special meeting, filing written notice of the termination of the appointment with one of our officers, and voting in person; or
- filing a new written subsequently dated appointment of a proxy with one of our officers.

If your revocation is received after the vote at the special meeting, it will not be effective. Unless you revoke your proxy prior to the special meeting, it will be:

- voted at the special meeting; and
- if you specified a choice as to how to vote your shares, the proxies will vote for you in accordance with your choice.

All of your shares will be voted at the meeting in the manner you indicate on your WHITE proxy card. If no choice is specified on your WHITE proxy card, but you properly signed, dated and returned the WHITE proxy card, the proxies named in the WHITE proxy will vote all shares represented by those proxies against the group's proposal to amend the bylaws, and if the bylaw amendment passes, in favor of the nominees to our board of directors we describe in this document. If the group's bylaw amendment is not approved, the proxies named in the WHITE proxy card will also vote all shares represented by those proxies in favor of our proposals to amend and restate our articles of incorporation and bylaws.

The only other matters that could properly come before the meeting are ministerial matters like adjournment. Unless you indicate otherwise on the WHITE proxy card, the proxies named in your WHITE proxy card will have the power to vote your shares on other matters in your proxies' discretion.

WRITTEN CONSENT PROCEDURES

Under Section 78.320 of the Nevada Revised Statutes, unless otherwise provided in the articles of incorporation or the bylaws, any action required or permitted to be taken at a meeting of stockholders of a Nevada corporation may be taken without a meeting if, before or after the action, a written consent is signed by stockholders holding at least a majority of the voting power, except that if a different proportion of voting power is required for that action at a meeting, then that proportion of written consents is required.

Thus, unrevoked consents of the holders of not less than a majority of the shares of common stock outstanding and entitled to vote on the record date must be obtained to adopt proposals 1 through 11. Since consents are required from the holders of record of a majority of the outstanding shares of our common stock in order for a proposal to be adopted, an abstention from voting on the group's GREEN consent card or your board's YELLOW consent card, signing and returning the group's GREEN consent card or your board's YELLOW consent card marked to indicate the withholding of consent to a proposal, or a broker non-vote, will have the practical effect of a vote against that particular proposal.

On May 11, 2001, your board of directors established a record date for

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shareholders entitled to consent of the close of business on May 11, 2001. As of the record date, there were 11,545,503 shares of our common stock issued and outstanding. Each share entitles the holder to one vote.

The group could cease the solicitation of consents for its proposals to amend our bylaws and elect the group's nominees to our board of directors once the group has determined that it has valid and unrevoked consents representing a majority of the issued and outstanding shares of our common stock as of the record date. Accordingly, if you have executed a GREEN consent card and desire to revoke your consent to the group's proposals, please deliver a written revocation of consent to MacKenzie Partners, Inc., the firm assisting us in this solicitation. If you have any questions about how to submit a written revocation of consent, you can reach MacKenzie Partners, Inc. toll free at (800) 322-2885 or at proxy@mackenziepartners.com.

The group has indicated that it does not intend to continue soliciting consents if sufficient consents are not received by August 1, 2001. Your board will similarly cease the solicitation of consents if sufficient consents are not received by August 1, 2001.

If any shares of our common stock that you owned on the record date were held for you in an account with a stock brokerage firm, bank nominee or other similar "street name" holder, you are not entitled to vote such shares directly, but rather must give instructions to the stock brokerage firm, bank nominee or other "street name" holder to grant or revoke consent for your shares of our common stock held for your account. Accordingly, you should contact the person responsible for your account and direct him or her to execute the enclosed YELLOW consent card on your behalf. You are urged to confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions to us in care of MacKenzie Partners, Inc. so that we will be aware of your instructions and can attempt to ensure that your instructions are followed.

VOTING AT OUR SPECIAL MEETING

Only our stockholders of record at the close of business on May 11, 2001 are entitled to notice of and to vote at our special meeting or any adjournments or postponements of the special meeting. At the close of business on May 11, 2001, there were 11,545,503 shares of our common stock outstanding. You are entitled to one vote for each share of common stock you owned at the record date.

A majority of the votes entitled to be cast on matters to be considered at our special meeting, present in person or by proxy, will constitute a quorum at our special meeting. If a share is represented for any purpose at the special meeting, it is deemed to be present for all other matters. Abstentions and broker nonvotes will be counted for purposes of determining the presence or absence of a quorum. Broker nonvotes are shares held by brokers or nominees which are present in person or represented by proxy, but which are not voted on a particular matter because instructions have not been received from the beneficial owner. Under applicable Nevada law, the effect of broker nonvotes on a particular matter depends on whether the matter is one as to which the broker or nominee has discretionary voting authority. For the proposals to be submitted at this special meeting, brokers will not have the power to exercise discretionary authority.

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Proposal 1 of the group and our proposals 3 through 11 are all proposals which will require amending our bylaws or articles of incorporation. Approval of each of these proposals will require the affirmative vote of a majority of our outstanding voting shares. For each of these proposals, abstentions and broker non-votes will have the effect of a vote against the proposal.

For Proposal 2, the affirmative vote of a majority of the outstanding voting shares of our common stock present or represented and entitled to vote at the meeting is required to elect each director, unless at least one stockholder requests cumulative voting as discussed below, in which case the seven director nominees with the highest number of affirmative votes will be elected. For this proposal,

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abstentions and broker non-votes will have no effect on the outcome. Cumulating your votes on this proposal means you may multiply the number of shares you own as of the record date, May 11, 2001, by seven and:

- give any one candidate whose name has been placed in nomination prior to the voting that total number of votes, or
- distribute your votes among as many candidates as you choose.

You may not cumulate your votes unless in accordance with Nevada law at least one stockholder has given written notice in accordance with Nevada law, not less than forty eight hours before our special meeting, of the intention to cumulate votes. If any stockholder gives notice in that manner, all stockholders may cumulate their votes.

You may inspect the list of our stockholders entitled to vote at the special meeting at our principal executive offices, 24025 Park Sorrento, Suite 220, Calabasas, CA 91302, and at our special meeting.

WHY YOUR BOARD THINKS YOU SHOULD SEND BACK A WHITE PROXY CARD AND A YELLOW CONSENT CARD

You should not support the group's attempt to take control of your company. We urge you to consider carefully the following:

1. Your board has a track record. They:
 - completed our initial public offering in 1998;
 - moved our common stock to be listed on the Nasdaq Small Cap market in 1999--it was originally only quoted on the over-the-counter bulletin board;
 - completed the acquisition of Mindsources, Inc. (now NetSol USA, Inc.), an information technology consulting service company, in August 1999;
 - completed the acquisition of Network Solutions Pvt. Ltd. in Pakistan in 1998; and
 - completed the acquisition of Intereve of California in March 2001;
 - entered into contracts with four of our largest software customers by revenue to date:
 - Daimler-Chrysler Financial Services Australia;

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- Daimler-Chrysler Financial Services Singapore;
- Daimler-Chrysler Financial Services Taiwan; and
- VoiceStream Wireless USA;
- entered into contracts with our most recent software customers, all within the last six months and valued in excess of \$25,000:
 - Askari Leasing;
 - Citibank Pakistan;
 - Wells Fargo Bank;
 - Clinical Interaction; and
 - Leverage Consulting.

Additionally, under your board's leadership, your company has completed the development or further development and launch of new applications which together we call our Enterprise Resource Planning software applications:

- Contract Management System, or CMS,
- Proposal Management System, or PMS,
- Settlement Management System, or SMS,
- Electronic Point of Sale, or ePOS, and
- Wholesale Finance System, or WFS.

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2. Your board is optimistic about its ability to position your company for long term growth by (a) focusing on industries we know well--the leasing and finance business, (b) continuing to exploit the significant cost advantage we enjoy because of our development center in Lahore, Pakistan, and (c) leveraging the team that we built into a near-term revenue generating consulting force.

LEASING AND FINANCE. Members of your board and our management team have extensive experience in the leasing and finance business. The leasing and finance business is very complex and requires multi-layered workflows. Our PMS and CMS applications fully automate these processes, and our 275 engineers and technical team in Pakistan and 25 member team outside Pakistan have invested hundreds of man years of engineering time in creating such applications.

OUR COST BASE. Your board and management team have extensive contacts in Pakistan. We have a team of over 275 software engineers in Lahore, Pakistan. We enjoy significant cost advantages of having an offshore team. In some instances, offshore labor costs can be as little as one-eighth of the labor costs incurred by domestic software development houses. Our challenge is in preserving this cost advantage by effectively managing delivery from an offshore center and, therefore, we need experienced senior management to oversee this complex process. In general, the software products business is characterized by high contribution margins for each additional sale of product. With a lower fixed-cost base, in the form of our Lahore team, more of that contribution margin is expected to flow into our net income.

LEVERAGE OUR TEAM. Our development team brought the five new applications

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comprising our Enterprise Resource Planning software to market in the last two years. We have excess capacity in the near term, and intend to use this capacity to win new customers in the current competitive pricing environment through our significant cost advantages.

3. Your board of directors has taken the following steps which have been and are expected to be successful in improving operating results.

DEVELOPED SUITE OF NICHE SOFTWARE APPLICATIONS. We developed a suite of software for use in the automobile finance and leasing industries that we expect will drive revenues in 2001 and 2002, mainly our CMS, PMS, SMS, ePOS and WFS.

ATTRACTED NEW CUSTOMERS. In the past 12 months, we have doubled our customer list, adding customers such as Volvo Australia, Wells Fargo Bank, Askari Leasing, Citibank Pakistan, Ilas of Germany, Clinical Interaction, St. George Bank Australia and VoiceStream Wireless USA, to name a few. A key accomplishment included the signing of a CMS system contract with Daimler-Chrysler in Australia, Singapore and Taiwan, valued at approximately \$1.8 million to be recognized over 1.25 years using percentage of completion accounting rules. These three Daimler-Chrysler customers are some of our key customers, representing approximately 15% of our revenues for the 12 months ended March 31, 2001.

INCREASED REVENUE GROWTH. Our net revenues increased from approximately \$3.55 million as of the fiscal year ended 1999 to approximately \$6.98 million as of the fiscal year ended 2000, a 97% increase. Net revenues for the nine months ended March 31, 2000 increased from approximately \$5.05 million to approximately \$5.76 million for that same period in 2001, a 14% increase.

IMPROVED OPERATING EFFICIENCY. We scaled down our non-core business activities in the United Kingdom and in Germany. We believe these changes will improve our operating efficiency and result in an improvement in our bottom line in the future. Our gross margin for the nine months ended March 31, 2001 was \$3.04 million, or 52.7%. This represents an increase from 48.7% and 42.9% for the fiscal years ended 2000 and 1999, respectively.

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4. Your board has their own money on the line. As of April 30, 2001, members of your board of directors collectively owned 41.4% of the outstanding shares of our common stock.

5. Your board and the current management team bring years of experience to your company. It is important for you to know that several members of your board have substantial experience in selling software properties. This substantial experience should prove invaluable to your company as we enter a more difficult economic environment and continue to explore options to enhance the value of your investment in our common stock.

YOUR BOARD RECOMMENDS THAT YOU VOTE "AGAINST" PROPOSAL NO. 1 TO INCREASE THE SIZE OF OUR BOARD AND VOTE "FOR" THE BOARD'S NOMINEES IN PROPOSAL NO. 2 AND "FOR" PROPOSALS NO. 3 THROUGH NO. 11 WITH RESPECT TO AMENDING AND RESTATING OUR ARTICLES OF INCORPORATION AND BYLAWS BY SIGNING AND RETURNING A WHITE PROXY CARD AND YELLOW CONSENT CARD.

YOUR BOARD ALSO URGES YOU NOT TO SIGN ANY BLUE PROXY CARD OR GREEN CONSENT CARD OR ANY OTHER FORMS WHICH MAY BE SENT TO YOU BY THE SHAREHOLDER GROUP.

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Even if you previously signed and returned a BLUE proxy card or GREEN consent card, you have every right to revoke your proxy or written consent. We urge you to sign, date and mail the enclosed WHITE proxy card and YELLOW consent card in the postage-paid envelope provided.

WHY YOUR BOARD THINKS YOU SHOULD NOT SUBMIT A BLUE PROXY CARD OR GREEN CONSENT CARD

Your board of directors believes that their own sizable investment in our common stock would be in jeopardy if NetSol Shareholders Group, LLC was successful in its attempt to take control of your company.

1. THE GROUP HAS NO SIGNIFICANT EXPERIENCE WITH PAKISTANI CULTURE. The majority of our software development takes place in Pakistan. The group has proposed to take control of our board, and has indicated to us that it wishes to replace our current management team. Without the ability to effectively manage cross-culturally, our software development team in Lahore would likely fall apart. Cultural differences between the United States and Pakistan require individuals who have working relationships in Pakistan, who are able to hire and retain the strongest employees, and who have a deep understanding of Pakistani culture. We have a track record of low cost software development with our Pakistani team. Can you see a group led by a 44 year old Wall Street investment banker successfully managing a team of Pakistani engineers?

2. THE GROUP'S INTERESTS ARE NOT ALIGNED WITH YOUR INTERESTS NEARLY AS WELL AS YOUR CURRENT BOARD'S INTERESTS ARE. As of April 27, 2001, the group reported in its Schedule 13D that it beneficially owned 26.0% of our common stock and your board and its management team beneficially owned over 41.4% of our common stock. Much of your board's personal net worth is tied up in your company. Would you rather be an owner of just another portfolio company that happens to be in the software business of a Netherland Antilles/Cayman Island based private equity fund or part of a company where management had its personal future at stake?

3. THE GROUP'S OPERATING STRATEGY FOR YOUR COMPANY IS UNKNOWN. The group's filings reveal a number of links with a company called Netgateway, Inc. As we said, the group has two Wall Street financiers who, from an examination of their biographies in the group's proxy statement, are without operating experience. The group also includes the chief executive officer of Netgateway as a member. On January 10, 2001, Netgateway was dropped from the Nasdaq Small Cap market to the over-the-counter bulletin board while your board took our company from the over-the-counter bulletin board to the Nasdaq Small Cap market. The group has not come out and said if they have any specific plans to combine Netgateway with us, but this is a strong possibility, given the fact that, according to its public

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filings, the group and Netgateway entered into mutual, irrevocable stock option agreements, and two Netgateway directors are included as the group's board nominees. Do you know anything about Netgateway?

4. THE GROUP WILL STICK YOU WITH THE COST OF ITS TAKEOVER. The group has indicated that if it is successful, we will pay them approximately \$250,000 for their troubles. If the first thing they will do with our money is pay themselves, what will be the second thing that they do?

5. THE GROUP HAS NOT SHOWN ITSELF TO BE THOROUGH. The group initially

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filed a proxy statement seeking to replace our entire board of directors. Nevada law requires a vote of two-thirds of the outstanding shares entitled to vote to remove an entire board of directors. Your board owned, as of April 30, 2001, 41.4% of our outstanding common stock. Accordingly, there was no mathematically possible way for the group's proposal to be approved. It appears the group did not carefully research this question before they filed a proxy statement with the Securities and Exchange Commission. If they are this careless, what kind of stewards would they be of your investment in our common stock?

6. THE GROUP IS PROPOSING A BOARD SIZE THAT IS TOO LARGE TO BE EFFECTIVE. Most likely because the group recognized its error under Nevada law, the group is proposing to increase the board size to fifteen individuals. Under applicable corporate law, a company is to be managed under the direction of its board. It is difficult to imagine how a group of fifteen individuals will be able to assemble a quorum of its members, debate corporate strategy and make decisions effectively. Do you think we need a board bigger than that of many of the largest publicly traded companies?

BACKGROUND INFORMATION ON THE ELECTION OF OUR DIRECTORS

Our bylaws authorize eight directors, and state that our stockholders will elect our directors at each annual meeting. Your board is currently comprised of eight members. Our directors are currently elected to serve for a one-year term or until their successors have been duly elected and qualified. If any directors are elected at our special meeting, they would serve until our next annual meeting of stockholders, or until their successors have been duly elected and qualified.

If a quorum is present at the special meeting and if the group's proposal to amend our bylaws is successful, the seven nominees receiving the highest number of affirmative votes of the shares present in person or represented by proxy and entitled to vote for them will be elected as directors. Only votes cast for a nominee will be counted, and the accompanying WHITE proxy card will be voted "FOR" all of your board's nominees in the absence of instruction to the contrary. Abstentions, broker nonvotes and instructions on the accompanying WHITE proxy card to withhold authority to vote for one or more nominees will result in all the nominees receiving fewer votes. However, the number of votes otherwise received by the nominee will not be reduced by that action.

YOUR MANAGEMENT NOMINEES

BIOGRAPHICAL INFORMATION. We are providing you with information about our nominees for election to our board, each of whom has consented to serve if elected. The business address for our nominees is c/o 24025 Park Sorrento, Suite 220, Calabasas, CA 91302.

RICK POOLE has been our corporate controller since August 2000, and our corporate secretary since November 2000. Mr. Poole joined NetSol International from Stonefield Josephson, Inc., where he was a senior manager in the firm's audit and attest services division. He was responsible for the delivery of audit and consulting services to a variety of clients in the IT, manufacturing and professional services industries. Mr. Poole is responsible for all aspects of our audit and tax filings, implementing and overseeing financial controls, and compliance of all regulatory filings and requirements in coordination with our CFO. Mr. Poole has a B.S. from California State University at Fullerton, and is a licensed Certified Public Accountant, Certified Fraud Examiner and a member of the American Institute of Certified Public Accountants.

FRED FIRTH has been the chief executive of Abraxas Software (now NetSol-Abraxas) for over 20 years. Presently, Mr. Firth specializes in the sales

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and marketing areas of the business. Mr. Firth's knowledge of the automotive sales, finance and insurance industry is considerable. He designed the world's first finance and insurance computer systems for automotive dealerships and has led the drive towards standardization of the systems used by financiers and insurers within Australia and New Zealand. Most of the finance software systems used in the U.K today have been built around Mr. Firth's original designs for the Rover Car Company's finance arm Rover Finance. Before joining Abraxas Software, Mr. Firth held a technical sales and training position with Olivetti U.K. and Australia.

EUGEN BECKERT is the director of Daimler-Chrysler Financial Services and senior representative of Mercedes-Benz Finance Co. Ltd. Japan, this year having joined Financial Services Asia/Pacific in a special effort regarding the strategic alignment of future business in Japan. Mr. Beckert has worked with Mercedes-Benz, Daimler-Benz, and Daimler-Chrysler for nearly 20 years. He has been instrumental in developing major innovations in the IT of Mercedes-Benz assembly plants, including implementation of a global IT template. He served on the project team responsible for restructuring the headquarters of Daimler-Benz AG in Stuttgart, Germany, and he also set up global IT strategies and organizations for the newly formed Debis Financial Services and Financial Services Asia/ Pacific. By 1995, Mr. Beckert was responsible for control of IT Management in over 50 companies in over 20 countries. Mr. Beckert holds a diploma in economics and engineering from the University of Karlsruhe, Germany.

JAMES L. ARRINGTON is the former deputy commissioner of the General Services Administration (GSA). He directed GSA's \$5 billion annual government-wide IT contracting programs, and, during his tenure, Jim initiated the Multiple Awards Schedule improvement project. Jim has an extensive technical background, having served as chief of systems at GSA and managing the twelve regional data centers. He has also served as the deputy assistant commissioner, assistant commissioner and director of procurement services. Jim is a graduate of Howard University, and has completed extensive graduate work at the George Washington University and the United States Graduate School.

YOUR BOARD AND ITS MANAGEMENT TEAM

BIOGRAPHICAL INFORMATION. We are providing you with information about the board of directors who you have ALREADY elected and who, other than Mr. Burch, are participants in this solicitation. The business address for our board members is c/o 24025 Park Sorrento, Suite 220, Calabasas, CA 91302.

NAME AND AGE -----	DIRECTOR SINCE -----	POSITION WITH THE COMPANY -----
Najeeb U. Ghauri (46).....	1997	Chief Executive Officer, Director
Irfan Mustafa (49).....	1997	Chairman of the Board, Director
Salim Ghauri (45).....	1999	President, Director
Naeem Ghauri (43).....	1999	Chief Operating Officer, Director
Shahab Ghauri (50).....	1999	Director
Waheed Akbar (49).....	1999	Director
Nasim Ashraf (50).....	2001	Executive Vice President, Director
Cary Burch (39).....	1999	Director

NAJEEB U. GHAURI served as our president from 1997 to 2000 and from 2000, has served as our chief executive officer. He has also served as one of your directors since 1997. Mr. Ghauri has an M.B.A. in Marketing Management from the Claremont Graduate School and a B.S. degree in Management/Economics from Eastern Illinois University. Prior to joining us, Mr. Ghauri was part of the marketing

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team of Atlantic Richfield Company from 1987 to 1997 and was with Unilever from 1983 to 1986. Mr. Ghauri was instrumental in our successful initial public offering in 1998. Mr. Ghauri is responsible for all of our operations in the U.S. and globally.

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IRFAN MUSTAFA has been chairman of your board and one of our directors since the inception of the company in April 1997. Mr. Mustafa has an M.B.A. from IMD (formerly Imede), Lausanne, Switzerland (1975); an M.B.A. from the Institute of Business Administration, Karachi, Pakistan (1974); and a B.S.C. in Economics, from Punjab University, Lahore, Pakistan (1971). Mr. Mustafa began his 14 year career with Unilever, Plc where he was one of the youngest senior management and board members. Later, he was employed with Pepsi International from 1990 to 1997 as a chief executive officer in Pakistan, Bangladesh, Sri Lanka and Egypt. He spent two years in the U.S. with Pepsi in their Executive Development Program from 1996 to 1997. Mr. Mustafa was relocated to Dubai as head of TRICON Middle East and North African regions. Pepsi International spun off TRICON in 1997. Mr. Mustafa is a member of our compensation committee and audit committee.

SALIM GHOURI has been with us since 1999 as our president and a member of your board of directors. Mr. Ghauri started his computer career with Citibank Riyadh from 1979 to 1984 as a programmer. Before his employment with Network Solutions (Pvt.) Ltd., Mr. Ghauri was employed with BHP in Sydney, Australia from 1987-1995, where he commenced his employment as an information technology consultant. Mr. Ghauri was the original founder of Network Solutions. Network Solutions was founded in Pakistan in 1996. Under Mr. Ghauri's leadership, we gradually built a strong team of IT professionals and infrastructure in Pakistan and became the first software house in Pakistan certified as ISO 9001.

NAEEM GHOURI has been our chief operating officer and has been one of our directors since 1999. Prior to joining us, Mr. Ghauri was a project director for Mercedes-Benz Finance Ltd., a subsidiary of Daimler-Chrysler, in Germany from 1994 to 1999. Mr. Ghauri supervised over 200 project managers, developers, analysts and users in nine European countries. Mr. Ghauri earned his degree in Computer Science from Brighton University, England.

SHAHAB GHOURI has been one of our directors since 1999 and managing director of NetSol UK Ltd. since 1999. Mr. Ghauri received his Bachelor of Arts degree in Economics from the University of Punjab in Pakistan in 1971.

WAHEED AKBAR has been one of our directors since 1999. Dr. Akbar is an orthopedic surgeon with licenses in New York, Michigan, Florida and California. Dr. Akbar is the past president of Saginaw County Medical Society, a past president of the medical staff at St. Mary's Hospital and a present board member of the Field Neuroscience Institute. Dr. Akbar has been instrumental in attracting a group of Pakistani-American physicians and business persons who invested in our company in exchange for restricted shares in 1999-2000. Dr. Akbar assists the company's development team in furthering some key medical software applications, which is currently at the research and development stage. Dr. Akbar is a member of our compensation committee and audit committee.

NASIM ASHRAF has been one of our directors since 2000 and is our Executive Vice President. Dr. Ashraf is a prominent U.S.-based physician residing in Maryland. He has practiced medicine for nearly 25 years as a Nephrologist. He is also very actively involved in promoting and developing the young information technology industry in Pakistan through his association with the Science and Technology, Finance and Commerce ministries in Pakistan, and the Human Development Foundation of North America and American Pakistani Physicians of North America organizations. Dr. Ashraf has been a key figure in an effort to improve the U.S. and Pakistani relationship and is very active in several educational, human development and medical causes in under-developed countries.

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Dr. Ashraf will play a key role in financing and public relations activities in both the U.S. and Pakistan.

CARY BURCH has been one of our directors since 1999. Mr. Burch is currently the President and CEO of CreditNet, Inc., which is a division of First American CREDCO. He has an MBA from Pepperdine University and has attended Harvard Business School for a Senior Executive Management course. Mr. Burch is a member of our compensation committee and audit committee.

Messrs. Najeeb Ghauri, Salim Ghauri, Naeem Ghauri and Shahab Ghauri are brothers.

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BOARD MEETINGS AND BOARD COMMITTEES. We have a compensation committee and an audit committee. Our audit committee and compensation committee each had one meeting during fiscal year 2000. Your board of directors had two meetings during fiscal year 2000.

EXECUTIVE COMPENSATION. The summary compensation table shows certain compensation information for services rendered in all capacities during each of the last three fiscal years by the officers of the company who received compensation in excess of \$100,000 during the fiscal year ended June 30, 2000. The following information for the officers includes the dollar value of base salaries, bonus awards, the number of stock options granted and certain other compensation, if any, whether paid or deferred.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPLE POSITION	YEAR ENDED	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWA
		SALARY (1)	BONUS	RESTRICTED STOCK SECURITIES (3)
Najeeb U. Ghauri, Chief Executive Officer, Director	2000	\$100,000	-0-	-0-
	1999	\$100,000	-0-	-0-
	1998	91,150	-0-	N/A
Naeem Ghauri, Chief Operations Officer, Director	2000	\$150,000	-0-	-0-
	1999	\$150,000	\$30,000 (10)	-0-
	1998	N/A	N/A	N/A
Salim Ghauri, President, Director	2000	\$100,000	-0-	-0-
	1999	\$100,000	-0-	-0-
	1998	N/A	N/A	N/A
Syed Husain, Chief Financial Officer	2000	\$100,000	-0-	-0-
	1999	N/A	N/A	N/A
	1998	N/A	N/A	N/A

(1) No officers received or will receive any bonus or other annual compensation other than salaries during fiscal 2000, nor any benefits other than those

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available to all other employees that are required to be disclosed.

- (2) No officers received or will receive any long-term incentive plan (LTIP) payouts or other payouts during fiscal 1999.
- (3) All stock awards are shares of our common stock.
- (4) All securities underlying options are shares of our common stock.
- (5) Includes options to purchase 20,000 shares of our common stock granted to each of our directors for the 1999-2000 term at an exercise price of \$5.50, which vested at the end of the 1999-2000 term. Options must be exercised within five years after the September 1999 date of grant.
- (6) Includes options to purchase 100,000 shares of our common stock granted to Najeeb Ghauri as an officer of the company in February 2000 with an exercise price of \$21.00 per share, exercisable immediately from the date of grant. The options must be exercised within five years from the date of grant.

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- (7) Includes options to purchase 450,000 shares of our common stock granted under an employment contract with the company. Options to purchase 150,000 shares at an exercise price of \$1.58 vested in May 1999; options to purchase an additional 150,000 shares at an exercise price of \$2.58 vested in May 2000; and options to purchase an additional 150,000 shares at an exercise price of \$2.58 vest in May 2001.
- (8) Includes options to purchase 20,000 shares of our common stock granted to each of our directors for the 1998-1999 term at an exercise price of \$1.58, which vested at the end of the 1998 term. Options must be exercised within five years after November 18, 1998.
- (9) Includes options to purchase 50,000 shares of our common stock granted in July 1999, at an exercise price of \$1.01, vesting immediately upon grant. Options must be exercised within five years after July 18, 1998.
- (10) Naeem Ghauri received a signing bonus upon the execution of his employment agreement dated April, 17, 1999.
- (11) Includes options to purchase 50,000 shares of our common stock granted to Mr. Husain as part of his compensation with an exercise price of \$21 to vest at the end of one year from February 2000. The options must be exercised within five years from February 2000.

We sponsor a 401(k) retirement salary plan that is available to our employees, which was effective January 1, 2000.

OPTIONS/SAR GRANTS IN LAST FISCAL YEAR (INDIVIDUAL GRANTS)

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SH)	EXPR
-----	-----	-----	-----	-----
Najeeb U. Ghauri,	20,000	1%	\$5.50/share	Sept

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Chief Executive Officer, Director	100,000	9%	\$21.00/share	Febr
Salim Ghauri, President, Director	20,000	1%	\$5.50/share	Sept
Naeem Ghauri, COO, Director	20,000	1%	\$5.50/share	Sept
Syed Husain, CFO	50,000 (1)	4%	\$21.00/share	Febr

(1) One year vesting period from the date of grant, February 2000.

OPTION EXERCISES AND HOLDINGS. The following table sets forth information concerning each exercise of a stock option during the fiscal year ended June 30, 2000 by each of our named executive officers and the number and value of unexercised options held by each of our named executive officers on June 30, 2000.

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AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF UNEXERCISED OPTIONS/SARS AT FY-END (#) EXERCISABLE/UNEXERCISABLE	VAL EXERCI
Najeeb U. Ghauri, Chief Executive Officer, Director	245,000	\$12,564,400	420,000/0	
Salim Ghauri, President, Director	150,000	\$ 8,463,000	320,000/0	
Naeem Ghauri, COO, Director	150,000	\$ 8,463,000	320,000/0	
Syed Husain, CFO	-0-	-0-	-0-/50,000	

(2) The closing price of the stock at fiscal year end was \$35.50.

COMPENSATION OF DIRECTORS; OUR 1999 STOCK OPTION PLAN. We may reimburse each of our directors for out-of-pocket expenses incurred in connection with their attendance at meetings. In addition, our 1999 Incentive and Nonstatutory Stock Option Plan provides for the grant of stock options to our non-employee directors without any action on the part of your board of directors, upon the terms and conditions set forth in the 1999 Stock Option Plan. The exercise price of these options is 100 percent of the fair market value of the shares of our common stock subject to the option on the date on which those options are granted. Each option is subject to the other provisions of the 1999 Incentive and Nonstatutory Stock Option Plan.

We do not separately pay our directors who are not our employees or consultants. Our directors received 25,000 options at an exercise price of \$5.00

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per share, restricted under Rule 144 for the 2000-2001 term served for their services. We reimburse our directors for their expenses incurred during their term as a director directly relating to their position as a director.

BENEFICIAL OWNERSHIP OF OUR COMMON STOCK

The following table sets forth, as of April 30, 2001, certain information regarding the ownership of our common stock by (a) each person who is known to us to own, of record or beneficially, more than five percent of our common stock, (b) each of our directors and director nominees and (c) all directors and executive officers as a group. Where the persons listed have the right to acquire additional shares of our common stock through the exercise of options or warrants within 60 days, those additional shares are deemed to be outstanding for the purpose of computing the percentage of outstanding shares owned by such persons, but are not deemed to be outstanding for the purpose of computing the percentage ownership interests of any other person. We can not assure you of the accuracy of this table. We derived this table solely from information provided to us by our directors and executive

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officers and from filings with the SEC. Unless otherwise indicated, each of the stockholders shown in the table below has sole voting and investment power with respect to the shares beneficially owned.

NAME OF BENEFICIAL OWNER -----	NUMBER OF SHARES(1) -----	PERCENTAGE OWN -----
Najeeb Ghauri.....	735,000 (2)	6.4%
Naeem Ghauri.....	1,134,436 (3)	9.8%
Irfan Mustafa.....	120,000 (4)	1.0%
Salim Ghauri.....	1,386,416 (3)	12.0%
Shahab Ghauri.....	1,258,432 (6)	10.9%
Cary Burch.....	0	*
Waheed Akbar.....	100,000 (5)	*
Nasim Ashraf.....	50,000	*
NetSol Shareholders Group, LLC(7).....	3,007,740	26.0%
All directors and executive officers as a group (8 persons).....	4,784,284	41.4%

* Less than one percent

(1) Except as otherwise indicated, we believe that the beneficial owners of our common stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to any applicable community property laws. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of our common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage of the person holding those options or warrants, but are not deemed outstanding for purposes of computing the percentage of any other person.

(2) Excludes 150,000 options granted under his employment contract at an exercise price of \$2.58 vested in April 2000 and another 150,000 granted to him at an exercise price of \$3.58 vested in April 2001; includes 20,000

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options granted to each director at an exercise price of \$5.13 for five years from September 1999 for their services during the 1999-2000 term;

- (3) Excludes 150,000 options granted under his employment contract at an exercise price of \$2.58 vested in April 2000 and another 150,000 granted to him at an exercise price of \$3.58 vested in April 2001; includes 20,000 options granted to each director at an exercise price of \$5.00 for five years from September 1999 for their services during the 1999-2000 term. For those directors that are 10% stockholders, the exercise price is \$5.50.
- (4) Includes 20,000 options granted to each director for the term 1997-1998 at an exercise price of \$.01 for five years from May 12, 1997; includes 20,000 options granted to each director for the term 1998-1999 at an exercise price of \$1.44 for five years from May 18, 1999; includes 25,000 options granted as chairman of your board at an exercise price of \$1.44 for five years from May 18, 1999.
- (5) Excludes 20,000 options granted to each director for the term 1999-2000 at an exercise price of \$5.00 for five years from September 1999.
- (6) Excludes 20,000 Options granted to officers of NetSol UK in August 1999, at an exercise price of \$5.00 to vest one year from the date of grant. Options are for a term of five years from August 1999; Includes 20,000 options granted to each director for the term 1999-2000 at an exercise price of \$5.00 for five years from September 1999. For those directors that are 10% stockholders, the exercise price is \$5.50.
- (7) As reported in Blue Water Master Fund LP's Schedule 13D/A as filed with the Securities and Exchange Commission on April 27, 2001.

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CERTAIN RELATIONSHIPS AND TRANSACTIONS

In September 1999, we entered into a consulting contract with one of our directors, Irfan Mustafa, for Mr. Mustafa to develop and advise us on marketing strategies, develop investor relations and develop strategic alliances. In addition, Mr. Mustafa is to assist the board of directors in mergers, acquisitions and other business combinations. The agreement is for a base term of three years, and is renewed automatically thereafter for succeeding one-year terms until terminated by either party. The agreement provides for a monthly retainer of \$4,000. The agreement also provides for certain covenants concerning confidentiality and non-competition.

We believe that the terms of these transactions are no less favorable to us than would have been obtained from an unaffiliated third-party in similar transactions. All future transactions with affiliates will be on terms no less favorable than could be obtained from unaffiliated third parties, and will be approved by a majority of the disinterested directors.

DEADLINE FOR SUBMISSION OF STOCKHOLDER PROPOSALS FOR OUR 2001 ANNUAL MEETING

The rules of the Securities and Exchange Commission permit our stockholders, after notice to us, to present proposals for stockholder action in our annual meeting proxy statement where such proposals are consistent with applicable law, pertain to matters appropriate for stockholder action and are not properly omitted by our action in accordance with the proxy rules published by the Securities and Exchange Commission. Our next annual meeting of stockholders is expected to be held on or about November 15, 2001, and proxy materials in connection with that meeting are expected to be mailed on or about September 28, 2001. We must receive stockholder proposals prepared in accordance with the proxy rules on or before June 1, 2001. Stockholders wishing to nominate

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directors or propose other business at the 2001 Annual Meeting, but not intending to include such nomination or proposal in our proxy statement for that meeting, must give advance written notice to us. Notice of any stockholder nomination or proposal must be received at our principal executive offices by October 4, 2001. If this notice is not timely, then the nomination or proposal will not be brought before the 2001 Annual Meeting.

YOU SHOULD BE CAUTIOUS ABOUT RELYING ON OUR FORWARD LOOKING STATEMENTS IN THIS DOCUMENT

This document contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. The words "believe," "expect," "anticipate," "intend," variations of those words, and similar expressions identify forward looking statements, but their absence does not mean that the statement is not forward-looking. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Factors that could affect our actual results include the progress and costs of the development of products and services and the timing of the market acceptance, and other factors described in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K and quarterly reports on Form 10-Q. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this document.

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APPENDIX A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

NETSOL INTERNATIONAL, INC.

ARTICLE 1

The name of the Corporation is Netsol International, Inc.

ARTICLE 2

The total number of shares of capital stock which the Corporation shall have authority to issue is 30,000,000 shares, divided into the following classes:

25,000,000 shares of Common Stock having a par value of \$0.001 per share (the "Common Stock"); and

5,000,000 shares of Preferred Stock, having a par value of \$0.001 per share (the "Preferred Stock").

The board of directors of the Corporation (the "Board of Directors") is expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more series, and to fix for each such series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such series and as may be permitted by the Nevada Revised Statutes (as amended from time to time, the "NRS"), including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at any time or times and at such price or prices;

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(ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; (vi) entitled to vote separately or together with any other series or class of stock of the Corporation; or (v) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions.

ARTICLE 3

The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

a. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

b. The directors shall have concurrent power with the stockholders to make, alter, amend, change, add to or repeal the bylaws of the Corporation as in effect from time to time (the "Bylaws"). In addition, the affirmative vote of the holders of sixty six and two-thirds percent of the outstanding shares of voting stock of the Corporation then entitled to vote on the election of directors shall be

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required for an alteration, amendment, change, addition or repeal of the Bylaws by the stockholders of the Corporation.

c. The authorized number of directors of the Corporation shall be as set forth in the Bylaws until changed from time to time by resolution of the Board of Directors. Election of directors need not be by written ballot unless the Bylaws so provide. Advance notice of stockholder nominations for the election of directors and of any other business to be brought before any meeting of the stockholders shall be given in the manner provided in the Bylaws.

At each annual meeting of stockholders, directors of the Corporation shall be elected to hold office until the expiration of the term for which they are elected, or until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the NRS.

The directors of the Corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, and Class II and Class III. For the purposes hereof, the initial Class I, Class II and Class III directors shall be those directors so designated by a resolution of the Board of Directors. At the first annual meeting of stockholders following the closing of the initial public offering of the Common Stock, the term of office of the Class I directors shall expire and Class I directors shall be elected for a full term of three years. At the second annual meeting of stockholders following the closing of the initial public offering of the Common Stock, the term of office of the Class II directors shall expire and Class II directors shall be elected for a full term of three years. At the third annual meeting of stockholders following the initial public offering of the Common Stock, the term of office of the Class III directors shall expire and Class III directors shall be elected for a full term of three years. At each succeeding annual meeting of stockholders, directors shall be elected for a full term of

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three years to succeed the directors of the class whose terms expire at such annual meeting. If the number of directors is hereafter changed, each director then serving as such shall nevertheless continue as a director of the class of which she or he is a member until the expiration of his current term and any newly created directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as is practicable.}

Vacancies occurring of the Board of Directors for any reason may be filled by vote of a majority of the remaining members of the Board of Directors, even if less than a quorum, at any meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor shall have been duly elected and qualified. A director may be removed from office by the affirmative vote of the holders of sixty six and two-thirds percent of the outstanding shares of voting stock of the Corporation entitled to vote on the election of directors, provided that such removal may be made only for cause.

d. No director or officer of the Corporation shall be personally liable to the Corporation or its stockholders for damages for breach of fiduciary duty as a director or officer; provided, however, that the foregoing provision does not eliminate or limit the liability of a director or officer of the Corporation for: (i) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law; or (ii) the payment of distributions in violation of NRS 78.300.

e. In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the NRS, the articles of incorporation of the Corporation as amended from time to time (the "Articles of Incorporation"), and any Bylaws, adopted by the stockholders of the Corporation; PROVIDED, HOWEVER, that no Bylaws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such Bylaws had not been adopted.

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ARTICLE 4

Meetings of stockholders may be held within or without the State of Nevada, as the Bylaws may provide. Special meetings of stockholders, for any purpose or purposes may only be called by the Board of Directors. Only the business stated in the notice of a special meeting of stockholders of the Corporation may be transacted at any special meeting of stockholders of the Corporation. The books of the Corporation may be kept (subject to any provision contained in the NRS) outside the State of Nevada at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws. Any action required or permitted to be taken by the stockholders of the Corporation may only be effected at a duly called annual or special meeting of the stockholders of the Corporation (and not by consent in lieu thereof).

ARTICLE 5

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Articles of Incorporation, in the manner now or hereafter prescribed by statute, and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever herein are granted subject to this reservation. No amendment, alteration, change or repeal of Article 3 or Article 4 of the Articles of Incorporation shall be effective unless approved by sixty six and two-thirds

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percent of the outstanding shares of voting stock of the Corporation then entitled to vote on the election of directors of the Corporation.

ARTICLE 6

The Corporation shall indemnify its directors and officers to the fullest extent authorized or permitted by law, as now or hereafter in effect, and such right to indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of his or her heirs, executors and personal or legal representatives; PROVIDED, HOWEVER, that, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or personal or legal representatives) in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors. In addition to any other rights of indemnification permitted by the law of the State of Nevada as may be provided for by the Corporation in its Bylaws or by agreement, the expenses of officers and directors incurred in defending a civil or criminal action, suit or proceeding, involving alleged acts or omissions of such officer or director in his or her capacity as an officer or director of the Corporation, must be paid by the Corporation or through insurance purchased and maintained by the corporation or through other financial arrangements made by the Corporation, as they are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined by a court of competent jurisdiction that he or she is not entitled to be indemnified by the Corporation.

The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article 6 to directors and officers of the Corporation.

The rights to indemnification and to the advance of expenses conferred in this Article 6 shall not be exclusive of any other right which any person may have or hereafter acquire under the Certificate of Incorporation, the Bylaws, any statute, agreement, vote of stockholders or disinterested directors or otherwise.

Any repeal or modification of this Article 6 by the stockholders of the Corporation shall not adversely affect any rights to indemnification and to the advancement of expenses of a director or

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officer of the Corporation existing at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

ARTICLE 7

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Nevada may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 78.630 of the NRS or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 78.600 of the NRS order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court

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directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

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APPENDIX B

AMENDED AND RESTATED BYLAWS OF

NETSOL INTERNATIONAL, INC.

ARTICLE 1 OFFICES

Section 1.1 OFFICES. Netsol International, Inc., a Nevada corporation, (the "Corporation"), may have offices at such places both within and without the State of Nevada as the board of directors of the Corporation (the "Board of Directors") may from time to time determine or the business of the Corporation may require.

ARTICLE 2 MEETINGS OF STOCKHOLDERS

Section 2.1 PLACE OF MEETINGS. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Nevada, as shall be designated from time to time by the board of directors.

Section 2.2 ANNUAL MEETINGS. The annual meetings of stockholders for the election of directors shall be held on such date and at such time as shall be designated from time to time by the Board of Directors. Any other proper business may be transacted at the annual meeting of stockholders.

Section 2.3 SPECIAL MEETINGS. Unless otherwise required by law or by the articles of incorporation of the Corporation (as amended from time to time and including any certificates of designation with respect to any preferred stock of the Corporation, the "Articles of Incorporation"), special meetings of stockholders, for any purpose or purposes, may be called by the Board of Directors pursuant to a resolution stating the purpose or purposes thereof or by the Chairman, if there be one. Any power of stockholders of the Corporation to call a special meeting is specifically denied. Notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten or more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. Only such business shall be conducted at a special meeting as shall be specified in the notice of meeting (or any supplement thereto).

Section 2.4 ADJOURNMENTS. Any meeting of the stockholders may be adjourned from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than sixty (see NRS 78.350(2)) days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to

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each stockholder of record entitled to vote at the meeting.

Section 2.5 QUORUM. Unless otherwise required by law or the Articles of Incorporation, the presence in person or by proxy of the holders of shares of capital stock entitled to cast a majority of all the votes which could be cast at such meeting by the holders of all of the outstanding shares of capital stock entitled to vote on every matter that is to be voted on at such meeting shall constitute a quorum at all meetings of the stockholders of the transaction of business. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, in the manner provided in Section 2.4, until a quorum shall be present or represented.

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Section 2.6 VOTING. Unless otherwise required by law, the Articles of Incorporation or the bylaws of the Corporation (as amended from time to time, the "Bylaws"), any question brought before any meeting of stockholders, other than the election of directors, shall be decided by the vote of the holders of a majority of the votes of shares of capital stock represented and entitled to vote thereat, voting as a single class. Every reference in the Bylaws to a majority or other proportion of shares, or a majority or other proportion of the votes of shares, of capital stock shall refer to such majority or other proportion of the votes to which such shares of capital stock are then entitled to vote on the election of directors as provided in the Articles of Incorporation. Votes of stockholders entitled to vote at a meeting of stockholders may be cast in person or by proxy but no proxy shall be voted on or after six months from the date of its creation unless such proxy is coupled with an interest, or unless the stockholder specifies in it the length of time for which it is to continue in force, which may not exceed seven years from the date of its creation. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in such officer's discretion, may require that any votes cast at such meeting shall be cast by written ballot. No stockholder may participate in a meeting of stockholders by means of a telephone conference or similar method of communication. Presence in person at such a meeting for all purposes under these Bylaws shall be by the physical presence of the stockholder at the meeting or by proxy, only.

Section 2.7 NO CONSENT OF STOCKHOLDERS IN LIEU OF MEETING. Unless otherwise provided in the Articles of Incorporation, any action required or permitted to be taken by the stockholders of the Corporation may be effected only at a duly called annual or special meeting of such holders and may not be effected by consent by such holders in lieu of such a meeting.

Section 2.8 VOTING LIST. The officer who has charge of the stock ledger of the Corporation shall prepare and make, or cause a third party to prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (a) on a reasonably accessible electronic network; PROVIDED, that the information required to gain access to such list is provided with the notice of the meeting, or (b) during ordinary business hours, at the principal place of business of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a

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reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 2.9 STOCK LEDGER. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 2.8 or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders of the Corporation.

Section 2.10 NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation, except as may be otherwise provided in the Articles of Incorporation with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of directors in certain circumstances. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.10 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this section 2.10.

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In addition to any other applicable requirements, for a nomination to be made by a stockholder of the Corporation, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation (the "Secretary").

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the corporation not less than ninety days nor more than one hundred and twenty days prior to the anniversary date of the immediately preceding annual meeting of stockholders; PROVIDED, HOWEVER, that if the annual meeting is called for a date that is not within thirty days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (including the rules and regulations thereunder, the "Exchange Act"); and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to nominate the persons named in such notice and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act. Such notice must be accompanied by a

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written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.10. If the chairman of the annual meeting determines that a nomination was not made in accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Section 2.11 BUSINESS AT ANNUAL MEETINGS. No business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.11 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 2.11.

In addition to any other applicable requirements for business to be properly brought before an annual meeting by a stockholder of the Corporation, such stockholder must have given timely notice thereof in proper written form to be Secretary.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety days nor more than one

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hundred and twenty days prior to the anniversary date of the immediately preceding annual meeting of stockholders; PROVIDED, HOWEVER, that in the event that the annual meeting is called for a date that is not within thirty days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, which ever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 2.11, PROVIDED, HOWEVER, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 2.11 shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of an annual meeting

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determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

Section 2.12 CONDUCT OF MEETINGS. The Board of Directors may adopt by resolution such rules and regulations for the conduct of meetings of the stockholders of the Corporation as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

Section 2.13 INSPECTORS OF ELECTION. Before any meeting of stockholders of the Corporation, the Board of Directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment. The number of inspectors shall be either one or three. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall: (a) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies; (b) receive votes, ballots or consents; (c) hear and determine all challenges and questions in any way arising in connection with the right to vote; (d) count and tabulate all votes or consents; (e) determine the result; and (f) do any other acts that may be proper to conduct

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the election or vote with fairness to all stockholders. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

ARTICLE 3 DIRECTORS

Section 3.1 NUMBER. The authorized number of directors shall initially be fixed at eight and may be changed from time to time by resolution of the Board of Directors.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the

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stockholders of the Corporation called for that purpose in the manner provided in the Bylaws. The number of directors may not be increased by more than one unless approved by (a) two thirds of each class of directors or (b) two thirds of each outstanding class or series of such class of stock of the Corporation.

Section 3.2 ELECTION AND TERM OF OFFICE OF DIRECTORS. Except as provided in the Articles of Incorporation or the Bylaws, directors shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, one class to be originally elected for a term expiring at the next following annual meeting of stockholders, another class to be originally elected for a term expiring at the second following annual meeting of stockholders, and another class to be originally elected for a term expiring at the third following annual meeting of stockholders, with each class to hold office until its successor is duly elected and qualified. At each succeeding annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until such person's successor shall have been elected and qualified or until such person's earlier resignation or removal. Each director, including a director elected or appointed to fill a vacancy, shall hold office until his or her successor is elected and qualified or until his earlier resignation or removal. Directors need not be stockholders unless so required by the Articles of Incorporation or by the Bylaws, wherein other qualifications for directors may be prescribed. Election of directors need not be by written ballot unless so required by the Articles of Incorporation or by the Bylaws.

Section 3.3 DUTIES AND POWERS. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by the Bylaws required to be exercised or done by the stockholders of the Corporation.

Section 3.4 MEETINGS. The Board of Directors may hold meetings, both regular and special, either within or without the State of Nevada. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman, if there be one, the President, or by any director. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight hours before the date of the meeting, by telephone or electronic communication on twenty-four hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

Section 3.5 QUORUM. Except as otherwise required by law, the Articles of Incorporation or the Bylaws, at all meetings of the Board of Directors, a majority of the Board of Directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the directors

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present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present at such meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting of the time and place of the adjourned meeting, until a quorum shall be present.

Section 3.6 ACTIONS BY WRITTEN CONSENT OF THE BOARD. Unless otherwise provided in the Articles of Incorporation or the Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the

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Board of Directors or committee, as the case may be, consent thereto in writing or electronic communication, and the writing, writings or paper copies of the electronic communications are filed with the minutes of proceedings of the Board of Directors or committee.

Section 3.7 RESIGNATION AND VACANCIES. Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

Unless otherwise provided in the Articles of Incorporation or the Bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Each director so elected shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until a successor has been elected and qualified.

Unless otherwise provided in the Articles of Incorporation or the Bylaws, whenever the holders of any class or classes of stock or series of stock of the Corporation are entitled to elect one or more directors by the provisions of the Articles of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series of stock of the Corporation then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the Corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders of the Corporation solely for the purpose of electing directors in accordance with the provisions of the Articles of Incorporation or the Bylaws, or may apply to the district court for a decree summarily ordering an election as provided in Section 78.345 of the Nevada Revised Statutes (as it may be amended from time to time, the "NRS").

Section 3.8 STANDING COMMITTEES. The Board of Directors, by resolution adopted by a majority of the entire Board, shall appoint from among its members (i) an Audit Committee and (ii) a Compensation Committee, to perform the functions traditionally performed by such committees.

Section 3.9 COMMITTEES. The Board of Directors may designate one or more other committees (in addition to the mandatory standing committees described in Section 3.8), each such other committee to consist of one or more of the directors of the Corporation. With respect to all Board committees (including, but not limited to, the standing committees described in Section 3.8), in the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members of any committee present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee (including, but not limited to, any standing committee described in Section 3.8), to the extent permitted by law and subject to the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and

affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Each committee (including, but not limited to, each standing committee described in Section 3.8) shall keep regular minutes and report to the Board of Directors when required.

Section 3.10 COMPENSATION. The directors may be paid their expenses, if any, of the attendance at each meeting of the Board of Directors and shall receive such compensation for their services as directors as shall be determined by the Board of Directors. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.11 REMOVAL. Any director or the entire Board of Directors may be removed for cause by the affirmative vote of two-thirds of the voting power of the issued and outstanding stock entitled to vote. Unless the Board of Directors has made a determination that removal is in the best interests of the Corporation (in which case the following definition shall not apply), "cause" for removal of a director shall be deemed to exist only if (i) the director whose removal is proposed has been convicted, or when a director is granted immunity to testify when another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (ii) such director has been found by the affirmative vote of a majority of the directors then in office at any regular or special meeting of the Board of Directors called for that purpose, or by a court of competent jurisdiction to have been guilty of willful misconduct in the performance of his or her duties to the Corporation in a matter of substantial importance to the Corporation; or (iii) such director has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his or her ability as a director of the Corporation. Notwithstanding the foregoing, whenever holders of outstanding shares of one or more series of preferred stock of the Corporation are entitled to elect directors of the Corporation pursuant to the provisions applicable in the case of arrearages in the payment of dividends or other defaults contained in the resolution or resolutions of the Board of Directors providing for the establishment of any such series, any such director of the Corporation so elected may be removed in accordance with the provisions of such resolution or resolutions.

ARTICLE 4 NOTICES

Section 4.1 NOTICE TO DIRECTORS AND STOCKHOLDERS. Whenever, under the provisions of applicable law, the Articles of Incorporation or the Bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his, her or its address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail or, to the extent permitted by law, by a form of electronic transmission consented to by stockholder or director to whom notice is given. An affidavit of the Secretary or an Assistant Secretary of the Corporation or of the transfer agent or other agent of the Corporation that the notice has been given shall in the absence of fraud, be prima facie evidence of the facts stated therein. Notice to directors may also be given by telephone, facsimile, telegram or electronic transmission.

Section 4.2 WAIVER. Whenever notice is required to be given under applicable law, the Articles of Incorporation or the Bylaws, a written waiver, signed by the person or persons entitled to said notice, or, to the extent permitted by law, a waiver by electronic transmission by the person entitled to

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said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. The written waiver or any waiver by electronic transmission need not specify the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors. Attendance of a person at a meeting shall constitute a waiver of notice of such

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meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE 5 OFFICERS

Section 5.1 ENUMERATION. The officers of the Corporation shall be chosen by the Board of Directors and shall include a President, a Secretary, a Treasurer and such other officers with such other titles as the Board of Directors shall determine. The Board of Directors may elect from among its members a Chairman or Chairmen of the Board and a Vice Chairman of the Board. The Board of Directors may also choose one or more Vice Presidents and Assistant Secretaries. Any number of offices may be held by the same person, unless the Articles of Incorporation or the Bylaws otherwise provide.

Section 5.2 ELECTION. The Board of Directors at its first meeting after each annual meeting of stockholders shall elect a President, a Secretary, a Treasurer and such other officers with such other titles as the Board of Directors shall determine.

Section 5.3 APPOINTMENT OF OTHER AGENTS. The Board of Directors may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

Section 5.4 COMPENSATION. The salaries of all officers of the Corporation shall be fixed by the Board of Directors or a committee thereof. The salaries of agents of the Corporation shall, unless fixed by the Board of Directors, be fixed by the Chief Executive Officer or any Vice President of the Corporation.

Section 5.5 TENURE. The officers of the Corporation shall hold office until their successors are elected and qualify or until such officer's earlier resignation or removal. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the directors of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors.

Section 5.6 CHAIRMAN OF THE BOARD AND VICE-CHAIRMAN OF THE BOARD. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and of the stockholders of the Corporation at which he or she shall be present. The Chairman shall have and may exercise such powers as are, from time to time, assigned to the Chairman by the Board of Directors and as may be provided by law. In the absence of the Chairman of the Board, the Vice Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and of the stockholders of the Corporation at which the Vice Chairman shall be present. The Vice Chairman shall have and may exercise such powers as are, from time to time, assigned to such person by the Board of Directors and as may be provided by law.

Section 5.7 PRESIDENT. The President of the Corporation shall be the Chief Executive Officer of the Corporation unless such title is assigned to another officer of the Corporation; in the absence of a Chairman and Vice Chairman of

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the Board, the President shall preside as the chairman of meetings of the stockholders of the Corporation and the Board of Directors; and the President shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President or any Vice President shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

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Section 5.8 VICE PRESIDENT. In the absence of the President or in the event of the President's inability or refusal to act, the Vice President, if any (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 5.9 SECRETARY. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders of the Corporation and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book or an electronic record to be kept for that purpose and shall perform like duties for the committees of the Board of Directors when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders of the Corporation and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision the Secretary shall be subject. The Secretary shall have custody of the corporate seal of the Corporation and the Secretary, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the Secretary's signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by such officer's signature.

Section 5.10 ASSISTANT SECRETARY. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of the Secretary's inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 5.11 TREASURER. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors and the Board of Directors may, by resolution, delegate such power of designation to any officer or officers of the Corporation. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors or any officer of the Corporation to whom the Board of Directors may, by resolution, delegate such power, taking proper vouchers for such disbursements, and shall, upon request, render to the President and the Board of Directors, an account of all such transactions and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors

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for the faithful performance of the duties of the Treasurer's office and for the restoration to the Corporation, in case of the Treasurer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the possession or under the control of the Treasurer that belongs to the Corporation.

ARTICLE 6 CAPITAL STOCK

Section 6.1 CERTIFICATES. The shares of capital stock of the Corporation shall be represented by a certificate, unless and until the Board of Directors adopts a resolution permitting shares to be uncertificated. Certificates for shares of capital stock of the Corporation shall be signed by, or in the name of the Corporation by, (a) the Chairman of the Board, the Vice Chairman of the Board, the

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President or any Vice President, and (b) the Treasurer, the Secretary or an Assistant Secretary, certifying the number of shares owned by such stockholder in the Corporation.

Section 6.2 SIGNATURE. Any of or all of the signatures on a certificate may be facsimile or conformed. In case any officer, transfer agent or registrar who has signed or whose facsimile or conformed signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 6.3 LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or such owner's legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 6.4 TRANSFER OF STOCK. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation.

Section 6.5 RECORD DATE. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholder or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date,

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which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; PROVIDED, HOWEVER, that the Board of Directors may fix a new record date for any adjourned meeting. The Board of Directors shall, pursuant to NRS 78.350, fix a new record date if the meeting is adjourned to a date more than sixty days later than the date set for the original meeting.

Section 6.6 REGISTERED STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Nevada.

ARTICLE 7 GENERAL PROVISIONS

Section 7.1 DIVIDENDS. The Board of Directors, subject to the applicable provisions, if any, of the Articles of Incorporation and applicable law, may declare and pay dividends upon the capital stock of the Corporation. Dividends may be paid in cash, in property or in shares of capital stock, subject to

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the provisions of the Articles of Incorporation. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, deem proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purposes as the Board of Directors shall deem conducive to the interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

Section 7.2 CHECKS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 7.3 FISCAL YEAR. The fiscal year of the Corporation shall be December 31, and may be changed by the Board of Directors from time to time subject to applicable law.

Section 7.4 SEAL. The Board of Directors may adopt a corporate seal having inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Nevada." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 7.5 LOANS. The Board of Directors of this Corporation may, without stockholder approval, authorize loans to, or guaranty obligations of, or otherwise assist, including, without limitation, the adoption of employee benefit plans under which loans and guarantees may be made, any officer or other employee of the Corporation or of any of its subsidiaries, including any officer or employee who is a director of the Corporation or any of its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation.

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Section 7.6 REPRESENTATION OF SHARES OF OTHER CORPORATIONS. Any officer of the Corporation is authorized to vote, represent, and exercise on behalf of the Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

Section 7.7 CONSTRUCTION; DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the NRS shall govern the construction of the Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

Section 7.8 PROVISIONS ADDITIONAL TO PROVISIONS OF LAW. All restrictions, limitations, requirements and other provisions of the Bylaws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

Section 7.9 PROVISIONS CONTRARY TO PROVISIONS OF LAW. Any article, section, subsection, subdivision, sentence, clause or phrase of these Bylaws which upon being construed in the manner provided in Section 7.8, shall be contrary to or inconsistent with any applicable provisions of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these Bylaws, it being hereby declared that these Bylaws would have been adopted and each article, section, subsection, subdivision, sentence, clause or phrase thereof, irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

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ARTICLE 8 INDEMNIFICATION

Section 8.1 POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS OTHER THAN THOSE BY OR IN THE RIGHT OF THE CORPORATION Subject to Section 8.3, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director or officer of the corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of NOLO CONTENDERE or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

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Section 8.2 POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS BY OR IN THE RIGHT OF THE CORPORATION. Subject to section 8.3, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the Corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such applicable court shall deem proper.

Section 8.3 AUTHORIZATION OF INDEMNIFICATION. Any indemnification under this Article 8 (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 8.1 or Section 8.2, as the case may be. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) by a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (iv) by the stockholders. Such determination shall be made, with respect to former directors and officers, by any person or persons having the authority to act on the matter on behalf of the Corporation. To the extent, however, that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses

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(including attorneys' fees) actually and reasonably incurred by such person in connection therewith, without the necessity of authorization in the specific case.

Section 8.4 GOOD FAITH DEFINED. For purposes of any determination under Section 8.3, a person shall be deemed to have acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe such person's conduct was unlawful, if such person's action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to such person by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 8.4 Shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving

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at the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 8.4 Shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Section 8.1 or 8.2, as the case may be.

Section 8.5 INDEMNIFICATION BY A COURT. Notwithstanding any contrary determination in the specific case under Section 8.3, and notwithstanding the absence of any determination thereunder, any director or officer may apply to the courts of the State of Nevada for indemnification to the extent otherwise permissible under Sections 8.1 and 8.2. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standards of conduct set forth in Section 8.1 or 8.2, as the case may be. Neither a contrary determination in the specific case under Section 8.3 nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 8.5 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 8.6 EXPENSES PAYABLE IN ADVANCE. Expenses incurred by a director or officer in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article 8.

Section 8.7 NONEXCLUSIVITY OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES. The indemnification and advancement of expenses provided by or granted pursuant to this Article 8 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Articles of Incorporation, the Bylaws, agreement, vote of stockholders or disinterested directors, applicable law or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 8.1 and 8.2 shall be made to the fullest extent permitted by law. The provisions of this Article 8 shall not be deemed to preclude the indemnification of any person who is not specified in Sections 8.1 or 8.2 but whom the Corporation has the power or obligation to indemnify under the provisions of the NRS or otherwise.

Section 8.8 INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of

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another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article 8.

Section 8.9 CERTAIN DEFINITIONS. For purposes of this Article 8 only, references to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a

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constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article 8 with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article 8, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article 8.

Section 8.10 SURVIVAL OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article 8 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 8.11 LIMITATION ON INDEMNIFICATION. Notwithstanding anything contained in this Article 8 to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 8.5), the Corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors.

Section 8.12 INDEMNIFICATION OF EMPLOYEES AND AGENTS. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article 8 to directors and officers of the Corporation.

ARTICLE 9 AMENDMENTS

Section 9.1 AMENDMENTS. Except as otherwise provided in the Articles of Incorporation, the Bylaws may be altered, amended or repealed, or new Bylaws may be adopted, by (a) the holders of two-thirds of the outstanding shares of voting stock of the Corporation at any regular meeting of the stockholders of the Corporation or at any special meeting of the stockholders of the Corporation or (b) by the Board of Directors at any regular or special meeting if notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such special meeting. The power to adopt, amend or repeal Bylaws conferred upon the Board of Directors by the Articles of Incorporation shall not divest or limit the power of the stockholders to adopt, amend or repeal Bylaws.

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APPENDIX C PURCHASES, SALES AND OTHER TRANSACTIONS INVOLVING OUR SECURITIES BY OUR DIRECTORS AND MEMBERS OF THE GROUP IN THE LAST TWO YEARS

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The table below sets forth purchases, sales and other transactions in our common stock by our directors and members of the group over the last two years. All information is taken from our directors and officers reports to us and the group's Schedule 13D filings and we can not assure you that this information is accurate or complete.

NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
-----	-----	-----	-----	-----
Najeeb U. Ghauri.....	15,000			6/20/
	220,000			3/15/
		72,900		9/30/
	9,000			2/16/
	25,000			4/01/
Irfan Mustafa.....	20,000			7/10/
Salim Ghauri.....	150,000			3/15/
Naeem Ghauri.....	150,000			3/15/
	10,000			5/19/
		173,084		10/30/
Shahab Ghauri.....		163,084		10/30/
Waheed Akbar.....	100,000			6/15/
Nasim Ashraf.....	50,000			6/15/
Cary Burch				
NetSol Shareholders Group, LLC.....	100			5/1/
NetSol Shareholders Group, LLC.....	250			5/1/
NetSol Shareholders Group, LLC.....	650			5/1/
Blue Water Master Fund, L.P.....	1,000			6/
Blue Water Master Fund, L.P.....	23,500			6/
Blue Water Master Fund, L.P.....	1,000			6/
Blue Water Master Fund, L.P.....		2,000		6/
Blue Water Master Fund, L.P.....	1,000			6/1
Blue Water Master Fund, L.P.....		1,000		6/1
Blue Water Master Fund, L.P.....	2,500			6/2
Blue Water Master Fund, L.P.....	9,000			6/2
Blue Water Master Fund, L.P.....	15,000			6/3
Blue Water Master Fund, L.P.....	3,500			7/
Blue Water Master Fund, L.P.....	1,000			7/
Blue Water Master Fund, L.P.....		4,500		7/
Blue Water Master Fund, L.P.....		2,500		7/
Blue Water Master Fund, L.P.....		10,500		7/1
Blue Water Master Fund, L.P.....	22,000	2,500		7/1
Blue Water Master Fund, L.P.....	6,000	5,000		7/1
Blue Water Master Fund, L.P.....	5,100			7/1
Blue Water Master Fund, L.P.....	10,000			7/2
Blue Water Master Fund, L.P.....	5,000			7/2
Blue Water Master Fund, L.P.....	13,400			7/2
Blue Water Master Fund, L.P.....	5,000			7/2
Blue Water Master Fund, L.P.....	1,000			7/2
Blue Water Master Fund, L.P.....	3,000			7/2

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NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
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Blue Water Master Fund, L.P.....	500			7/2
Blue Water Master Fund, L.P.....	65,000			7/2
Blue Water Master Fund, L.P.....	33,500			7/2
Blue Water Master Fund, L.P.....	10,000			7/2
Blue Water Master Fund, L.P.....	8,000			7/2
Blue Water Master Fund, L.P.....	18,500			7/2
Blue Water Master Fund, L.P.....	11,000			7/2
Blue Water Master Fund, L.P.....	500			7/2
Blue Water Master Fund, L.P.....	6,000			7/2
Blue Water Master Fund, L.P.....	5,000			7/2
Blue Water Master Fund, L.P.....	5,700			7/3
Blue Water Master Fund, L.P.....	500			8/
Blue Water Master Fund, L.P.....	500			8/
Blue Water Master Fund, L.P.....	16,000			8/
Blue Water Master Fund, L.P.....	4,000			8/
Blue Water Master Fund, L.P.....	5,000			6/
Blue Water Master Fund, L.P.....	2,500			8/
Blue Water Master Fund, L.P.....	1,700			8/
Blue Water Master Fund, L.P.....	1,500			8/
Blue Water Master Fund, L.P.....	7,500			8/
Blue Water Master Fund, L.P.....	22,500			8/
Blue Water Master Fund, L.P.....	35,000			8/
Blue Water Master Fund, L.P.....	15,000			8/
Blue Water Master Fund, L.P.....	1,000			8/
Blue Water Master Fund, L.P.....	10,000			8/1
Blue Water Master Fund, L.P.....	5,000			8/1
Blue Water Master Fund, L.P.....	2,100			8/1
Blue Water Master Fund, L.P.....		5,000		8/1
Blue Water Master Fund, L.P.....		1,500		8/1
Blue Water Master Fund, L.P.....		500		8/1
Blue Water Master Fund, L.P.....		500		8/1
Blue Water Master Fund, L.P.....		5,000		8/1
Blue Water Master Fund, L.P.....		2,500		8/1
Blue Water Master Fund, L.P.....	19,200			8/1
Blue Water Master Fund, L.P.....	500			8/1
Blue Water Master Fund, L.P.....	25,000			8/1
Blue Water Master Fund, L.P.....	7,500			8/1
Blue Water Master Fund, L.P.....	5,000			8/2
Blue Water Master Fund, L.P.....	8,000			8/2
Blue Water Master Fund, L.P.....	4,200			8/2
Blue Water Master Fund, L.P.....		10,000		8/2
Blue Water Master Fund, L.P.....	12,500			8/2
Blue Water Master Fund, L.P.....	5,500			8/2
Blue Water Master Fund, L.P.....	22,500			8/2
Blue Water Master Fund, L.P.....	7,500			8/3
Blue Water Master Fund, L.P.....	20,000			8/3
Blue Water Master Fund, L.P.....	3,000			9/
Blue Water Master Fund, L.P.....	1,000			9/
Blue Water Master Fund, L.P.....	5,000			9/1

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NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
----	-----	-----	-----	-----
Blue Water Master Fund, L.P.....	500			9/1

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Blue Water Master Fund, L.P.....	500		9/1
Blue Water Master Fund, L.P.....	13,000		9/1
Blue Water Master Fund, L.P.....		30,000	8/2
Blue Water Master Fund, L.P.....		1,000	8/2
Blue Water Master Fund, L.P.....		5,000	8/2
Blue Water Master Fund, L.P.....	10,000		9/
Blue Water Master Fund, L.P.....		10,000	9/1
Blue Water Master Fund, L.P.....	10,000		9/1
Blue Water Master Fund, L.P.....	4,000		9/1
Blue Water Master Fund, L.P.....	7,000		9/1
Blue Water Master Fund, L.P.....	7,500		9/1
Blue Water Master Fund, L.P.....	13,200		9/1
Blue Water Master Fund, L.P.....	6,500		9/1
Blue Water Master Fund, L.P.....	4,500		9/2
Blue Water Master Fund, L.P.....	2,000		9/2
Blue Water Master Fund, L.P.....		2,500	9/2
Blue Water Master Fund, L.P.....	5,000		9/2
Blue Water Master Fund, L.P.....	10,000		9/2
Blue Water Master Fund, L.P.....		2,500	9/2
Blue Water Master Fund, L.P.....	25,000		9/2
Blue Water Master Fund, L.P.....	9,000		10/
Blue Water Master Fund, L.P.....	35,000		10/
Blue Water Master Fund, L.P.....	10,000		10/
Blue Water Master Fund, L.P.....	10,000		10/
Blue Water Master Fund, L.P.....	10,000		10/
Blue Water Master Fund, L.P.....	7,500		10/
Blue Water Master Fund, L.P.....	8,000		10/
Blue Water Master Fund, L.P.....	2,500		10/
Blue Water Master Fund, L.P.....	1,000		10/1
Blue Water Master Fund, L.P.....		4,000	10/1
Blue Water Master Fund, L.P.....	15,700		10/1
Blue Water Master Fund, L.P.....	1,000		10/1
Blue Water Master Fund, L.P.....	5,000		10/1
Blue Water Master Fund, L.P.....	5,000		10/1
Blue Water Master Fund, L.P.....	10,000		10/1
Blue Water Master Fund, L.P.....	3,500		10/1
Blue Water Master Fund, L.P.....		5,000	10/2
Blue Water Master Fund, L.P.....		5,000	10/2
Blue Water Master Fund, L.P.....	12,000		10/2
Blue Water Master Fund, L.P.....	15,000		10/2
Blue Water Master Fund, L.P.....	10,000		10/2
Blue Water Master Fund, L.P.....	30,000		10/2
Blue Water Master Fund, L.P.....	7,500		11/
Blue Water Master Fund, L.P.....	10,000		11/
Blue Water Master Fund, L.P.....	10,000		11/
Blue Water Master Fund, L.P.....	10,000		11/
Blue Water Master Fund, L.P.....	11,500		11/
Blue Water Master Fund, L.P.....	2,500		11/

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NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
----	-----	-----	-----	-----
Blue Water Master Fund, L.P.....	1,000			11/
Blue Water Master Fund, L.P.....	8,000			11/
Blue Water Master Fund, L.P.....	4,000			11/

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Blue Water Master Fund, L.P.....	500			11/1
Blue Water Master Fund, L.P.....	9,500			11/1
Blue Water Master Fund, L.P.....	2,500			11/1
Blue Water Master Fund, L.P.....	7,500			11/1
Blue Water Master Fund, L.P.....	2,500			11/1
Blue Water Master Fund, L.P.....	2,500			11/1
Blue Water Master Fund, L.P.....	1,000			11/1
Blue Water Master Fund, L.P.....	6,500			11/1
Blue Water Master Fund, L.P.....	8,000			11/2
Blue Water Master Fund, L.P.....	1,000			11/2
Blue Water Master Fund, L.P.....	2,500			11/2
Blue Water Master Fund, L.P.....	8,500			11/2
Blue Water Master Fund, L.P.....		3,000		11/2
Blue Water Master Fund, L.P.....	20,000			11/3
Blue Water Master Fund, L.P.....	2,500			11/3
Blue Water Master Fund, L.P.....	500			12/
Blue Water Master Fund, L.P.....	500			12/
Blue Water Master Fund, L.P.....	8,000			12/
Blue Water Master Fund, L.P.....		3,500		12/
Blue Water Master Fund, L.P.....	1,000			12/
Blue Water Master Fund, L.P.....		2,500		12/
Blue Water Master Fund, L.P.....	500			12/
Blue Water Master Fund, L.P.....		10,000		12/
Blue Water Master Fund, L.P.....	200			12/
Blue Water Master Fund, L.P.....		10,500		12/
Blue Water Master Fund, L.P.....	2,500			12/1
Blue Water Master Fund, L.P.....	5,000			12/1
Blue Water Master Fund, L.P.....		17,000		12/1
Blue Water Master Fund, L.P.....	27,000			12/1
Blue Water Master Fund, L.P.....	2,500			12/1
Blue Water Master Fund, L.P.....		5,400		12/1
Blue Water Master Fund, L.P.....	7,000			12/1
Blue Water Master Fund, L.P.....		12,000		12/1
Blue Water Master Fund, L.P.....		4,000		12/2
Blue Water Master Fund, L.P.....		21,500		12/2
Blue Water Master Fund, L.P.....		8,000		12/2
Blue Water Master Fund, L.P.....		10,000		12/2
Blue Water Master Fund, L.P.....		8,000		12/2
Blue Water Master Fund, L.P.....		2,500		12/2
Blue Water Master Fund, L.P.....		3,000		12/2
Blue Water Master Fund, L.P.....		5,000		12/2
Blue Water Master Fund, L.P.....		8,500		12/2
Blue Water Master Fund, L.P.....		8,500		12/2
Blue Water Master Fund, L.P.....	500			12/2
Blue Water Master Fund, L.P.....	10,000			12/2
Blue Water Master Fund, L.P.....	1,000			12/2

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NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
Blue Water Master Fund, L.P.....	14,000			12/2
Blue Water Master Fund, L.P.....	30,000			12/2
Blue Water Master Fund, L.P.....	600			12/2
Blue Water Master Fund, L.P.....	4,700			12/2
Blue Water Master Fund, L.P.....	10,000			12/2

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Blue Water Master Fund, L.P.....	17,000		12/3
Blue Water Master Fund, L.P.....		5,000	12/3
Blue Water Master Fund, L.P.....	5,000		12/3
Blue Water Master Fund, L.P.....	2,100		12/3
Blue Water Master Fund, L.P.....	17,500		1/
Blue Water Master Fund, L.P.....	8,900		1/
Blue Water Master Fund, L.P.....	30,000		1/
Blue Water Master Fund, L.P.....	10,000		1/
Blue Water Master Fund, L.P.....	38,300		1/
Blue Water Master Fund, L.P.....	34,000		1/
Blue Water Master Fund, L.P.....	4,700		1/
Blue Water Master Fund, L.P.....	13,000		1/1
Blue Water Master Fund, L.P.....	2,500		1/1
Blue Water Master Fund, L.P.....	65,000		1/1
Blue Water Master Fund, L.P.....	16,000		1/1
Blue Water Master Fund, L.P.....	23,000		1/1
Blue Water Master Fund, L.P.....	6,100		1/1
Blue Water Master Fund, L.P.....	18,000		1/1
Blue Water Master Fund, L.P.....	20,000		1/1
Blue Water Master Fund, L.P.....	31,100		1/1
Blue Water Master Fund, L.P.....	8,900		1/2
Blue Water Master Fund, L.P.....	11,500		1/2
Blue Water Master Fund, L.P.....	21,000		1/2
Blue Water Master Fund, L.P.....	9,000		1/2
Blue Water Master Fund, L.P.....	15,000		1/2
Blue Water Master Fund, L.P.....	4,000		1/2
Blue Water Master Fund, L.P.....	17,800		1/2
Blue Water Master Fund, L.P.....	2,000		1/2
Blue Water Master Fund, L.P.....	5,500		1/2
Blue Water Master Fund, L.P.....	3,500		1/2
Blue Water Master Fund, L.P.....	12,000		1/2
Blue Water Master Fund, L.P.....	9,000		1/3
Blue Water Master Fund, L.P.....	34,000		2/
Blue Water Master Fund, L.P.....	7,200		2/
Blue Water Master Fund, L.P.....	11,000		2/
Blue Water Master Fund, L.P.....	25,000		2/
Blue Water Master Fund, L.P.....	1,800		2/
Blue Water Master Fund, L.P.....		4,400	2/
Blue Water Master Fund, L.P.....	12,500		2/
Blue Water Master Fund, L.P.....	3,500		2/
Blue Water Master Fund, L.P.....	12,000		2/
Blue Water Master Fund, L.P.....		5,300	2/1
Blue Water Master Fund, L.P.....		14,700	2/1
Blue Water Master Fund, L.P.....		27,800	2/1

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NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
----	-----	-----	-----	-----
Blue Water Master Fund, L.P.....	2,500			2/1
Blue Water Master Fund, L.P.....	1,000			2/1
Blue Water Master Fund, L.P.....	20,000			2/1
Blue Water Master Fund, L.P.....	2,000			2/1
Blue Water Master Fund, L.P.....	10,000			2/1
Blue Water Master Fund, L.P.....		5,000		2/1
Blue Water Master Fund, L.P.....	2,000			2/1

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Blue Water Master Fund, L.P.....	8,900		2/1
Blue Water Master Fund, L.P.....	31,000		4/
Blue Water Master Fund, L.P.....	16,000		4/
Blue Water Master Fund, L.P.....	22,000		4/
Blue Water Master Fund, L.P.....	14,000		4/
Blue Water Master Fund, L.P.....	7,500		4/
Blue Water Master Fund, L.P.....	21,000		4/
Blue Water Master Fund, L,P.....	2,500		4/
Blue Water Master Fund, L.P.....	3,500		4/
Blue Water Master Fund, L,P.....	7,600		4/1
Blue Water Master Fund, L,P.....			4/1
Blue Water Master Fund, L.P.....	15,000		4/2
Blue Water Master Fund, L.P.....	8,000		4/2
Blue Water Master Fund, L.P.....	15,000		4/2
Blue Water Master Fund, L.P.....	15,000		4/2
Blue Water Master Fund, L.P.....	6,000		4/2
Blue Water Master Fund, L.P.....	8,200		4/2
Blue Water Master Fund, L.P.....	8,900		4/2
Blue Water Master Fund, L.P.....	17,000		4/2
Blue Water Master Fund, L,P.....	18,500		4/2
Blue Water Master Fund, L.P.....	9,500		4/2
Blue Water Master Fund, L.P.....	23,000		4/2
Blue Water Master Fund, L.P.....	30,000		4/2
Blue Water Master Fund, L.P.....	7,000		4/2
Blue Water Master Fund, L.P.....	3,500		4/2
Blue Water Master Fund, L.P.....	15,000		4/2
Blue Water Master Fund, L.P.....	2,500		5/
Blue Water Master Fund, L.P.....	28,400		5/
Blue Water Master Fund, L.P.....	48,700		5/
Blue Water Master Fund, L.P.....	148,100		5/
Blue Water Master Fund, L.P.....	72,900		5/
Blue Water Master Fund, L.P.....	5,000		5/
Blue Water Master Fund, L,P.....	29,200		5/
Blue Water Master Fund, L.P.....		5,000	1/30/
Blue Water Master Fund, L.P.....		1,000	2/01/
Blue Water Master Fund, L.P.....		4,000	2/02/
Blue Water Master Fund, L.P.....		500	2/22/
Blue Water Master Fund, L.P.....		2,700	3/08/
Blue Water Master Fund, L.P.....		1,000	3/13/
Blue Water Master Fund, L.P.....		2,600	3/20/
Blue Water Master Fund, L.P.....		10,800	3/21/
Blue Water Master Fund, L.P.....		15,300	3/22/

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NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
----	-----	-----	-----	-----
Blue Water Master Fund, L.P.....		16,700		3/23/
Blue Water Master Fund, L.P.....		8,500		3/26/
Blue Water Partners II, L.P.....	16,700			1/
Blue Water Partners II, L.P.....	5,700			1/
Blue Water Partners II, L.P.....	5,000			1/
Blue Water Partners II, L.P.....	1,200			1/
Blue Water Partners II, L.P.....	8,000			1/1
Blue Water Partners II, L.P.....	2,000			1/1
Blue Water Partners II, L.P.....	2,000			1/1

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Blue Water Partners II, L.P.....	2,000		1/1
Blue Water Partners II, L.P.....	48,900		1/1
Blue Water Partners II, L.P.....	2,000		1/1
Blue Water Partners II, L.P.....	3,000		1/1
Blue Water Partners II, L.P.....	900		1/1
Blue Water Partners II, L.P.....	500		1/2
Blue Water Partners II, L.P.....	1,100		1/2
Blue Water Partners II, L.P.....	2,000		1/2
Blue Water Partners II, L.P.....	5,000		1/2
Blue Water Partners II, L.P.....	500		1/2
Blue Water Partners II, L.P.....	500		1/2
Blue Water Partners II, L.P.....	2,200		1/2
Blue Water Partners II, L.P.....	35,000		1/2
Blue Water Partners II, L.P.....	1,000		2/
Blue Water Partners II, L.P.....	800		2/
Blue Water Partners II, L.P.....	1,000		2/
Blue Water Partners II, L.P.....	4,000		2/
Blue Water Partners II, L.P.....	200		2/
Blue Water Partners II, L.P.....	1,500		2/
Blue Water Partners II, L.P.....	2,500		2/
Blue Water Partners II, L.P.....	3,000		2/1
Blue Water Partners II, L.P.....	1,000		2/1
Blue Water Partners II, L.P.....		5,000	2/1
Blue Water Partners II, L.P.....	2,500		2/1
Blue Water Partners II, L.P.....	1,500		2/1
Blue Water Partners II, L.P.....	15,000		2/1
Blue Water Partners II, L.P.....	3,000		2/1
Blue Water Partners II, L.P.....	500		2/1
Blue Water Partners II, L.P.....	500		2/1
Blue Water Partners II, L.P.....	1,100		2/1
Blue Water Partners II, L.P.....	56,200		2/2
Blue Water Partners II, L.P.....	5,600		2/2
Blue Water Partners II, L.P.....	9,500		2/2
Blue Water Partners II, L.P.....	7,500		2/2
Blue Water Partners II, L.P.....	6,000		3/1
Blue Water Partners II, L.P.....	2,500		3/1
Blue Water Partners II, L.P.....	7,000		3/1
Blue Water Partners II, L.P.....	2,300		3/1
Blue Water Partners II, L.P.....	5,000		3/1
Blue Water Partners II, L.P.....	13,000		3/2

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NAME	SHARES PURCHASED	SHARES SOLD	OTHER TRANSACTIONS	DATE
Blue Water Partners II, L.P.....	2,500			3/2
Blue Water Partners II, L.P.....	3,500			3/2
Blue Water Partners II, L.P.....	7,500			3/2
Blue Water Partners II, L.P.....	6,500			3/2
Blue Water Partners II, L.P.....	4,000			3/2
Blue Water Partners II, L.P.....	6,000			3/2
Blue Water Partners II, L.P.....	8,500			3/3
Blue Water Partners II, L.P.....	4,000			4/
Blue Water Partners II, L.P.....	2,000			4/
Blue Water Partners II, L.P.....	1,100			4/2
Blue Water Partners II, L.P.....	2,000			4/2

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Jonathan Iseson.....	32,000	32
Eddy Raymond Maria Verresen.....	1,300	10/2
Eddy Raymond Maria Verresen.....	2,500	10/2
Eddy Raymond Maria Verresen.....	400	10/2
Eddy Raymond Maria Verresen.....	800	10/2
Eddy Raymond Maria Verresen.....		11/1
Eddy Raymond Maria Verresen.....	1,000	2/
Eddy Raymond Maria Verresen.....	2,500	3/
Eddy Raymond Maria Verresen.....	2,500	3/
Eddy Raymond Maria Verresen.....	3,500	3/1
Eddy Raymond Maria Verresen.....	1,500	3/2

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FORM OF PROXY CARD

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Najeeb U. Ghauri, with full power of substitution, as its, his or her proxy to represent and vote, as designated below, all of the shares of the common stock of NetSol International, Inc., registered in the name of the undersigned at the close of business on May 11, 2001 with the powers the undersigned would possess if personally present at the special meeting of stockholders of NetSol to be held at NetSol's offices at 24025 Park Sorrento, Calabasas, California beginning at 9:00 a.m. (local time), on June 11, 2001 and at any adjournment or postponement thereof, hereby revoking any proxy or proxies previously given; and to vote the shares of the undersigned at such meeting with respect to: (i) proposal 1 by the NetSol Shareholders Group, LLC to amend the company's bylaws so as to increase the size of the board of directors from eight to fifteen directors, (ii) if proposal 1 is successful, proposal 2 regarding the election of new directors to the newly created vacancies, including the right in his discretion to cumulate and distribute the aggregate cumulative votes in respect of such shares as he chooses among the nominees as to whom the undersigned has not withheld authority, and (iii) proposals 3 through 11 of the board of directors to amend and restate the company's articles of incorporation and bylaws to permit the actions specified below for each of those proposals; and, unless the undersigned indicates otherwise, with discretionary authority to act on matters as may properly come before the special meeting or any adjournments or postponements thereof.

YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "AGAINST" PROPOSAL NO. 1 AND VOTE "FOR" THE BOARD'S NOMINEES IN PROPOSAL NO. 2. AND "FOR" PROPOSALS NO. 3 THROUGH 11.

PROPOSAL 1. Amend the company's bylaws so as to increase the size of the board of directors from 8 to 15 directors.

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 2. If proposal 1 is successful, elect the following persons to serve as members of the board of directors of NetSol International, Inc., Rick Poole, Fred Firth, Eugen Beckert, and James L. Arrington.

/ / VOTE FOR ALL NOMINEES
(except as marked to the contrary below)

/ / WITHHOLD AUTHORITY TO
VOTE FOR ALL NOMINEES

To vote for any individual nominee, write that nominee's name in the space below.

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To withhold authority for any nominee indicate such in the space below such nominee's name on the line provided; and
To cumulate votes, place the number or percentage of votes for a nominee below such nominee's name on the line provided:

Rick Poole, Fred Firth, Eugen Beckert, James L. Arrington

PROPOSAL 3. Amend and restate the articles of incorporation to remove cumulative voting in the election of directors.

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 4. Amend and restate the articles of incorporation to provide for a classified board of directors so each directors is elected for a three year term with one-third of the board standing for election each year.

/ / AGAINST / / ABSTAIN / / FOR

(CONTINUED, AND TO BE DATED AND SIGNED ON OTHER SIDE)

PROPOSAL 5. Amend and restate the articles of incorporation and bylaws to provide that any action required or permitted to be taken by the stockholders may be effected only at an annual or special meeting of stockholders, and not by written consent of stockholders.

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 6. Amend and restate the articles of incorporation and bylaws to provide that only the chief executive officer, president, chairman of the board or board of directors may call a special meeting of stockholders.

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 7. Amend and restate the articles of incorporation and bylaws to provide for an advance notice procedure for the nomination, other than by or at the direction of the board of directors, of candidates for election as directors as well as for other proposals to be considered at meetings of stockholders.

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 8. Amend and restate the articles of incorporation and bylaws to provide that directors may only be removed from office for cause.

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 9. Amend and restate the articles of incorporation and bylaws to provide that the affirmative vote of holders of at least 66-2/3% vote of the outstanding voting stock be required to amend the bylaws or articles of incorporation.

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 10. Amend and restate the articles of incorporation to authorize 5,000,000 shares of undesignated preferred stock with right, preferences and privileges to be designated by the board without stockholder vote; and

/ / AGAINST / / ABSTAIN / / FOR

PROPOSAL 11. Amend and restate the articles of incorporation and bylaws to provide for limited liability for the directors, officers and other agents of

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the company.

/ / AGAINST / / ABSTAIN / / FOR

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS GIVEN, THE PROXY WILL BE VOTED "AGAINST" PROPOSAL NO. 1 AND "FOR" THE BOARD'S NOMINEES IN PROPOSAL NO. 2 AND "FOR" PROPOSALS NO. 3 THROUGH NO. 11.

/ / Check this box to withhold discretion to vote on other matters properly presented.

Dated: _____, 2001

(Signature)

(Second signature)

PLEASE DATE AND SIGN ABOVE exactly as your name appears on your Stock Certificate, indicating where appropriate, official position or representative capacity.

WRITTEN CONSENT

NETSOL INTERNATIONAL, INC.

CONSENT IN LIEU OF SPECIAL MEETING OF STOCKHOLDERS

THIS WRITTEN CONSENT IS SOLICITED BY THE BOARD OF DIRECTORS OF NETSOL INTERNATIONAL, INC.

Unless otherwise specified below, the undersigned hereby, with respect to all shares of common stock of NetSol International, Inc. (the "Company") which the undersigned may be entitled to vote, hereby consents with respect to all of the shares of common stock which the undersigned is entitled to vote, to the taking of the following actions (each a "Proposal") without a meeting of stockholders of the Company:

IF YOU SIGN, DATE AND RETURN THIS YELLOW CONSENT CARD WITHOUT INDICATING YOUR VOTE ON ONE OR MORE OF THE FOLLOWING PROPOSALS, YOU WILL BE DEEMED TO HAVE CONSENTED WITH RESPECT TO SUCH PROPOSALS.

The Company's board of directors, not including Mr. Burch, recommend that you consent to all of the following actions.

PROPOSAL 1. If the Netsol Shareholder Group LLC's proposal to amend our bylaws to increase the number of authorized directors is approved, elect the following

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persons to serve as members of the board of directors of Netsol International, Inc.:

1. Rick Poole 2. Fred Firth 3. Eugene Beckert 4. James L. Arrington

/ / CONSENT

/ / CONSENT WITHHELD

(except as marked to the contrary below)

To withhold consent to the election of any nominee, write that nominee's name in the space below.

PROPOSAL 2. Amend and restate the articles of incorporation to remove cumulative voting in the election of directors.

/ / CONSENT

/ / CONSENT WITHHELD

PROPOSAL 3. Amend and restate the articles of incorporation to provide for a classified board of directors so each directors is elected for a three year term with one-third of the board standing for election each year.

/ / CONSENT

/ / CONSENT WITHHELD

PROPOSAL 4. Amend and restate the articles of incorporation and bylaws to provide that any action required or permitted to be taken by the stockholders may be effected only at an annual or special meeting of stockholders, and not by written consent of stockholders.

/ / CONSENT

/ / CONSENT WITHHELD

PROPOSAL 5. Amend and restate the articles of incorporation and bylaws to provide that only the chief executive officer, president, chairman of the board or board of directors may call a special meeting of stockholders.

/ / CONSENT

/ / CONSENT WITHHELD

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PROPOSAL 6. Amend and restate the articles of incorporation and bylaws to provide for an advance notice procedure for the nomination, other than by or at the direction of the board of directors, of candidates for election as directors as well as for other proposals to be considered at meetings of stockholders.

/ / CONSENT

/ / CONSENT WITHHELD

PROPOSAL 7. Amend and restate the articles of incorporation and bylaws to provide that directors may only be removed from office for cause.

/ / CONSENT

/ / CONSENT WITHHELD

PROPOSAL 8. Amend and restate the articles of incorporation and bylaws to provide that the affirmative vote of holders of at least 66 2/3% vote of the outstanding voting stock be required to amend the bylaws or articles of incorporation.

/ / CONSENT

/ / CONSENT WITHHELD

PROPOSAL 9. Amend and restate the articles of incorporation to authorize 5,000,000 shares of undesignated preferred stock with right, preferences and privileges to be designated by the board without stockholder vote; and

/ / CONSENT

/ / CONSENT WITHHELD

PROPOSAL 10. Amend and restate the articles of incorporation and bylaws to provide for limited liability for the directors, officers and other agents of the company.

/ / CONSENT

/ / CONSENT WITHHELD

This Written Consent may be executed in counterparts.

IN WITNESS WHEREOF, the undersigned have executed this Written Consent.

When shares are held by joint tenants, both should sign. When signing as attorney-in-fact, executor, administrator, trustee, guardian, corporate officer

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or partner, please give full title as such. If a corporation, please sign in corporate name of President or other authorized officer. If a partnership, please sign a partnership name by authorized person.

Signature(s) of Stockholder(s)

Title, if any

Date

top:24px;margin-bottom:0px" ALIGN="center">RATIO OF EARNINGS TO FIXED CHARGES

Our ratios of earnings to fixed charges were as follows for the respective periods indicated:

	Six Months Ended		Year Ended January 31			
	July 31		2010	2009	2008	2007
	2011	2011				
Ratio of earnings to fixed charges:						
SAIC	5.6x	7.3x	7.0x	6.4x	5.4x	5.2x
Science Applications	5.4x	6.6x	5.9x	4.8x	3.6x	5.0x

For purposes of calculating the ratio of earnings to fixed charges, earnings are the amount resulting from adding (a) pretax income from continuing operations, (b) fixed charges, (c) minority interests in consolidated subsidiaries, and (d) cash distributions from equity method investments; and subtracting (e) income (loss) from equity method investments. Fixed charges consist of (a) interest expense inclusive of amortized premiums, discounts and capitalized expenses related to indebtedness and (b) the portion of rental expense deemed representative of interest expense (estimated to be one-third of rental expense). Interest associated with our uncertain tax positions is a component of income tax expense and not fixed charges.

SELECTED FINANCIAL DATA

The selected financial data presented below as of January 31, 2011 and 2010 and for the three years in the period ended January 31, 2011 has been derived from our consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus. The selected financial data relating to prior years has been derived from our consolidated financial statements which are not contained within this prospectus. The selected financial data presented as of July 31, 2011 and for the six months ended July 31, 2011 and 2010 are derived from our unaudited consolidated financial statements contained in this prospectus. All prior periods presented have been adjusted to reflect the fiscal year 2012 reclassification of certain components of a business to discontinued operations as described in Note 18 and the retrospective application of a pension accounting change as described in Note 1 of the combined notes to consolidated financial statements as of January 31, 2011 and 2010 and for the three years in the period ended January 31, 2011. As SAIC is a holding company and it consolidates Science Applications for financial statement purposes, the following financial data relates to both companies, except where otherwise indicated. Science Applications' revenues and expenses comprise 100% of SAIC's revenues and operating expenses. In addition, Science Applications comprises approximately the entire balance of SAIC's assets, liabilities and operating cash flows, except for a note receivable from Science Applications to SAIC on which Science Applications pays interest.

The selected financial information set forth below should be read in conjunction with our consolidated financial statements, including the respective notes thereto, and with our Management's Discussion and Analysis of Financial Condition and Results of Operations contained within this prospectus.

	Six Months Ended July 31		Year Ended January 31				
	2011	2010 as adjusted (in millions,	2011	2010	2009 as adjusted (in millions, except per share data)	2008	2007
except per share data)							
Consolidated Statement of Income Data:							
SAIC:							
Revenues	\$ 5,284	\$ 5,376	\$ 10,921	\$ 10,580	\$ 9,768	\$ 8,592	\$ 7,734
Operating income	439	478	947	836	747	638	542
Income from continuing operations	242	281	558	479	428	367	347
Income from discontinued operations	67	34	61	17	18	49	45
Net income	309	315	619	496	446	416	392
Earnings per share:							
Basic:							
Income from continuing operations	\$.68	\$.73	\$ 1.48	\$ 1.20	\$ 1.05	\$.89	\$.98
Income from discontinued operations	.19	.09	.17	.05	.05	.11	.12
	\$.87	\$.82	\$ 1.65	\$ 1.25	\$ 1.10	\$ 1.00	\$ 1.10
Diluted:							
Income from continuing operations	\$.68	\$.73	\$ 1.48	\$ 1.19	\$ 1.03	\$.86	\$.95
Income from discontinued operations	.19	.09	.16	.04	.05	.12	.12
	\$.87	\$.82	\$ 1.64	\$ 1.23	\$ 1.08	\$.98	\$ 1.07
Science Applications:							
Revenues	\$ 5,284	\$ 5,376	\$ 10,921	\$ 10,580	\$ 9,768	\$ 8,592	\$ 7,734
Operating income	439	478	947	836	747	638	542
Income from continuing operations	241	275	550	465	401	322	336
Income from discontinued operations	67	34	61	17	18	49	45
Net income	308	309	611	482	419	371	381

	July 31		January 31			
	2011	2011	2010	2009	2008	2007
			as adjusted			
			(in millions, except per share data)			
Consolidated Balance Sheet Data:						
Total assets	\$ 6,113	\$ 6,223	\$ 5,295	\$ 5,048	\$ 4,983	\$ 4,560
Notes payable and long-term debt, including current portion	1,852	1,852	1,106	1,116	1,228	1,228
Other long-term liabilities	143	135	195	180	145	103
Cash dividends per share declared and paid ⁽¹⁾						15

- (1) Prior to our October 2006 reorganization merger in which Science Applications became a subsidiary of SAIC, Science Applications declared a dividend of \$2.45 billion. SAIC then completed an initial public offering of its common stock for net proceeds of \$1.24 billion. Science Applications has never declared or paid cash dividends to its sole stockholder, SAIC. Science Applications may declare and pay cash dividends to SAIC from time to time, but there is no present intention to do so in the foreseeable future.

BUSINESS

*This prospectus is part of a combined registration statement of SAIC and Science Applications and includes separate consolidated financial statements for each of these two entities. As SAIC is a holding company and it consolidates Science Applications for financial reporting purposes, disclosures relate to activities of both companies, unless otherwise noted. Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ended January 31, 2011 as *fiscal 2011* and the fiscal year ending January 31, 2012 as *fiscal 2012*.*

Overview

SAIC is a holding company. Its principal operating company, Science Applications, was formed in 1969. In October 2006, in connection with becoming a publicly-traded company, Science Applications completed a merger (reorganization merger) in which it became a 100%-owned subsidiary of SAIC, after which SAIC completed an initial public offering of its common stock.

We are a provider of scientific, engineering, systems integration and technical services and solutions in the areas of defense, health, energy, infrastructure, intelligence, surveillance, reconnaissance and cybersecurity to all agencies of the U.S. Department of Defense (DoD), the intelligence community, the U.S. Department of Homeland Security (DHS) and other U.S. Government civil agencies, state and local government agencies, foreign governments and customers in select commercial markets. Our business is focused on solving issues of national and global importance in the areas of national security, energy and the environment, critical infrastructure and health. We combine technology and domain and mission expertise to deliver solutions that solve our customers' most challenging issues. We are focusing our investments in our strategic growth areas including: intelligence, surveillance and reconnaissance; cybersecurity; logistics, readiness and sustainment; energy, environment and infrastructure; and health information technology.

Reportable Segments

Our reportable segments include Defense Solutions; Health, Energy and Civil Solutions; and Intelligence and Cybersecurity Solutions. We also maintain a Corporate and Other segment. While each reportable segment is organized around the markets served and the nature of the products and services provided to customers in those markets as described in further detail below, there are a wide array of scientific, engineering, systems integration and technical services and solutions that we provide across these reportable segments, but which are performed specifically to meet the needs of the market and customers served in the segment. These include:

Systems Engineering and Integration. We provide systems engineering and implementation services and solutions to help our customers design and integrate complex network processes and infrastructure. These services and solutions include designing, installing, testing, repairing, maintaining and upgrading systems and processes.

Software Development. We provide software development services and solutions to help our customers maximize value by extending and renovating critical systems through software capabilities. These services include automating code generation, managing computer resources, and merging and evaluating large amounts of data.

Cybersecurity. We provide services and solutions to help our customers prepare for, protect against, and respond to a wide array of cybersecurity threats. These services and solutions include designing comprehensive cyber-risk management programs to identify and neutralize cyber attacks, integrating and managing information security services to protect customers' mission-critical data, identifying and advising in connection with the selection of disaster recovery plans and performing tests to certify that information technology (IT) systems operate in accordance with design requirements.

Secure Information Sharing and Collaboration. We provide services and solutions to help our customers share information and resources, including designing and developing information systems that access, process and analyze vast amounts of data from various sources to facilitate timely information sharing, collaboration and decision making.

Communication Systems and Infrastructure. We provide services and solutions to help our customers design and implement state-of-the-art communication systems. These services and solutions include designing, installing, testing, repairing and maintaining voice, data and video communication systems and infrastructures.

Research and Development. We conduct leading-edge research and development of new technologies with applications in areas such as national security, intelligence and life sciences.

Securing Critical Infrastructure. We provide customers with services and solutions to protect critical infrastructure from acts of terrorism and natural disasters as well as from threats due to error, maliciousness, wear and tear, planning oversights and previously unforeseen vulnerabilities. These services and solutions include risk management (vulnerability assessments and threat identification), training exercises and simulations, awareness programs, physical security, protection and detection systems and critical infrastructure continuity and contingency planning as well as casualty and damage assessment tools and disaster recovery services.

Modeling and Simulation. We provide applied research and technology and modeling and simulation services and solutions to the U.S. military, space and intelligence communities, including support related to mission preparation, launch and execution.

Enterprise Information Solutions. We provide a comprehensive set of IT service offerings including enterprise information technology optimization, business intelligence, enterprise resource planning maintenance and staff augmentation services.

Defense Solutions

Defense Solutions provides systems engineering and specialized technical services and solutions in support of command and control, communications, modeling and simulation, logistics, readiness and sustainment and network operations to a broad customer base within the defense industry. Defense Solutions helps design and implement advanced, networked command and control systems to enable U.S. and allied defense customers to plan, direct, coordinate and control forces and operations at strategic, operational and tactical levels. Defense Solutions also provides a wide range of logistics and product support solutions, including supply chain management, demand forecasting, distribution, maintenance and training services, to enhance the readiness and operational capability of U.S. military personnel and their weapons and support systems. Major customers of Defense Solutions include most branches of the U.S. military. Defense Solutions represents 43%, 43% and 41% of total revenues for fiscal 2011, 2010 and 2009, respectively.

Health, Energy and Civil Solutions

Health, Energy and Civil Solutions provides services and solutions in the areas of critical infrastructure, homeland security, safety and mission assurance, training, environmental assessments and restoration, engineering design, construction and sophisticated IT services across a broad customer base. These services and solutions range from design and construction services, energy renewables and energy distribution/smart-grid, to healthcare IT and engineering, health infrastructure, biomedical support and research. Health, Energy and Civil Solutions also provides integrated security solutions and training expertise in the detection of chemical, biological, radiological, nuclear and explosive threats and designs and develops products and applied technologies that aid anti-terrorism and homeland security efforts, including border, port and security inspection systems and checked baggage explosive detection systems. Major customers of Health, Energy and Civil Solutions primarily include the U.S. federal government, foreign governments, state and local governmental agencies and commercial enterprises in various industries. Health, Energy and Civil Solutions represents 26%, 27% and 27% of total revenues for fiscal 2011, 2010 and 2009, respectively.

Intelligence and Cybersecurity Solutions

Intelligence and Cybersecurity Solutions provides systems and services focused on intelligence, surveillance, reconnaissance and cybersecurity across a broad spectrum of national security programs. Intelligence and Cybersecurity Solutions provides quick reaction, manned and unmanned airborne, maritime, space and ground-based surveillance systems which leverage an understanding of the underlying physics and operating in space, weight and power-constrained environments. Intelligence and Cybersecurity Solutions also provides intelligence processing, exploitation, and dissemination solutions, including systems designed to optimize decision-making in high rate, large volume, and complex data environments. Intelligence and Cybersecurity Solutions provides cybersecurity technology solutions, analytics and forensics, and products that protect data, applications, and modern information technology infrastructures from advanced and persistent threats as well as mission support in the geospatial, intelligence analysis, technical operations, and linguistics domains. Major customers of Intelligence and Cybersecurity Solutions include the national and military intelligence agencies, and other federal, civilian and commercial customers in the national security complex. Intelligence and Cybersecurity Solutions represents 31%, 30% and 32% of total revenues for fiscal 2011, 2010 and 2009, respectively.

Corporate and Other

Corporate and Other includes the operations of our internal real estate management subsidiary, various corporate activities, certain corporate expense items that are not reimbursed by our U.S. Government customers and certain revenue and expense items excluded from the chief operating decision maker's evaluation of a reportable segment's performance.

Substantially all of our revenues and tangible long-lived assets are generated by or owned by entities located in the United States. For additional information regarding our reportable segments, see the Management's Discussion and Analysis of Financial Condition and Results of Operations section, Note 17 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 and Note 9 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

Acquisitions

The acquisition of businesses is part of our growth strategy to provide new or enhance existing capabilities and offerings to customers and to establish new or enhance existing relationships with customers. We expect that a portion of our future growth will come from recent and future acquisitions. Since February 1, 2006, we have completed 23 acquisitions, most notably:

In the third quarter of fiscal 2012, we acquired Vitalize Consulting Solutions, Inc., a provider of clinical, business and information technology services for healthcare enterprises. This acquisition by our Health, Energy and Civil Solutions segment expands our capabilities in both federal and commercial markets to help customers better address electronic health record implementation and optimization demand.

In fiscal 2011, we acquired Cloudshield Technologies, Inc., a provider of cybersecurity and management services solutions. This acquisition by our Intelligence and Cybersecurity Solutions segment enhanced our cybersecurity offerings and positioned us to bring to market deep packet inspection solutions for high speed networks, enabling us to better meet emerging customer requirements. We also acquired Reveal Imaging Technologies, Inc., a provider of threat detection products and services. This acquisition by our Health, Energy and Civil Solutions segment enhanced our homeland security solutions portfolio by adding U.S. Transportation Security Administration certified explosive detection systems for checked baggage screening to our passenger and cargo inspections systems product offerings.

In fiscal 2010, we acquired R.W. Beck Group, Inc., a provider of business, engineering, energy and infrastructure consulting services. This acquisition by our Health, Energy and Civil Solutions segment

both enhanced our existing capabilities and offerings in the areas of energy and infrastructure consulting services and provided new capabilities and offerings in disaster preparedness and recovery services. We also acquired Science, Engineering and Technology Associates Corporation, a provider of intelligence, surveillance and reconnaissance information technologies. This acquisition by our Intelligence and Cybersecurity Solutions segment enhanced our service offerings and capabilities by adding information technologies that detect human behaviors to identify human-borne suicide bombers.

In fiscal 2009, we acquired SM Consulting, Inc., a provider of language translation, interpretation and training, and other consulting services to federal, state and local governments and commercial customers. While this acquisition by our Intelligence and Cybersecurity Solutions segment enhanced our existing capabilities and offerings, it also expanded our relationships with DoD customers in adjacent markets for these services. We also acquired Icon Systems, Inc., a provider of laser-based systems and products for military training and testing. This acquisition by our Defense Solutions segment enhanced our wireless live training offerings.

In fiscal 2008, we acquired The Benham Companies LLC, a consulting, engineering, and architectural design company. This acquisition by our Health, Energy and Civil Solutions segment provided us with new capabilities and offerings in the areas of industrial manufacturing and facilities design/build and enhanced our existing capabilities and offerings in the areas of energy consulting services and software development and integration services.

In fiscal 2007, we acquired Applied Marine Technology, Inc., a provider of training, systems engineering and integration, information systems and communications, and rapid prototyping of technical solutions and products focused on support to intelligence and special warfare operations, which enhanced the existing capabilities and offerings of our Intelligence and Cybersecurity Solutions segment.

Divestitures

From time to time, we divest non-strategic components of our business. Since February 1, 2006, our most notable divestitures were:

In the second quarter of fiscal 2012, we completed the sale of certain components of our business which were primarily focused on providing information technology services to international oil and gas companies.

In fiscal 2008, we completed a reorganization transaction involving our 55% interest in AMSEC LLC, a consolidated majority-owned subsidiary, resulting in the disposition of our 55% interest in AMSEC LLC in exchange for our acquisition of certain divisions and subsidiaries of AMSEC LLC.

In fiscal 2007, we completed the sale of our majority-owned subsidiary, ANXeBusiness Corp.

Contract Procurement

Our business is heavily regulated and we must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government and other contracts. The U.S. Government procurement environment has evolved due to statutory and regulatory procurement reform initiatives. Today, U.S. Government customers employ several procurement contracting methods to purchase services and solutions. Budgetary pressures and reforms in the procurement process have caused many U.S. Government customers to increasingly purchase services and products using contracting processes that give them the ability to select multiple winners or pre-qualify certain contractors to provide various services or products on established general terms and conditions rather than through single award contracts. The predominant contracting methods through which U.S. Government agencies procure services and products include the following:

Single Award Contracts. U.S. Government agencies may procure services and products through single award contracts which specify the scope of services and products that will be delivered and identify the

contractor that will provide the specified services. When an agency has a requirement, interested contractors are solicited, qualified and then provided with a request for a proposal. The process of qualification, request for proposals and evaluation of contractor bids requires the agency to maintain a large, professional procurement staff and the bidding and selection process can take a year or more to complete. For the contractor, this method of contracting may provide greater certainty of the timing and amounts to be received at the time of contract award because it generally results in the customer contracting for a specific scope of services or products from the single successful awardee.

Indefinite Delivery/Indefinite Quantity (IDIQ) Contracts. The U.S. Government uses IDIQ contracts to obtain commitments from contractors to provide certain services or products on pre-established terms and conditions. The U.S. Government then issues task orders under the IDIQ contracts for the specific services or products it needs. IDIQ contracts are awarded to one or more contractors following a competitive procurement process. Under a single-award IDIQ contract, all task orders under that contract are awarded to one pre-selected contractor. Under a multi-award IDIQ contract, task orders can be awarded to any of the pre-selected contractors, which can result in further limited competition for the award of task orders. Multi-award IDIQ contracts that are open for any government agency to use for the procurement of services are commonly referred to as government-wide acquisition contracts. IDIQ contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling, but not committing, the U.S. Government to purchase substantial amounts of services or products from one or more contractors. At the time an IDIQ contract is awarded (prior to the award of any task orders), a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract, and in the case of a multi-award IDIQ, the contractor from which such purchases may be made.

U.S. General Services Administration (GSA) Schedule Contracts. The GSA maintains listings of approved suppliers of services and products with agreed-upon prices for use throughout the U.S. Government. In order for a company to provide services under a GSA Schedule contract, a company must be pre-qualified and awarded a contract by the GSA. When an agency uses a GSA Schedule contract to meet its requirements, the agency, or the GSA on behalf of the agency, conducts the procurement. The user agency, or the GSA on its behalf, evaluates the user agency's services requirements and initiates a competition limited to GSA Schedule qualified contractors. GSA Schedule contracts are designed to provide the user agency with reduced procurement time and lower procurement costs. Similar to IDIQ contracts, at the time a GSA Schedule contract is awarded, a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract.

We often collaborate with other parties, including our competitors, to submit bids for large U.S. Government procurements or other opportunities where we believe that the combination of services and products that we can provide as a team will help us win and perform the contract. Our relationships with our teammates, including whether we serve as the prime contractor or as a subcontractor, vary with each contract opportunity and typically depend on the program, contract or customer requirements, as well as the relative size, qualifications, capabilities and experience of our company and our teammates. Contracting with the U.S. Government also subjects us to substantial regulation and unique risks, including the U.S. Government's ability to cancel any contract 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 fees for work performed. These regulations and risks are described in more detail below under

Business Regulation and in the Risk Factors section of this prospectus.

Contract Types

Generally, the type of contract for our services and products is determined by or negotiated with the U.S. Government and may depend on certain factors, including the type and complexity of the work to be performed, degree and timing of the responsibility to be assumed by the contractor for the costs of performance, the extent of price

competition and the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals. We generate revenues under several types of contracts, including the following:

Cost-reimbursement contracts provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee. This type of contract is generally used when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract. Cost-reimbursement contracts generally subject us to lower risk, but generally require us to use our best efforts to accomplish the scope of the work within a specified time and amount of costs.

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. This type of contract is generally used when there is uncertainty of the extent or duration of the work to be performed by the contractor at the time of contract award or it is not possible to anticipate costs with any reasonable degree of confidence. On T&M contracts, we assume the risk of providing appropriately qualified staff to perform these contracts at the hourly rates set forth in the contracts over the period of performance of the contracts.

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 on work that can be stated only in general terms. This type of contract is generally used when the contractor is required to perform an investigation or study in a specific research and development area and to provide a report showing the results achieved based on the level of effort. Payment is based on the effort expended rather than the results achieved.

Firm-fixed-price (FFP) contracts provide for a fixed price for specified products, systems and/or services. This type of contract is generally used when the government acquires commercial items or products and services on the basis of reasonably definitive specifications and which have a determinable fair and reasonable price. These contracts subject us to higher risk, but offer us potential increased profits if we can complete the work at lower costs than planned. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns.

Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost reimbursement and T&M contracts generally have lower profitability than FFP contracts. For the proportionate amount of revenues derived from each type of contract for fiscal 2011, 2010 and 2009 and for the six months ended July 31, 2011 and 2010, see Key Financial Metrics Contract Types in Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus.

Backlog

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. Our backlog consists of funded backlog and negotiated unfunded backlog, each of which are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus. 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 fees for work performed. For additional discussion and analysis of backlog, see Key Financial Metrics Bookings and Backlog in Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus.

Key Customers

In each of fiscal 2011, 2010 and 2009, approximately 90% of our total revenues were attributable to prime contracts with the U.S. Government or to subcontracts with other contractors engaged in work for the U.S. Government. We generated more than 10% of our total revenues during each of the last three fiscal years from each of the U.S. Army and U.S. Navy. Each of these customers has a number of subsidiary agencies which have separate budgets and procurement functions. Our contracts may be with the highest level of these agencies or with the subsidiary agencies of these customers.

The percentage of total revenues attributable to these customers for each of the last three fiscal years was as follows:

	Year Ended January 31		
	2011	2010	2009
U.S. Army	23%	24%	25%
U.S. Navy	13	13	12

Competition

Competition for contracts is intense and we often compete against a large number of established multinational corporations which may have greater financial capabilities than we do. We also compete against smaller, more specialized companies that concentrate their resources on particular areas. As a result of the diverse requirements of the U.S. Government and our commercial customers, we frequently collaborate with other companies to compete for large contracts, and bid against these team members in other situations. We believe that our principal competitors currently include the following companies:

the engineering and technical services divisions of large defense contractors which provide U.S. Government IT services in addition to other hardware systems and products, including such companies as The Boeing Company, General Dynamics Corporation, Lockheed Martin Corporation, Northrop Grumman Corporation, BAE Systems plc, L-3 Communications Corporation and Raytheon Company;

contractors focused principally on technical services, including U.S. Government IT services, such as Battelle Memorial Institute, Booz Allen Hamilton Inc., CACI International Inc, ManTech International Corporation, Serco Group plc and SRA International, Inc.;

diversified commercial and U.S. Government IT providers, such as Accenture plc, Computer Sciences Corporation, HP Enterprise Services, International Business Machines Corporation and Unisys Corporation;

contractors who provide engineering, consulting, design and construction services, such as KBR, Inc. and CH2M Hill Companies Ltd.; and

contractors focused on supplying homeland security product solutions, including American Science and Engineering, Inc., OSI Systems, Inc. and Smiths Group plc and contractors providing supply chain management and other logistics services, including Agility Logistics, Inc. (a subsidiary of Agility Public Warehousing Company K.S.C.).

We compete on factors including, among others, our technical expertise and qualified professional personnel, our ability to deliver cost-effective solutions in a timely manner, our reputation and standing with customers, pricing and the size and geographic presence of our company.

The U.S. Government has indicated that it intends to increase industry competition for its future procurement of products and services, which could lead to fewer sole source awards and more emphasis on cost competitiveness and affordability. In addition, the DoD has announced several initiatives to improve efficiency, refocus priorities and enhance DoD best practices including those used to procure goods and services from defense contractors. These new initiatives, when implemented, could result in fewer new opportunities for our industry as a whole, which may intensify competition within the industry as companies compete for a more limited set of new programs.

Patents and Proprietary Information

Our technical services and products are not generally dependent upon patent protection, although we do selectively seek patent protection. We claim a proprietary interest in certain of our products, software programs, methodologies and know-how. This proprietary information is protected by copyrights, trade secrets, licenses, contracts and other means. We selectively pursue opportunities to license or transfer our technologies to third parties.

In connection with the performance of services, the U.S. Government has certain rights to inventions, data, software codes and related material that we develop under U.S. Government-funded contracts and subcontracts. Generally, the U.S. Government may disclose or license such information to third parties, including, in some instances, our competitors. In the case of some subcontracts that we perform, the prime contractor may also have certain rights to the programs and products that we develop under the subcontract.

Research and Development

We conduct research and development activities under customer-funded contracts and with company-funded internal research and development (IR&D) funds. IR&D efforts consist of projects involving basic research, applied research, development, and systems and other concept formulation studies. In fiscal 2011, 2010 and 2009, our company-funded IR&D expense was \$55 million, \$49 million and \$46 million, respectively, which was included in selling, general and administrative expenses. We charge expenses for research and development activities performed under customer contracts directly to cost of revenues.

Seasonality

The U.S. Government's fiscal year ends on September 30 of each year. It is not uncommon for U.S. Government agencies to award extra tasks or complete other contract actions in the timeframe leading up to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds, which may favorably impact our third fiscal quarter ending October 31. In addition, as a result of the cyclical nature of the U.S. Government budget process and a greater number of holidays in our fourth fiscal quarter ending January 31, as compared to our third fiscal quarter ending October 31, we typically experience sequentially higher revenues in our third fiscal quarter and lower revenues in our fourth fiscal quarter. For selected quarterly financial data, see Note 21 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus.

Regulation

We are heavily regulated in most of the fields in which we operate. We provide services and products to numerous U.S. Government agencies and entities, including all of the branches of the U.S. military, the National Aeronautics and Space Administration (NASA), intelligence agencies and DHS. When working with these and other U.S. Government agencies and entities, we must comply with laws and regulations relating to the formation, administration and performance of contracts. Among other things, these laws and regulations:

require certification and disclosure of all cost and pricing data in connection with certain contract negotiations;

define allowable and unallowable costs and otherwise govern our right to reimbursement under various cost-based U.S. Government contracts;

require reviews by the Defense Contract Audit Agency (DCAA) and other U.S. Government agencies of compliance with government standards for accounting and management internal control systems;

restrict the use and dissemination of information classified for national security purposes and the export of certain products and technical data; and

require us not to compete for or to divest work if an organizational conflict of interest, as defined by these laws and regulations, related to such work exists and/or cannot be appropriately mitigated.

The U.S. Government may revise its procurement practices or adopt new contract rules and regulations at any time. In order to help ensure compliance with these complex laws and regulations, all of our employees are required to complete ethics training and other compliance training relevant to their position.

Internationally, we are subject to special U.S. Government laws and regulations, local government laws and regulations and procurement policies and practices (including laws and regulations relating to bribery of foreign government officials, import-export control, investments, exchange controls and repatriation of earnings) and varying currency, political and economic risks.

Environmental Matters

Our operations are subject to various foreign, federal, state and local environmental protection and health and safety laws and regulations. In addition, our operations may become subject to future laws and regulations, including those related to climate change concerns. Failure to comply with these laws and regulations could result in civil, criminal, administrative or contractual sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. Government, or could cause us to incur costs to change, upgrade, remediate and/or close some of our operations or properties. Some environmental laws hold current or previous owners or operators of businesses and real property liable for hazardous substance releases, even if they did not know of and were not responsible for the releases. Environmental laws may also impose liability on any person who disposes, transports, or arranges for the disposal or transportation of hazardous substances to any site. In addition, we may face liability for personal injury, property damage and natural resource damages relating to hazardous substance releases for which we are otherwise liable or relating to exposure to or the mishandling of hazardous substances in connection with our current and former operations or services. Although we do not currently anticipate that the costs of complying with, or the liabilities associated with, environmental laws will materially and adversely affect us, we cannot ensure that we will not incur material costs or liabilities in the future.

Employees and Consultants

As of July 31, 2011, we employed approximately 41,200 full and part-time employees. We also utilize consultants to provide specialized technical and other services on specific projects. To date, we have not experienced any strikes or work stoppages and we consider our relations with our employees to be good.

The highly technical and complex services and products that we provide are dependent upon the availability of professional, administrative and technical personnel having high levels of training and skills and, in many cases, security clearances. Due to the increased competition for qualified personnel, it has become more difficult to retain employees and meet all of our needs for employees in a timely manner, which has affected and may to continue to affect our growth. We intend to continue to devote significant resources to recruit, develop and retain qualified employees.

Properties

As of July 31, 2011, we conducted our operations in approximately 427 offices located in 41 states, the District of Columbia and various foreign countries. We consider our facilities suitable and adequate for our present needs. We occupy approximately 9.8 million square feet of floor space. Of this amount, we own approximately 2.1 million square feet, and the remaining balance is leased. Our major locations are in the Washington, D.C. and San Diego, California metropolitan areas, where we occupy approximately 3 million square feet of floor space and 1 million square feet of floor space, respectively. We also have employees working at customer sites throughout the United States and in other countries.

As of July 31, 2011, we owned the following properties:

Location	Number of buildings	Square footage	Acreage
McLean, Virginia	4	896,000	18.3
San Diego, California	4	455,000	11.4
Virginia Beach, Virginia	2	159,000	22.5
Huntsville, Alabama	1	102,000	11.3
Columbia, Maryland	1	95,000	7.3
Colorado Springs, Colorado	1	86,000	5.8
Orlando, Florida	1	85,000	18.0
Oak Ridge, Tennessee	1	83,000	12.5
Dayton, Ohio	2	79,000	4.5
Reston, Virginia	1	62,000	2.6
Richland, Washington	1	24,000	3.1

The nature of our business is such that there is no practicable way to relate occupied space to our reportable segments. See Note 15 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus for information regarding commitments under leases.

Legal Proceedings

We have provided information about legal proceedings in which we are involved in Note 10 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 and Note 19 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus.

In addition to the matters disclosed in Note 10 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 and Note 19 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011, we are routinely subject to investigations and reviews relating to compliance with various laws and regulations, including those associated with contract performance, compliance with applicable laws and organizational conflicts of interest, with respect to our role as a contractor to governmental agencies and departments 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This prospectus is part of a combined registration statement of SAIC and Science Applications and includes separate consolidated financial statements for each of these two entities. As SAIC is a holding company and consolidates Science Applications for financial statement purposes, disclosures that relate to activities of Science Applications also apply to SAIC, unless otherwise noted. Science Applications' revenues and expenses comprise 100% of SAIC's revenues and operating expenses. In addition, Science Applications comprises approximately the entire balance of SAIC's assets, liabilities and operating cash flows. Therefore, the following qualitative discussion is applicable to both SAIC and Science Applications, unless otherwise noted. This combined Management's Discussion and Analysis of Financial Condition and Results of Operations of SAIC and Science Applications should be read in conjunction with the consolidated financial statements and the combined notes to the consolidated financial statements contained within this prospectus.

We use the terms "Company," "we," "us," and "our" to refer to SAIC, Science Applications and their consolidated subsidiaries. Unless otherwise noted, references to years are for fiscal years ended January 31. For example, we refer to the fiscal year ended January 31, 2011 as "fiscal 2011" and to the fiscal year ending January 31, 2012 as "fiscal 2012." All information for the periods presented in this section has been recast to give effect to the change in reportable segments and for discontinued operations.

Overview

We are a provider of scientific, engineering, systems integration and technical services and solutions in the areas of defense, health, energy, infrastructure, intelligence, surveillance, reconnaissance and cybersecurity to all agencies of the U.S. Department of Defense (DoD), the intelligence community, the U.S. Department of Homeland Security (DHS) and other U.S. Government civil agencies, state and local government agencies, foreign governments and customers in select commercial markets.

Our business is focused on solving issues of national and global importance in the areas of national security, energy and the environment, critical infrastructure and health. We combine technology and domain and mission expertise to deliver solutions that solve our customers' most challenging issues. We are focusing our investments in our strategic growth areas including: intelligence, surveillance and reconnaissance; cybersecurity; logistics, readiness and sustainment; energy and environment; and health information technology. Our significant long-term management initiatives include:

achieving internal, or non-acquisition related, annual revenue growth through internal collaboration and 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 and continued improvement in our information technology (IT) systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;

disciplined deployment of our cash resources and use of our capital structure to enhance growth and shareholder value through internal growth initiatives, strategic acquisitions, stock repurchases and other uses as conditions warrant; and

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

Key financial highlights and events, including progress against our management initiatives, during the six months ended July 31, 2011 include:

Revenues for the six months ended July 31, 2011 decreased 2% as compared to the same period in the prior year reflecting internal revenue contraction (as defined in "Non-GAAP Financial Measures") of 3%. The internal revenue contraction was driven by revenue declines in our Defense Solutions and Health, Energy

and Civil Solutions segments and the effect of revenues from the receipt of a \$56 million royalty payment included in our Corporate and Other segment in the same period of the prior year, partially offset by a revenue increase in our Intelligence and Cybersecurity Solutions segment.

Operating income as a percentage of revenues decreased to 8.3% for the six months ended July 31, 2011 from 8.9% for the same period in the prior year primarily due to the \$56 million royalty payment received in our Corporate and Other segment during the six months ended July 31, 2010.

Income from continuing operations for the six months ended July 31, 2011 decreased \$39 million, or 14%, over the same period in the prior year primarily due to decreased operating income of \$39 million and an increase in interest expense of \$19 million as the result of the issuance of senior unsecured notes in December 2010, partially offset by lower taxes of \$12 million due to the decline in operating income as compared to the same period in the prior year.

Diluted earnings per share (EPS) from continuing operations for the six months ended July 31, 2011 decreased \$.05 per share, or 7%, as compared to the same period in the prior year primarily due to the decrease in income from continuing operations partially offset by a decline in the diluted weighted average number of shares outstanding of 28 million, or 8%, primarily due to stock repurchases.

Discontinued operations for the six months ended July 31, 2011 reflects the June 2011 sale of certain components of the business primarily focused on providing information technology services to international oil and gas companies, including a gain on sale before income taxes of \$109 million.

Cash and cash equivalents decreased \$31 million during the six months ended July 31, 2011 reflecting cash used to repurchase our stock totaling \$417 million partially offset by cash generated from operations of \$210 million and proceeds of \$169 million from the completion of the sale of certain components of our business.

Net bookings (as defined in Key Financial Metrics Bookings and Backlog) were approximately \$5.9 billion for the six months ended July 31, 2011. Total backlog was \$17.7 billion at July 31, 2011 as compared to \$17.1 billion at January 31, 2011.

Key financial highlights and events, including progress against our management initiatives, during fiscal 2011 include:

Revenues increased 3% over the prior year with minimal internal revenue growth. Our revenue growth for fiscal 2011 was the result of growth in our Defense Solutions and Intelligence and Cybersecurity Solutions segments, including an increase in materials and subcontract revenues on a number of programs. Revenue growth was negatively impacted by ongoing industry-wide delays in procurement decisions, which has resulted in an increase in submitted proposals awaiting decisions.

Operating income as a percentage of revenues increased to 8.7% for fiscal 2011 from 7.9% for fiscal 2010. The increase in operating income margin was primarily due to the favorable impact of a \$56 million royalty payment received in fiscal 2011 in addition to strong program performance, particularly on certain fixed-price contracts.

Income from continuing operations for fiscal 2011 increased \$79 million, or 16%, over the prior year primarily due to increased operating income of \$111 million and a lower effective tax rate.

Diluted EPS from continuing operations for fiscal 2011 increased \$.29 per share, or 24%, as compared to the prior year primarily due to a \$79 million, or 16%, increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 24 million, or 6%, primarily due to stock repurchases.

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Cash and cash equivalents increased \$506 million during fiscal 2011, primarily due to \$725 million generated from operations and net proceeds of \$742 million from issuance of debt, partially offset by repurchases of our stock of \$601 million and \$382 million used to acquire businesses.

Net bookings were approximately \$12.6 billion for fiscal 2011, as compared to \$9.2 billion in the prior year. Total backlog was \$17.1 billion at January 31, 2011, an increase of approximately \$1.8 billion from January 31, 2010.

Business Environment

In fiscal 2011, we generated approximately 90% of our total revenues from contracts with the U.S. Government, either as a prime contractor or a subcontractor. Revenues under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented approximately 75% of our total revenues in fiscal 2011. Accordingly, our business performance is subject to changes in the overall level of U.S. Government spending, especially national security, including defense, spending, and the alignment of our service and product offerings and capabilities with current and future budget priorities.

While we believe that national security, including defense, spending will continue to be a priority, the U.S. Government deficit and budget situation has created increasing pressure to closely examine and reduce spending in these areas. In August 2011, President Obama signed into law the Budget Control Act of 2011, which increased the U.S. Government's debt ceiling and enacted 10-year discretionary spending caps which are expected to generate over \$900 billion in savings for the U.S. Government. According to the Office of Management and Budget, these savings include \$420 billion in national security spending reductions, \$330 billion of which is specifically from DoD's budget, over the next 10 years. If an additional \$1.2 trillion to \$1.5 trillion in savings are not voted into law by both houses of Congress by December 23, 2011, automatic spending cuts totaling an additional \$1.2 trillion over 10 years will be triggered, which are expected to reduce DoD and Homeland Security spending by approximately \$500 billion and other federal agency spending by approximately \$700 billion over that timeframe, beginning in the government fiscal year ending September 30, 2013. We are evaluating the potential impacts of the new legislation on our business, and while the ultimate effect on our business is uncertain, the amount and nature of these federal budget spending reductions could adversely impact our future revenues and growth prospects.

In February 2011, the Obama Administration submitted the Presidential Budget for the government fiscal year ending September 30, 2012 (GFY 2012) to Congress. However, based on the recent debt ceiling debate and delays in the appropriations process, we expect that a continuing resolution will be put in place for at least part of GFY 2012. A continuing resolution authorizes agencies of the U.S. Government to continue to operate, generally at the same funding levels from the prior year (in this case, GFY 2011), but does not authorize new spending initiatives. If continuing resolutions remain in effect for an extended period of time, it could delay new contract awards, delay the procurement of products, services and solutions we provide, or result in new spending initiatives being cancelled.

Competition for contracts with the U.S. Government continues to be intense. The U.S. Government has increasingly used contracting processes that give it the ability to select multiple winners or pre-qualify certain contractors to provide various services or products at established general terms and conditions. Such processes include purchasing services and solutions using indefinite-delivery/indefinite-quantity (IDIQ) and U.S. General Services Administration (GSA) contract vehicles. This trend has served to increase competition for U.S. Government contracts. There are a number of additional risks and uncertainties which could impact our U.S. Government business. For more information on these risks and uncertainties, see "Risk Factors" contained within this prospectus.

Reportable Segments

We define our reportable segments based on the way our chief operating decision maker (CODM), currently our chief executive officer, manages the operations of the Company for purposes of allocating resources and assessing performance.

Prior to February 1, 2011, our CODM managed our operations at the business unit level, each of which reported to one of several operating groups. Our business units were aggregated into reportable segments, Government and Commercial, based on the nature of the customers served, contractual requirements and the regulatory environment governing the business unit's operations. We also had a Corporate and Other segment.

Effective February 1, 2011, we further aligned our operations within the maturing group structure that is better organized around the markets served and the nature of products and services provided to customers in those markets. Coincident with the completion of this organizational alignment, the CODM commenced management of our operations at the group level for purposes of allocating resources and assessing performance. As a result of this change, we redefined our Government and Commercial reportable segments into the following: Defense Solutions; Health, Energy and Civil Solutions; and Intelligence and Cybersecurity Solutions.

Except with respect to Results of Operations Discontinued Operations, 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 Business and Note 17 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 and Note 9 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

Key Financial Metrics

Our revenues are generated primarily from contracts with the U.S. Government, commercial customers, and various foreign, state and local governments or from subcontracts with other contractors engaged in work with such customers. We perform 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.

We recognize revenues under cost-plus-fixed-fee contracts with the U.S. Government 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. We recognize revenues under our other contracts primarily using the percentage-of-completion method. Under the percentage-of-completion method, revenues are recognized based on progress towards completion, with performance measured by the cost-to-cost method, efforts-expended method or units-of-delivery method, all of which require estimating total costs at completion.

Bookings and Backlog. We received net bookings worth an estimated \$5.9 billion during the six months ended July 31, 2011 and \$12.6 billion and \$9.2 billion during fiscal 2011 and 2010, respectively. Net bookings represent the estimated amount of revenue to be earned in the future from funded and unfunded contract awards that were received during the year, net of any adjustments to previously awarded backlog amounts. We calculate net bookings as the year's ending backlog plus the year's revenues less the prior year's ending backlog and less the backlog obtained in acquisitions during the year.

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. Funded backlog for contracts with government agencies primarily represents contracts for which funding is appropriated less revenues previously recognized on these contracts, and 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. Funded backlog for contracts with non-government agencies represents the estimated value on contracts, which may cover multiple future years, under which we are obligated to perform, less revenues previously recognized on these contracts.

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

The estimated value of our total backlog as of the end of the periods presented was as follows:

	July 31 2011	January 31 2011* (in millions)	2010
Defense Solutions:			
Funded backlog	\$ 2,025	\$ 2,272	\$ 2,045
Negotiated unfunded backlog	4,948	5,400	4,012
Total Defense Solutions backlog	\$ 6,973	\$ 7,672	\$ 6,057
Health, Energy and Civil Solutions:			
Funded backlog	\$ 1,742	\$ 1,780	\$ 1,767
Negotiated unfunded backlog	3,264	2,131	1,960
Total Health, Energy and Civil Solutions backlog	\$ 5,006	\$ 3,911	\$ 3,727
Intelligence and Cybersecurity Solutions:			
Funded backlog	\$ 1,511	\$ 1,330	\$ 1,265
Negotiated unfunded backlog	4,234	4,207	4,317
Total Intelligence and Cybersecurity Solutions backlog	\$ 5,745	\$ 5,537	\$ 5,582
Total:			
Funded backlog	\$ 5,278	\$ 5,382	\$ 5,077
Negotiated unfunded backlog	12,446	11,738	10,289
Total backlog	\$ 17,724	\$ 17,120	\$ 15,366

* Adjusted to reclassify \$195 million from Intelligence and Cybersecurity Solutions to Defense Solutions.

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. While backlog increased during the six months ended July 31, 2011 and fiscal 2011, contract awards continue to be negatively impacted by ongoing industry-wide delays in procurement decisions, which have resulted in an increase in the value of our submitted proposals awaiting decisions.

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 fees for work performed.

Contract Types. For a discussion of the types of contracts under which we generate revenue, see *Contract Types* in the *Business* section contained within this prospectus. The following table summarizes revenues by contract type as a percentage of total revenues for the periods presented:

	Six Months Ended July 31		Year Ended January 31		
	2011	2010	2011	2010	2009
Cost-reimbursement	43%	47%	47%	49%	49%
T&M and FP-LOE	30	30	29	29	32
FFP	27	23	24	22	19
Total	100%	100%	100%	100%	100%

The increase in the percentage of revenues generated from FFP contracts during the six months ended July 31, 2011, as compared to the same period of the prior year was primarily due to increased revenues from design and construction services and increased sales of proprietary products.

The increase in the percentage of revenues generated from FFP contracts for fiscal 2011 as compared to prior years was primarily due to increased deliveries of logistics, readiness and sustainment products and proprietary products in addition to a \$56 million royalty payment received in fiscal 2011.

Revenue Mix. We generate revenues under our contracts from (1) the efforts of our technical staff, which we refer to as labor-related revenues, and (2) the materials provided on a contract and efforts of our subcontractors, which we refer to as 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, such as our border, port and mobile security products and our checked baggage explosive detection systems. While our proprietary products are more profitable, 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 presented:

	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011	Percent change	2010	Percent change	2009
	(\$ in millions)							
Labor-related revenues	\$ 3,059	(1)%	\$ 3,087	\$ 6,154	2%	\$ 6,051	5%	\$ 5,742
As a percentage of revenues	58%		57%	56%		57%		59%
M&S revenues	2,225	(3)	2,289	4,767	5	4,529	12	4,026
As a percentage of revenues	42%		43%	44%		43%		41%

M&S revenues decreased as a percentage of total revenues during the six months ended July 31, 2011 as compared with the same period in the prior year primarily due to a \$56 million royalty payment received during the six months ended July 31, 2010. Labor-related revenues for the six months ended July 31, 2011 decreased slightly as compared to the same period in the prior year due to a decrease in the number of full-time and part-time employees as compared to the same periods in the prior year.

In recent years, the increase in relative proportion of M&S revenues as compared to labor-related revenues was 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, in addition to a \$56 million royalty payment received in fiscal 2011. The labor-related revenues in fiscal 2011 were relatively consistent as compared to fiscal 2010 while the increase in labor-related revenues in fiscal 2010 as compared to fiscal 2009 was primarily due to the start of several new programs and increases in both labor rates and the number of personnel performing on contracts.

Customer Concentration. In each of fiscal 2011, 2010, and 2009, approximately 90% of our total revenues were attributable to prime contracts with the U.S. Government or to subcontracts with other contractors engaged in work for the U.S. Government. The percentage of total revenues from customers representing greater than 10% of our total revenues for each of the last three fiscal years was as follows:

	Year Ended January 31		
	2011	2010	2009
U.S. Army	23%	24%	25%
U.S. Navy	13	13	12

Geographic Location. The majority of our services are performed by entities located in the United States. Revenues earned by entities located within the United States accounted for substantially all of our total revenues in fiscal 2011, 2010 and 2009.

Results of Operations

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

	Six Months Ended July 31			Year Ended January 31				
	2011	Percentage Change	2010 as adjusted	2011	Percentage Change	2010 as adjusted	Percentage Change	2009
(\$ in millions)								
Revenues	\$ 5,284	(2)%	\$ 5,376	\$ 10,921	3%	\$ 10,580	8%	\$ 9,768
Cost of revenues	4,615	(1)	4,656	9,476	4	9,151	8	8,464
Selling, general and administrative expenses:								
General and administrative (G&A)	118	(15)	139	296	(26)	401	2	395
Bid and proposal	76	(3)	78	147	3	143	23	116
Internal research and development	36	44	25	55	12	49	7	46
Operating income	439	(8)	478	947	13	836	12	747
<i>As a percentage of income</i>	8.3%		8.9%	8.7%		7.9%		7.6%
Non-operating expense, net	(50)		(38)	(75)		(68)		(73)
Income from continuing operations before income taxes	389	(12)	440	872	14	768	14	674
Provisions for income taxes	(147)	(8)	(159)	(314)	9	(289)	17	(246)
Income from continuing operations	242	(14)	281	558	16	479	12	428
Income from discontinued operations, net of tax	67		34	61		17		18
Net income	\$ 309	(2)	\$ 315	\$ 619	25	\$ 496	11	\$ 446

We classify indirect costs incurred within or allocated to our Government customers 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 in fiscal 2012, one of our subsidiaries adopted our more prevalent disclosure statement resulting in \$13 million in costs classified as G&A for the six months ended July 31, 2010 being classified as cost of revenues in fiscal 2012 on a prospective basis. Effective in 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 and 2009. Total operating costs were not affected by these changes.

Reportable Segment Results.

The following table summarizes changes in Defense Solutions revenues and operating income for the periods presented:

Defense Solutions	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011	Percent change	2010	Percent change	2009
(\$ in millions)								
Revenues	\$ 2,222	(2)%	\$ 2,269	\$ 4,657	3%	\$ 4,518	12%	\$ 4,035
Operating income	178	1	177	380	7	355	12	317
Operating income margin	8.0%		7.8%	8.2%		7.9%		7.9%

Defense Solutions revenues decreased by \$47 million, or 2%, all of which was attributable to internal revenue contraction, for the six months ended July 31, 2011 as compared to the same period in the prior year. Internal

revenue contraction was primarily attributable to a systems development and implementation contract for a local government which was completed in the period (\$31 million), reduced activity on our U.S. Army Brigade Combat Team Modernization contract (\$31 million) and reduced activity on an infrastructure support services program for an agency of the DoD (\$18 million) in addition to one less business day as compared to the same period in the prior year (\$17 million). This decline was partially offset by continued growth on a number of existing contract vehicles including a systems and software maintenance/upgrade program for the U.S. Army (\$48 million).

Defense Solutions revenues increased \$139 million, or 3%, including internal revenue growth of 3%, in fiscal 2011 as compared to fiscal 2010. Fiscal 2011 internal revenue growth was driven by increased activity on our systems integration and logistics programs for tactical and mine resistant ambush protected vehicles (\$175 million), a systems and software maintenance and upgrades program with the U.S. Army (\$78 million), and a systems engineering solutions program for the U.S. Navy (\$65 million). These growth areas were partially offset by revenue declines on certain programs including from fewer deliveries of emergency responder equipment (\$99 million), and a reduction in scope under the U.S. Army Brigade Combat Team Modernization program (\$62 million).

Defense Solutions revenues increased \$483 million, or 12%, including internal revenue growth of 12%, in fiscal 2010 as compared to fiscal 2009. Fiscal 2010 internal revenue growth was driven by increased activity in military logistics and supply chain management services for the DoD (\$180 million), increases in systems engineering solutions for the U.S. Navy (\$91 million), increased activity on a systems and software maintenance and upgrades program for the U.S. Army (\$60 million) and increased activity on a program to support, operate and maintain a command, control, communication and computer system network for the DoD (\$55 million).

Defense Solutions operating income margin increased to 8.0% for the six months ended July 31, 2011 as compared to 7.8% for the same period in the prior year primarily due to more effective cost management (\$17 million) partially offset by lower fees on a systems development and implementation contract for a local government which was completed in the period (\$12 million).

Defense Solutions operating income margin increased to 8.2% in fiscal 2011 as compared to 7.9% in fiscal 2010 primarily due to increased cost recovery on cost reimbursement contracts and increased fees related to a specific contract partially offset by increased bid and proposal expenses. The level of bid and proposal activities fluctuates depending on the timing of bidding opportunities.

Defense Solutions operating income margin remained consistent in fiscal 2010 as compared to fiscal 2009 reflecting increased cost recovery on cost reimbursement contracts partially offset by an intangible asset impairment.

The following table summarizes changes in Health, Energy and Civil Solutions revenues and operating income for the periods presented:

	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011	Percent change	2010	Percent change	2009
	(\$ in millions)							
Revenues	\$ 1,336	(3)%	\$ 1,377	\$ 2,792	(2)%	\$ 2,848	10%	\$ 2,591
Operating income	117	(8)	127	258	9	236	11	213
Operating income margin	8.8%		9.2%	9.2%		8.3%		8.2%

Health, Energy and Civil Solutions revenues decreased \$41 million, or 3%, including internal revenue contraction of 7%, for the six months ended July 31, 2011 as compared to the same period in the prior year. Internal revenue contraction reflects a timing-related reduction in delivery of units of our non-intrusive cargo inspection systems (\$25 million) and checked baggage explosive detection systems (\$37 million) related to an

acquisition completed in August 2010. In addition, certain U.S. federal civilian agency programs experienced reduced activity, including various programs in support of National Aeronautics and Space Administration (NASA) (\$16 million). There was also one less business day as compared to the same period in the prior year (\$11 million). These decreases were partially offset by growth in our energy and health business areas, including new design-build projects for geothermal power plant construction (\$22 million) and expanded scope on new and existing programs with our DoD military health system customers (\$20 million).

Health, Energy and Civil Solutions revenues decreased \$56 million, or 2%, including internal revenue contraction of 6%, in fiscal 2011 as compared to fiscal 2010. The internal revenue contraction was primarily due to a decline in revenues under an IT services contract with NASA (\$62 million).

Health, Energy and Civil Solutions revenues increased \$257 million, or 10%, including internal revenue growth of 3%, in fiscal 2010 as compared to fiscal 2009. Internal revenue growth was driven by growth across a number of programs including a medical research program with our DoD military health system customers (\$66 million), a design-build effort with a commercial customer (\$59 million) and an information technology support program with the Department of Homeland Security (\$43 million).

Health, Energy and Civil Solutions operating income margin decreased to 8.8% for the six months ended July 31, 2011 as compared to 9.2% for the same period in the prior year. The decline in operating income margin was primarily driven by increased investment in growth-oriented research and development activities related to the development of new homeland security product offerings (\$9 million), increased amortization expense (\$7 million) related to acquisition activities in the current and prior years, and reduced deliveries of our non-intrusive cargo inspection systems, which have higher relative operating income margins. These decreases were partially offset by favorable program fee performance and efficiency actions to reduce indirect expenses across the segment.

Health, Energy and Civil Solutions operating income margin increased to 9.2% in fiscal 2011 as compared to 8.3% in fiscal 2010 due primarily to strong program performance, particularly on certain fixed price contracts, increased cost recovery on cost reimbursement contracts and reduced infrastructure costs related to organizational streamlining and cost efficiency actions taken in fiscal 2011 and 2010 partially offset by increased amortization expense for intangible assets related to recent business acquisitions.

Health, Energy and Civil Solutions operating income margin increased to 8.3% in fiscal 2010 as compared to 8.2% in fiscal 2009 due to increased cost recovery on cost reimbursement contracts.

The following table summarizes changes in Intelligence and Cybersecurity Solutions revenues and operating income for the periods presented:

Intelligence and Cybersecurity Solutions	Six Months Ended July 31			Year Ended January 31				
	2011	Percent change	2010	2011	Percent change	2010	Percent change	2009
	(\$ in millions)							
Revenues	\$ 1,727	3%	\$ 1,677	\$ 3,421	6%	\$ 3,216	2%	\$ 3,147
Operating income	159	21	131	288	2	281	8	261
Operating income margin	9.2%		7.8%	8.4%		8.7%		8.3%

Intelligence and Cybersecurity Solutions revenues increased \$50 million, or 3%, all of which was attributable to internal revenue growth, for the six months ended July 31, 2011 as compared to the same period in the prior year. Internal revenue growth was primarily attributable to increased activity on an existing intelligence analysis contract (\$37 million), a new manned airborne surveillance program (\$33 million), and several cybersecurity programs (\$5 million). These increases were partially offset by a decline in revenues due to the conclusion of a forward operating base integrated security equipment supply contract (\$16 million) and one less business day as compared to the same period in the prior year (\$13 million).

Intelligence and Cybersecurity Solutions revenues increased \$205 million, or 6%, including internal revenue growth of 4%, in fiscal 2011 as compared to fiscal 2010. Fiscal 2011 internal revenue growth was driven by increased activity in our manned and unmanned airborne surveillance programs (\$81 million) and intelligence analysis programs for the DoD (\$69 million).

Intelligence and Cybersecurity Solutions revenues increased \$69 million, or 2%, including internal revenue growth of 1%, in fiscal 2010 as compared to fiscal 2009. Fiscal 2010 internal revenue growth was primarily driven by increased activity in a systems integration, development and support program with an intelligence customer (\$66 million).

Intelligence and Cybersecurity Solutions operating income margin increased to 9.2% for the six months ended July 31, 2011 as compared to 7.8% for the same period in the prior year primarily due to strong program execution and effective cost management (\$9 million), increased sales of higher-margin proprietary products (\$8 million), and lower bid and proposal expenses (\$5 million) primarily attributable to the timing of bid and proposal activities.

Intelligence and Cybersecurity Solutions operating income margin decreased to 8.4% in fiscal 2011 as compared to 8.7% in fiscal 2010 due primarily to increased amortization expense for intangible assets and operating losses related to a business acquisition (\$24 million). Operating income margin improved to 8.7% during fiscal 2010 as compared to 8.3% in fiscal 2009 due to strong program performance and increased cost recovery on cost reimbursement contracts.

The following table summarizes changes in Corporate and Other revenues and operating income (loss) for the periods presented:

	Six Months Ended July 31			Year Ended January 31		
	2011	Percent change	2010	2011	Percent change	2009
	(\$ in millions)					
Corporate and Other						
Revenues	\$ 1		\$ 56	\$ 58	\$ 4	\$ (2)
Operating income (loss)	(15)	(135)%	43	21	(36)	(18)% (44)

Corporate and Other operating income (loss) for the six months ended July 31, 2011 includes charges related to the proposed settlement of a litigation matter involving work performed at the National Center for Critical Information Processing and Storage of \$22 million partially offset by gains on the sale of real estate of \$27 million. Corporate and Other revenues and operating income for the six months ended July 31, 2010 includes a \$56 million royalty payment received in connection with the resolution of a patent infringement matter.

Corporate and Other revenues for fiscal 2011 reflect a \$56 million royalty payment received in fiscal 2011 in connection with the resolution of a patent infringement matter. Corporate and Other operating income for fiscal 2011 was favorably impacted by the receipt of a royalty payment (\$56 million) and 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 fiscal 2011 (for a discussion of this matter, see Note 19 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus). Corporate and Other operating loss decreased in fiscal 2010 as compared to fiscal 2009 primarily due to a gain on sale of real estate of \$4 million in fiscal 2010.

Interest Income. Interest income for the six months ended July 31, 2011 was consistent with the same period in the prior year. Interest income was consistent in fiscal 2011 as compared to fiscal 2010. Interest income decreased \$18 million, or 90%, in fiscal 2010 as compared to fiscal 2009 primarily due to lower market interest rates, a reduction in our average cash balance and the change in our investment strategy to a higher concentration invested in lower-yielding U.S. Treasury and government securities money market accounts in the latter part of fiscal 2009.

Interest Expense. Interest expense primarily reflects interest on our outstanding debt securities and notes payable. Interest expense for the six months ended July 31, 2011 increased \$19 million, or 51% as compared to the same period in the prior year. Interest expense increased \$3 million, or 4%, for fiscal 2011 as compared to fiscal 2010. These increases in interest expense are primarily due to issuance of \$750 million of senior unsecured notes in December 2010. Interest expense declined by \$2 million, or 3%, for fiscal 2010 as compared to fiscal 2009 primarily due to the payment of an outstanding debt balance at the beginning of fiscal 2010.

Interest expense for Science Applications increased \$14 million during the six months ended July 31, 2011 as compared to the same period in the prior year, reflecting a \$19 million increase in interest on third-party debt partially offset by a \$5 million decrease in interest on its note payable to SAIC. Interest expense for Science Applications decreased \$4 million in fiscal 2011 as compared to fiscal 2010 reflecting a \$7 million decrease in interest on its note payable to SAIC partially offset by the \$3 million increase in interest on third-party debt. Interest expense for Science Applications decreased \$22 million during fiscal 2010 as compared to fiscal 2009 reflecting a \$20 million decrease in interest on its note payable to SAIC and a \$2 million decrease in interest on third party debt. Interest expense related to Science Application's note payable to SAIC may fluctuate significantly from year to year based on changes in the underlying note balance and interest rates throughout the fiscal year.

As more fully described in Quantitative and Qualitative Disclosures About Market Risk and Note 9 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus, we are currently exposed to interest rate risks and foreign currency risks that are inherent in the financial instruments and contracts arising from transactions entered into in the normal course of business. From time to time, we use derivative instruments to manage these risks.

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

	Six Months Ended July 31		Year Ended January 31		
	2011	2010	2011	2010	2009
	(in millions)				
Impairment losses on investments	\$	\$	\$ (4)	\$ (1)	\$ (14)
Net gain on sale of other investments	1	1	5	3	6
Equity interest in earnings and impairment losses on investments in unconsolidated affiliates, net				1	(9)
Other	4	(3)	1	3	2
Total other income (expense), net	\$ 5	\$ (2)	\$ 2	\$ 6	\$ (15)

In fiscal 2009, we recognized \$29 million of impairment losses on our ownership interests in Danet GmbH and certain private equity securities held by our venture capital subsidiary. These impairments were due to other-than-temporary declines in their fair values caused by poor business performance, contraction in credit markets and general declines in global economic conditions. The carrying value of our investments as of July 31, 2011 was \$13 million.

Provision for Income Taxes. The provision for income taxes as a percentage of income from continuing operations before income taxes increased to a more normative effective tax rate of 37.8% for the six months ended July 31, 2011 as compared to 36.1% for the same period in the prior year primarily due to a \$11 million reduction in the provision for income taxes for the six months ended July 31, 2010 resulting from the resolution of certain tax uncertainties. The provision for income taxes as a percentage of income from continuing operations before income taxes was 36.0%, 37.6% and 36.5% in fiscal 2011, 2010 and 2009, respectively. The lower effective income tax rates for fiscal 2011 and fiscal 2009 as compared to fiscal 2010 were primarily due to the reversal of \$7 million and \$8 million, respectively, in accruals for unrecognized tax benefits as a result of the settlement of federal and state tax audits.

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 filing of the tax return, thereby greatly reducing the period of time between return submission and settlement with the IRS.

Diluted Earnings per Share (EPS) from Continuing Operations. Diluted EPS from continuing operations decreased \$.05 per share, or 7%, for the six months ended July 31, 2011 as compared to the same period in the prior year, primarily due to the decrease in income from continuing operations partially offset by a reduction in the diluted weighted average number of shares outstanding of 8%, or 28 million shares, for the six months ended July 31, 2011 primarily due to share repurchases. Diluted EPS from continuing operations increased \$.29 per share, or 24%, for fiscal 2011 as compared to fiscal 2010 primarily due to a \$79 million, or 16%, increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 6%, or 24 million shares, primarily due to stock repurchases. Diluted EPS from continuing operations increased \$.16 per share, or 16%, for fiscal 2010 as compared to fiscal 2009 primarily due to a \$51 million, or 12%, increase in income from continuing operations and a decline in the diluted weighted average number of shares outstanding of 3%, or 12 million shares, primarily due to stock repurchases.

Discontinued Operations. On June 10, 2011, in order to better align our business portfolio with our strategy, we sold certain components of the business, which were historically included in our Commercial segment, primarily focused on providing information technology services to international oil and gas companies. Pursuant to the definitive sale agreement, we retained the assets and obligations of a defined benefit pension plan in the United Kingdom. In fiscal 2010, we also sold non-strategic components of our Intelligence and Cybersecurity Solutions segment. We have classified the operating results of these businesses, including the pension activity through the date of sale, as discontinued operations for all periods presented.

The pre-sale operating results of the businesses sold for the periods presented were as follows:

	Six Months Ended July 31 2011	2010 as adjusted	Year Ended January 31 2011 (in millions)	2010 as adjusted	2009
Revenues	\$ 69	\$ 103	\$ 196	\$ 267	\$ 310
Costs and expenses:					
Cost of revenues	54	84	156	192	234
Selling, general and administrative expenses	8	17	28	45	67
Operating income	\$ 7	\$ 2	\$ 12	\$ 30	\$ 9

During the six months ended July 31, 2011, we received proceeds of \$169 million resulting in a preliminary gain on sale before income taxes of \$109 million related to the June 10, 2011 sale, subject to contractual adjustments. During the six months ended July 31, 2010, the Company recorded a pre-tax gain of \$52 million related to the settlement of an arbitration proceeding brought against Telkom South Africa by the Company's former subsidiary, Telcordia Technologies, Inc.

In fiscal 2011, discontinued operations included pre-tax net gains of \$77 million primarily related to the settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary and resolution of other contingencies related to the sale of this former subsidiary.

Our results of discontinued operations included pre-tax net losses of \$6 million and \$8 million in fiscal 2010 and 2009, respectively. In fiscal 2009, we recorded a reduction in the provision for income taxes of discontinued operations of \$17 million due to the reversal of uncertain tax positions as a result of the settlement of federal and state tax audits for amounts lower than the recorded amounts and the expiration of statutes of limitation for certain tax years.

Income from discontinued operations also includes other activity that is immaterial and not reflected above.

Net Income. Net income decreased \$6 million, or 2%, for the six months ended July 30, 2011, as compared to the same period in the prior year primarily due to a decrease in income from continuing operations.

Net income increased \$123 million, or 25%, for fiscal 2011 as compared to fiscal 2010. The increase in net income for fiscal 2011 as compared to fiscal 2010 reflects an increase in income from continuing operations of \$79 million and an increase in income from discontinued operations of \$44 million. Net income increased \$50 million, or 11%, for fiscal 2010 as compared to fiscal 2009. The increase in net income for fiscal 2010 as compared to fiscal 2009 reflects an increase in income from continuing operations of \$51 million and a decrease in income from discontinued operations of \$1 million.

Net income for Science Applications decreased \$1 million for the six months ended July 31, 2011 as compared to the same period in the prior year for the reasons described above. Net income for Science Applications increased \$129 million in fiscal 2011 and \$63 million in fiscal 2010 as compared to the respective prior year periods for the reasons described above and declines in interest expense on the note payable to SAIC.

Diluted EPS. Diluted EPS increased \$.05 per share, or 6%, for the six months ended July 31, 2011, as compared to the same period in the prior year due to a reduction in the diluted weighted average number of shares outstanding of 28 million, or 8%, primarily due to share repurchases, partially offset by a decrease in net income of \$6 million.

Diluted EPS increased \$.41 per share, or 33%, for fiscal 2011 as compared to fiscal 2010 due to increases in net income and declines in the diluted number of shares outstanding as discussed above. Diluted EPS increased \$.15 per share, or 14%, for fiscal 2010 as compared to fiscal 2009 due to increases in net income and declines in the diluted number of shares outstanding as discussed above.

Liquidity and Capital Resources

We had \$1.336 billion in cash and cash equivalents at July 31, 2011, 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 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 is backed by a number of financial institutions, matures in fiscal 2016, 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 payment of current portions of notes payable and long-term debt. 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 was \$1.336 billion, \$1.367 billion and \$861 million at July 31, 2011, January 31, 2011, and January 31, 2010, respectively. The following table summarizes cash flow information for the periods presented:

	Six Months Ended July 31		Year Ended January 31		
	2011	2010	2011	2010	2009
	(in millions)				
Total cash flows provided by continuing operations	\$ 210	\$ 241	\$ 725	\$ 588	\$ 558
Total cash flows provided by (used in) investing activities of continuing operations	19	(174)	(445)	(306)	(248)
Total cash flows provided by (used in) financing activities of continuing operations	(407)	(411)	187	(398)	(427)
Increase (decrease) in cash and cash equivalents from discontinued operations	146	89	40	36	(27)
Effect of foreign exchange rate changes on cash and cash equivalents	1	(2)	(1)	5	(16)
Total increase (decrease) in cash and cash equivalents	\$ (31)	\$ (257)	\$ 506	\$ (75)	\$ (160)

Cash Provided by Continuing Operations. Cash flows from continuing operations decreased \$31 million for the six months ended July 31, 2011 as compared to the same period in the prior year. Cash flows from continuing operations were primarily impacted by the receipt of a \$56 million royalty payment during the six months ended July 31, 2010.

Cash flows from continuing operations increased \$137 million in fiscal 2011 as compared to fiscal 2010. Cash flows from continuing operations were favorably impacted by improved cash management, including a reduction in the average time to collect receivables, and a \$79 million increase in income from continuing operations. Cash flows from continuing operations were partially offset by an increase in cash paid for income taxes (\$62 million) and the funding of performance bonds on our contract with the Greek government (\$23 million).

Cash flows from continuing operations increased \$30 million in fiscal 2010 as compared to fiscal 2009. Cash flows from continuing operations were favorably impacted by \$58 million related to an inventory reduction in fiscal 2010 as compared to inventory growth on certain logistics and product support programs during fiscal 2009, an additional payroll cycle in fiscal 2009 and a \$51 million increase in income from continuing operations. Cash flows from continuing operations were negatively impacted by a decrease in the relative amount of payables outstanding and accrued liabilities during fiscal 2010 as compared to fiscal 2009 as a result of a \$68 million decline in customer advance payments. Other significant drivers of cash flows from continuing operations included an increase in accounts receivable related to growth in our operations while the average time to collect receivables increased slightly from fiscal 2009 to 2010 after it had declined significantly during the prior year.

Cash flows from continuing operations for Science Applications decreased \$40 million for the six months ended July 31, 2011 and increased \$118 million in fiscal 2011 and \$24 million in fiscal 2010, each as compared to the same periods in their respective prior years primarily for the reasons described for SAIC above. Differences in cash flows from operations for Science Applications as compared to SAIC are primarily due to changes in interest payments (which reduce cash flows from operations of Science Applications) made by Science Applications on its note to SAIC and changes in excess tax benefits related to stock-based compensation (which reduce cash flows from operations for SAIC).

Cash Provided by (Used in) Investing Activities of Continuing Operations. We generated \$19 million of cash in support of investing activities of continuing operations during the six months ended July 31, 2011 including \$78

million of proceeds from the sale of real estate, partially offset by \$26 million to acquire a business and \$30 million to purchase property, plant and equipment. We used \$174 million of cash in support of investing activities of continuing operations during the six months ended July 31, 2010 including \$140 million to acquire a business and \$35 million to purchase property, plant and equipment primarily related to spending on information technology modernization projects and construction projects for leased facilities.

We used \$445 million of cash in support of investing activities of continuing operations in fiscal 2011, including \$382 million (net of cash acquired) to acquire three businesses and \$73 million to purchase property, plant and equipment. We used \$306 million of cash in support of investing activities of continuing operations in fiscal 2010, including \$256 million (net of cash acquired) to acquire six businesses and \$58 million to purchase property, plant and equipment. We used \$248 million of cash in support of investing activities of continuing operations in fiscal 2009, including \$201 million (net of cash acquired) to acquire two businesses and \$58 million to purchase property, plant and equipment.

Cash Provided by (Used in) Financing Activities of Continuing Operations. We used \$407 million of cash in support of financing activities of continuing operations during the six months ended July 31, 2011, including \$417 million to repurchase shares of our stock. We used \$411 million of cash in support of financing activities of continuing operations during the six months ended July 31, 2010, including \$445 million to repurchase shares of our stock partially offset by \$22 million in proceeds from the sale of stock under our employee stock purchase plan (ESPP) and exercises of stock options and \$13 million in excess tax benefits associated with stock-based compensation.

We generated \$187 million of cash from financing activities of continuing operations in fiscal 2011, including \$742 million of net proceeds from the issuance of debt, \$38 million in proceeds from the sale of stock under our employee stock purchase plan (ESPP) and exercises of stock options and \$11 million in excess tax benefits associated with stock-based compensation partially offset by \$601 million to repurchase shares of our stock. We used \$398 million of cash in support of financing activities of continuing operations in fiscal 2010, including \$474 million to repurchase shares of our stock and \$18 million for payments on notes payable and long-term debt partially offset by \$58 million in proceeds from the sale of stock under our ESPP and exercises of stock options and \$36 million in excess tax benefits associated with stock-based compensation. We used \$427 million of cash in support of financing activities of continuing operations in fiscal 2009, including \$445 million to repurchase shares of our stock and \$113 million for payments on notes payable and long-term debt partially offset by \$76 million in proceeds from the sale of stock under our ESPP and exercises of stock options and \$56 million in excess tax benefits associated with stock-based compensation.

Science Applications used cash in financing activities of \$406 million for the six months ended July 31, 2011, including repayment on its note with SAIC of \$868 million partially offset by proceeds on the note of \$466 million. Science Applications used cash in financing activities of \$419 million for the six months ended July 31, 2010, including repayment on its note with SAIC of \$908 million partially offset by proceeds on the note of \$490 million.

Science Applications generated cash from financing activities of \$184 million in fiscal 2011, including proceeds on third-party debt of \$742 million and proceeds from its note with SAIC of \$1.298 billion offset by repayments on the note with SAIC of \$1.853 billion. Science Applications used cash in financing activities of \$420 million in fiscal 2010, including repayments on its note with SAIC of \$782 million partially offset by proceeds on the note of \$380 million. Science Applications used cash in financing activities of \$455 million in fiscal 2009, including repayments on third-party debt of \$113 million and repayment on its note with SAIC of \$461 million partially offset by proceeds on the note with SAIC of \$120 million.

Cash Flows from Discontinued Operations. Cash flows from discontinued operations for the six months ended July 31, 2011 included proceeds of \$169 million from the sale of certain components of the business. Cash flows from discontinued operations for the six months ended July 31, 2010 included proceeds of \$82 million from the

settlement of an arbitration proceeding brought against Telkom South Africa by our former subsidiary Telcordia Technologies, Inc.

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 SAIC common stock as part of our overall strategy for capital allocation. We repurchased an aggregate of 82 million shares under the 2006 Repurchase Program. In December 2010, our board of directors terminated the 2006 Repurchase Program and authorized a new stock repurchase program (the 2010 Repurchase Program) under which we may repurchase up to 40 million shares of SAIC common stock. 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. As of July 31, 2011, there were 6 million shares remaining authorized for repurchase under the 2010 Repurchase Program.

Underfunded Pension Obligation

We sponsor a defined benefit pension plan in the United Kingdom for plan participants that primarily performed services on a specific customer contract, which has expired. As of January 31, 2011, the pension plan had an underfunded projected benefit obligation of \$20 million. In April 2010, plan participants who were then performing services on the contract transferred to a successor contractor. We expect that certain plan participants will transfer their pension plan assets and obligations to a successor contractor. The impact of these transfers on plan assets and obligations will depend on the number of plan participants who elect to transfer their pension benefits to a successor contractor's plan, the amount of assets and obligations to be transferred, the performance of the pension plan assets and agreement on the timing of the transfer of the pension plan assets and obligations to a successor contractor's plan. We have continuing defined benefit pension obligations with respect to certain plan participants however benefits are no longer accruing under the plan as of May 2011. In June 2011, we sold the component of our business that contained this pension and employed the pension plan participants. Pursuant to the definitive sale agreement, we retained the assets and obligations of this defined benefit pension plan.

Outstanding Indebtedness

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

	Stated interest rate	Effective interest rate	July 31 2011	January 31 2011 (in millions)	2010
SAIC senior unsecured notes:					
\$450 million notes issued in fiscal 2011, which mature in December 2020	4.45%	4.59%	\$ 448	\$ 448	\$
\$300 million notes issued in fiscal 2011, which mature in December 2040	5.95%	6.03%	300	300	
Science Applications senior unsecured notes:					
\$550 million notes issued in fiscal 2003, which mature in July 2012	6.25%	6.50%	550	550	549
\$250 million notes issued in fiscal 2003, which mature in July 2032	7.13%	7.43%	248	248	248
\$300 million notes issued in fiscal 2004, which mature in July 2033	5.50%	5.78%	296	296	296
Other notes payable due on various dates through fiscal 2017	0%-3.1%	Various	10	10	13
Total notes payable and long-term debt			1,852	1,852	1,106
Less current portion			553	3	3
Total notes payable and long-term debt, net of current portion			\$ 1,299	\$ 1,849	\$ 1,103
Fair value of notes payable and long-term debt			\$ 2,010	\$ 1,930	\$ 1,165

These notes contain financial covenants and customary restrictive covenants, including, among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions. We were in compliance with all covenants as of July 31, 2011 and January 31, 2011. Our other notes payable have interest rates ranging up to 3.1% and are due on various dates through fiscal 2017. For additional information on our notes payable and long-term debt, see Note 6 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

Credit Facility. At July 31, 2011, SAIC had 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 2016. Science Applications has fully and unconditionally guaranteed any borrowings under SAIC's revolving credit facility. The facility contained financial covenants and customary restrictive covenants. As of July 31, 2011, we were in compliance with all covenants under the credit facility. For additional information on our credit facility, see Note 6 of the combined notes to condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain of our unconsolidated joint venture investments. We also have letters of credit outstanding principally related to guarantees on contracts with foreign government customers and surety bonds outstanding principally related to performance and payment bonds as described in Note 20 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus. 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.

Contractual Obligations

The following table summarizes, as of January 31, 2011, our obligations to make future payments pursuant to certain contracts or arrangements and provides an estimate of the fiscal years in which these obligations are expected to be satisfied:

		Payments Due by Fiscal Year			
	Total	2012	2013- 2014 (in millions)	2015- 2016	2017 and Thereafter
Contractual obligations:					
Long-term debt (including current portion) ⁽¹⁾	\$ 3,393	\$ 105	\$ 712	\$ 146	\$ 2,430
Operating lease obligations ⁽²⁾	654	139	206	137	172
Capital lease obligations	7	3	3	1	
Estimated purchase obligations ⁽³⁾	149	115	29	3	2
Other long-term liabilities ⁽⁴⁾	135	66	50	13	6
Total contractual obligations	\$ 4,338	\$ 428	\$ 1,000	\$ 300	\$ 2,610

- (1) Includes total interest payments on our outstanding debt of \$105 million in fiscal 2012, \$161 million in fiscal 2013-2014, \$145 million in fiscal 2015-2016 and \$1,129 million in fiscal 2017 and thereafter.
- (2) Excludes \$46 million related to an operating lease on a contract with the Greek government as we are not obligated to make the lease payments to the lessee if our customer defaults on payments to us.
- (3) Includes estimated obligations to transfer funds under legally enforceable agreements for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Excludes purchase orders for services or products to be delivered pursuant to U.S. Government contracts in which we have full recourse under normal contract termination clauses.
- (4) Other long-term liabilities were allocated by fiscal year as follows: a liability for our foreign defined benefit pension plan is based upon the expected near-term contributions to the plan (for a discussion of potential changes in these pension obligations, see Note 10 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus); liabilities under deferred compensation arrangements are based upon the average annual payments in prior years upon termination of employment by participants; liabilities for uncertain tax positions are based upon the fiscal year that the statute of limitations is currently expected to expire; a liability to reimburse a customer for cash advances on a contract that is periodically renewed is based upon the fiscal year that the most recent contract renewal is ending; and other liabilities are based on the fiscal year that the liabilities are expected to be realized.

Commitments and Contingencies

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 19 and 20 of the combined notes to the consolidated financial statements for the fiscal year ended January 31, 2011 and Notes 10 and 11 of the combined notes to the condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

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

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

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 of fiscal 2011, 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.

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

Goodwill is assessed for impairment at least annually and whenever events or circumstances indicate that the carrying value may not be recoverable. We perform our annual goodwill impairment assessment as of the beginning of the fourth quarter. The goodwill impairment test is a two-step process performed at the reporting unit level. The first step consists of estimating the fair values of each of the reporting units based on a combination of two valuation methods, a market approach and an income approach. Fair value computed using these two methods is determined using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable market data with a consistent industry grouping, and the cost of capital. The estimated fair values are compared with the carrying values of the reporting units, which include the allocated goodwill. If the fair value is less than the carrying value of a reporting unit, which includes the allocated goodwill, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit's identifiable assets and liabilities from its estimated fair value calculated in the first step. The impairment expense represents the excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the reporting unit's goodwill. The goodwill impairment test process requires management to make significant judgments and assumptions, including revenue, profit and cash flow forecasts, about the business units to which goodwill is assigned. Misjudgments in this forecasting process could result in management not taking an impairment charge when one may be required. Our goodwill impairment tests performed for fiscal 2011, 2010, and 2009 did not result in any impairment of goodwill. The carrying value of goodwill as of January 31, 2011 was \$1.664 billion.

Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In fiscal 2010, we recognized impairment losses of \$6 million for intangible assets. We did not recognize any impairment losses on intangible assets in fiscal 2011 and 2009. The carrying value of intangible assets as of January 31, 2011 was \$211 million.

Income Taxes. We account for income taxes under the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Under this method, changes in tax rates and laws are recognized in income in the period such changes are enacted. The provision for federal, state, foreign and local income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes. Recording our provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until the final resolution of an examination by the IRS or state agencies. Additionally, recording liabilities for uncertain tax positions involves significant judgment in evaluating our tax positions and developing our best estimate of the taxes ultimately expected to be paid.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount or would no longer be able to realize our deferred income tax assets in the future as currently recorded, we would make an adjustment to the valuation allowance which would decrease or increase the provision for income taxes.

We have also recognized liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We have experienced years when liabilities for uncertain tax positions were settled for amounts different from recorded amounts as described in Note 13 of the combined notes to the consolidated financial statements for the fiscal year ended January 31, 2011 contained within this prospectus.

Stock-Based Compensation. We account for stock-based compensation in accordance with the accounting standard for stock compensation. Under the fair value recognition provisions of this standard, share-based

compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The estimation of stock option fair value requires management to make complex estimates and judgments about, among other things, employee exercise behavior, forfeiture rates, and the volatility of our common stock. These judgments directly affect the amount of compensation expense that will ultimately be recognized. The expected term for all awards granted is derived from our historical experience except for awards granted to our outside directors, for which the expected term of awards granted is derived utilizing the simplified method presented in SEC Staff Accounting Bulletin Nos. 107 and 110, Share-Based Payment. Expected volatility is based on an average of the historical volatility of our stock and the implied volatility from traded options on our stock. We assumed weighted average volatilities of 25.1%, 30.6% and 26.2% for fiscal 2011, 2010 and 2009, respectively. All other assumptions held constant, a ten percentage point change in our fiscal 2011 volatility assumption would have increased or decreased the grant-date fair value of our fiscal 2011 option awards by approximately 30%.

Non-GAAP Financial Measures

In this prospectus, 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 to the revenue for the prior year adjusted to include the actual revenue of acquired businesses for the comparable prior year before acquisition. This calculation has the effect of adding revenue for the acquired businesses for the comparable prior year to our prior year 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. 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 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 (contraction) percentages for the periods presented were calculated as follows:

	Six Months Ended July 31 2011	Year Ended January 31 2011	2010
		(\$ in millions)	
Defense Solutions:			
Prior year period's revenues, as reported	\$ 2,269	\$ 4,518	\$ 4,035
Revenues of acquired businesses for the comparable prior year period	4	6	5
Prior year period's revenues, as adjusted	\$ 2,273	\$ 4,524	\$ 4,040
Current year period's revenues, as reported	2,222	4,657	4,518
Internal revenue growth (contraction)	\$ (51)	\$ 133	\$ 478
Internal revenue growth (contraction) percentage	(2)%	3%	12%

	Six Months Ended July 31 2011	Year Ended January 31 2011 (\$ in millions)	2010
Health, Energy and Civil Solutions:			
Prior year period's revenues, as reported	\$ 1,377	\$ 2,848	\$ 2,591
Revenues of acquired businesses for the comparable prior year period	61	128	170
Prior year period's revenues, as adjusted	\$ 1,438	\$ 2,976	\$ 2,761
Current year period's revenues, as reported	1,336	2,792	2,848
Internal revenue growth (contraction)	\$ (102)	\$ (184)	\$ 87
Internal revenue growth (contraction) percentage	(7)%	(6)%	3%
Intelligence and Cybersecurity Solutions:			
Prior year period's revenues, as reported	\$ 1,677	\$ 3,216	\$ 3,147
Revenues of acquired businesses for the comparable prior year period	4	88	25
Prior year period's revenues, as adjusted	\$ 1,681	\$ 3,304	\$ 3,172
Current year period's revenues, as reported	1,727	3,421	3,216
Internal revenue growth	\$ 46	\$ 117	\$ 44
Internal revenue growth percentage	3%	4%	1%
Total*:			
Prior year period's revenues, as reported	\$ 5,376	\$ 10,580	\$ 9,768
Revenues of acquired businesses for the comparable prior year period	69	222	200
Prior year period's revenues, as adjusted	\$ 5,445	\$ 10,802	\$ 9,968
Current year period's revenues, as reported	5,284	10,921	10,580
Internal revenue growth (contraction)	\$ (161)	\$ 119	\$ 612
Internal revenue growth (contraction) percentage	(3)%	1%	6%

* Total revenues include amounts related to Corporate and Other and intersegment eliminations.

Recently Adopted and Issued Accounting Pronouncements

For additional information regarding recently adopted and issued accounting pronouncements, see Note 1 of the combined notes to consolidated financial statements for the fiscal year ended January 31, 2011 and condensed consolidated financial statements for the six months ended July 31, 2011 contained within this prospectus.

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 inflation. As a result, net income as a percentage of total revenues has not been significantly impacted by inflation.

Quantitative and Qualitative Disclosures About Market Risk

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We are exposed to certain market risks in the normal course of business. Our current market risk exposures are primarily related to interest rates and foreign currency fluctuations. The following information about our market sensitive financial instruments contains forward-looking statements.

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and long-term debt obligations. We have established an investment policy to protect the safety, liquidity and after-tax yield of invested funds. This policy establishes guidelines regarding acceptability of instruments and maximum maturity dates and requires diversification in the investment portfolios by establishing maximum amounts that may be invested in designated instruments and issuers. We do not authorize the use of derivative instruments in our managed short-term investment portfolios. Our policy authorizes, with board of directors approval, the limited use of derivative instruments only to hedge specific interest rate risks.

The table below provides information about our financial instruments at January 31, 2011 that are sensitive to changes in interest rates. For debt obligations and short-term investments, the table presents principal cash flows in U.S. dollars and related weighted average interest rates by expected maturity dates.

	2012	2013	2014	2015	2016	Thereafter	Total	Estimated Fair Value as of January 31, 2011
	(\$ in millions)							
Assets								
Cash and cash equivalents ⁽¹⁾	\$ 1,367	\$	\$	\$	\$	\$	\$ 1,367	\$ 1,367
Average interest rate	.3%							
Liabilities:								
Short-term and long-term debt:								
Variable interest rate	\$	\$ 1	\$	\$	\$ 1	\$ 1	\$ 3	\$ 3
Weighted average interest rate		3.1%			3.1%	3.1%		
Fixed rate	\$ 3	\$ 552	\$ 1	\$ 1	\$	\$ 1,300	\$ 1,857	\$ 1,927
Weighted average interest rate	5.2%	6.2%	4.7%	4.4%		5.6%		

(1) Includes \$27 million denominated in British pounds, \$7 million denominated in Euros, \$3 million denominated in Canadian dollars, \$1 million denominated in Indian rupees, \$1 million denominated in Australian dollars and \$1 million denominated in Korean Won.

At January 31, 2011 and 2010, our cash and cash equivalents included 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, that had original maturities of three months or less. A 10% unfavorable interest rate movement would not materially impact the value of the holdings and would have a negligible impact on interest income at current market interest rates.

Foreign Currency Risk. Although the majority of our transactions are denominated in U.S. dollars, some transactions are denominated in foreign currencies, principally British pounds, Euros, Canadian dollars and Indian rupees. Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and certain intercompany transactions denominated in currencies other than our (or one of our subsidiaries') functional currency. We may enter into foreign currency forward contracts from time to time to fix, or limit the adverse impact on, the amount of firmly committed and forecasted non-functional payments, receipts and intercompany transactions related to our ongoing business and operational financing activities. These contracts are designed to minimize our risk when we enter into transactions outside our functional currency. We do not use derivative instruments for trading or speculative purposes. As of January 31, 2011 and 2010, we had outstanding foreign currency forward contracts with a notional amount of \$3 million and \$9 million, respectively, with an immaterial fair value.

During the six months ended July 31, 2011, there were no material changes in our market risk exposure.

MANAGEMENT
Executive Officers and Directors

The following table provides information regarding our executive officers and directors as of the date of this prospectus. The executive officers of SAIC serve in the same positions as executive officers of Science Applications. Likewise, the individuals that comprise the Board of Directors of SAIC are the same individuals that comprise the Board of Directors of Science Applications.

Name	Age	Position
Deborah H. Alderson	54	Group President
Joseph W. Craver III	53	Group President
James E. Cuff	52	Executive Vice President for Business Development, Strategy and M&A
John R. Hartley	45	Senior Vice President and Corporate Controller
Walter P. Havenstein	62	Chief Executive Officer and Director
Deborah L. James	52	Executive Vice President for Communications and Government Affairs
Brian F. Keenan	55	Executive Vice President for Human Resources
Vincent A. Maffeo	60	Executive Vice President and General Counsel
Anthony J. Moraco	51	Executive Vice President for Operations and Performance Excellence
K. Stuart Shea	54	Group President
Mark W. Sopp	46	Executive Vice President and Chief Financial Officer
France A. Córdova	64	Director
Jere A. Drummond	72	Director
Thomas F. Frist, III	43	Director
John J. Hamre	61	Director
Miriam E. John	62	Director
Anita K. Jones	69	Director
John P. Jumper	66	Director
Harry M.J. Kraemer	56	Director
Lawrence C. Nussdorf	64	Director
Edward J. Sanderson, Jr.	62	Director
Louis A. Simpson	74	Director
A. Thomas Young	73	Director, Non-Executive Chair of the Board

Executive Officers

Science Applications became a 100%-owned subsidiary of SAIC in October 2006 through a reorganization merger in connection with SAIC's initial public offering and listing on the New York Stock Exchange (NYSE). Accordingly, in the following biographical information, references to terms of service as an executive officer beginning or continuing after the reorganization merger refer to service for both companies, while service prior to the reorganization merger refers to service for the Science Applications only.

Deborah H. Alderson has served as Group President since 2005. Ms. Alderson previously served as Deputy Group President from August 2005 to October 2005. Prior to joining us, Ms. Alderson held various positions with Anteon International Corporation, a systems integration services provider, including President of the Systems Engineering Group from 2002 to 2005, and Senior Vice President and General Manager of the Systems Engineering Group from 1998 to 2002. Ms. Alderson held various positions with Techmatics, Inc., a systems engineering provider, from 1985 to 1998.

Joseph W. Craver III has served as Group President since 2007. Mr. Craver previously held various positions with us since 1989, including serving in successive line managerial positions from 1997 to 2007. Prior to joining us, Mr. Craver held various positions with the U.S. Navy nuclear submarine program from 1981 to 1989.

James E. Cuff has served as Executive Vice President for Business Development, Strategy, and Mergers and Acquisitions since 2010. Mr. Cuff has held various positions with us since 1991, including Senior Vice President and General Manager of our Logistics and Engineering Solutions Business Unit from April 2001 to August 2010. Prior to joining us through our acquisition of Logistics Systems Architects in 1991, Mr. Cuff served four years in several senior positions, and seven years in the private sector systems integration business, serving in a variety of management and business development positions.

John R. Hartley has served as Senior Vice President and Corporate Controller since 2005. Mr. Hartley has held various positions within our finance organization since 2001. For 12 years prior to that, Mr. Hartley was with the accounting firm currently known as Deloitte & Touche LLP.

Walter P. Havenstein has served as Chief Executive Officer and Director since September 2009. From January 2007 until joining us, Mr. Havenstein served as Chief Operating Officer and member of the Board of Directors for BAE Systems plc, a \$34 billion global aerospace and defense company, and as President and Chief Executive Officer of its U.S. subsidiary, BAE Systems Inc., with 53,000 employees and annual sales in excess of \$20 billion. From August 2005 to August 2007, Mr. Havenstein served as President of the Electronics & Integrated Solutions Operating Group of BAE Systems, Inc. and served as Executive Vice President since January 2004. Before that, he was president of BAE Systems Information and Electronic Warfare Systems business unit. Mr. Havenstein was president of the Sanders defense electronics business prior to it being acquired by BAE from Lockheed Martin in 2000. Before joining Sanders in 1999, he had been vice president and general manager of the Strategic Systems Division of Raytheon.

Mr. Havenstein's experience in our industry and in-depth knowledge of our company gained by serving as our CEO provide valuable insights for our Board. In addition, our Board believes that the company's CEO should serve on the Board of Directors to help communicate the Board's priorities to management.

Deborah L. James has served as Executive Vice President for Communications and Government Affairs since 2010. Ms. James served as Business Unit General Manager for the Command, Control, Communications, Computers, and Information Technology business unit from March 2005 to August 2010. Immediately prior to joining us in 2002, Ms. James was the Executive Vice President and Chief Operating Officer of the Business Executives for National Security. She has served in senior homeland and national security management, policy and program positions in government and the private sector for more than 25 years.

Brian F. Keenan has served as Executive Vice President for Human Resources since 2007. Mr. Keenan previously held various positions with us since 2000, including serving as Vice President and Director of U.S. Human Resource operations from 2004 to 2007. Prior to joining us, Mr. Keenan held various positions with Mobil and ExxonMobil from 1985 to 2000.

Vincent A. Maffeo has served as Executive Vice President and General Counsel since 2010. Prior to joining us in June 2010, from 1977 to 2009, Mr. Maffeo was with ITT Corporation, a high-technology engineering and manufacturing company, where he served as Senior Vice President and General Counsel from 1995 until 2009. He held various other increasingly responsible legal positions at ITT Corporation in the telecommunications, defense and automotive businesses, and at the European Headquarters of ITT Europe, before becoming General Counsel.

Anthony J. Moraco has served as Executive Vice President for Operations and Performance Excellence since August 2010. Mr. Moraco served as Business Unit General Manager and deputy of the Space and Geospatial Intelligence business unit from February 2006 to August 2010. Prior to joining us in 2006, Mr. Moraco was with the Boeing Company from 2000 to 2006 and served as the Deputy General Manager of Mission Systems in the Space & Intelligence Systems organization and also the Director of Homeland Security Technology Integration.

K. Stuart Shea has served as Group President since 2007. Since joining us in 2005, Mr. Shea first served as Senior Vice President and Business Unit General Manager. Prior to joining us, Mr. Shea served as Vice President and Executive Director of Northrop Grumman Corporation's TASC Space and Intelligence operating unit from 1999 to 2005, and led other organizations from 1987 to 1999. Mr. Shea held positions with PAR Technology Corporation from 1982 to 1987.

Mark W. Sopp has served as Executive Vice President and Chief Financial Officer since 2005. Prior to joining us, Mr. Sopp served as Senior Vice President, Chief Financial Officer and Treasurer of Titan Corporation, a defense and intelligence contractor, from April 2001 to July 2005 and Vice President and Chief Financial Officer of Titan Systems Corporation, a subsidiary of Titan Corporation, from 1998 to 2001.

Other Key Employees

Amy E. Alving, age 48, has served as Chief Technology Officer and Senior Vice President since 2007. Dr. Alving held various positions with us since 2005, including serving as Chief Scientist from June 2007 to December 2007. Prior to joining us, Dr. Alving served as the Director of the Special Projects Office with Defense Advanced Research Projects Agency from 2001 to 2005 and was a White House fellow at the Department of Commerce from 1997 to 1998.

Steven P. Fisher, age 50, has served as Treasurer and Senior Vice President since 2001. Mr. Fisher has held various positions with us since 1988, including serving as Assistant Treasurer and Corporate Vice President for Finance from 1997 to 2001 and Vice President from 1995 to 1997.

Board of Directors

SAIC, Inc., as the sole shareholder of Science Applications, elects all of Science Applications' directors. The directors of SAIC are also the directors of Science Applications and the board committees of SAIC are the board committees of Science Applications. The Boards of Directors of SAIC and Science Applications have been identical since October 2006 when Science Applications became a 100%-owned subsidiary of SAIC through a reorganization merger in connection with SAIC's initial public offering and listing on the NYSE. Accordingly, references to terms of service on our Board beginning or continuing after the reorganization merger refer to service on both Boards, while service prior to the reorganization merger refers to service on the Science Applications board only.

France A. Córdova has served on our Board of Directors since 2008. Dr. Córdova has been President of Purdue University since 2007. She was Chancellor at the University of California, Riverside, from July 2002 to July 2007, and was Vice Chancellor for Research and Professor of Physics at University of California, Santa Barbara from August 1996 to July 2002. Dr. Córdova served as Chief Scientist of the National Aeronautics and Space Administration from 1993 to 1996 and headed the Department of Astronomy and Astrophysics at Pennsylvania State University from 1989 to 1993. Dr. Córdova is also a member of the Board of Directors of Edison International and of Southern California Edison. She was previously a director of Belo Corp. until July 2007.

As an accomplished scientist with leadership experience managing prominent academic institutions and expertise in areas relevant to SAIC's business, Dr. Córdova provides special insight and perspectives that the Board views as important to SAIC as a leading science and technology company.

Jere A. Drummond has served on our Board of Directors since 2003. Mr. Drummond was employed by BellSouth Corporation from 1962 until his retirement in December 2001. He served as Vice Chairman of BellSouth Corporation from January 2000 until his retirement. He was President and Chief Executive Officer of BellSouth Communications Group, a provider of traditional telephone operations and products, from January 1998 until December 1999. He was President and Chief Executive Officer of BellSouth Telecommunications, Inc. from January 1995 until December 1997. Mr. Drummond is also a member of the Boards of Directors of

Borg-Warner Automotive and AirTran Holdings, Inc. He was previously a director of Centillium Communications Inc. until October 2008.

The Board believes that Mr. Drummond's demonstrated leadership abilities and business judgment, shaped during four decades of executive management and board experience at complex commercial companies, provide an important leadership element to our Board, our Nominating and Corporate Governance Committee and our Ethics and Corporate Responsibility Committee.

Thomas F. Frist, III has served on our Board of Directors since 2009. Mr. Frist is a principal of Frist Capital LLC, a private investment vehicle for Mr. Frist and certain related persons, and has held such position since 1994. Prior to that, he co-managed FS Partners, L.L.C. and worked at Rainwater, Inc. in Fort Worth, Texas and in New York. Since 2006, Mr. Frist has served on the Board of Directors of HCA Holdings, Inc., one of the largest non-governmental operators of health care facilities in the U.S. since 2006. From 1999 to 2006, he served on the board of Triad Hospitals, Inc.

The Board believes that Mr. Frist's financial background and experience as an investment manager add a valuable dimension to our Board and to our Audit and Finance committees. He is an audit committee financial expert as defined in SEC rules. Mr. Frist's understanding of the healthcare industry also brings perspectives beneficial to the Board as the company seeks to enhance its position as a provider of health solutions to both government and commercial customers.

John J. Hamre has served on our Board of Directors since 2005. Dr. Hamre has served as the President and Chief Executive Officer of the Center for Strategic & International Studies, a public policy research institution, since 2000. Dr. Hamre served as U.S. Deputy Secretary of Defense from 1997 to 2000 and Under Secretary of Defense (Comptroller) from 1993 to 1997. Dr. Hamre is also a member of the Boards of Directors of ITT Corporation, Oshkosh Corporation and MITRE Corporation. He also serves as Chairman of the Defense Policy Board Advisory Committee. He was previously a director of ChoicePoint Inc. until September 2008.

Dr. Hamre is a leading expert on issues of national security, defense and international affairs with extensive experience working in these areas from serving in high-ranking positions at the U.S. Department of Defense. His particular expertise in matters key to SAIC's business, as well as his executive management experience as Chief Executive Officer of a leading public policy research institution, offer important contributions to our Board.

Miriam E. John has served on our Board of Directors since 2007. Dr. John retired from Sandia National Laboratories, a science and engineering laboratory, in September 2006, after having served as Vice President of Sandia's California Division from April 1999 to September 2006. She previously served in a number of managerial and technical roles for Sandia from 1982 to 1999. Dr. John is a member of the Department of Defense's Defense Science Board and Threat Reduction Advisory Committee and chairs the National Research Council's Naval Studies Board. She also serves on the boards of a number of federally funded national security laboratories, including MIT Lincoln Lab and the Charles Stark Draper Laboratory. She has recently assumed chairmanship of the California Council on Science and Technology, a legislatively established body of the state's leading scientists and engineers chartered to provide independent advice to the governor and the legislature.

Dr. John is a highly respected scientist and brings to our Board her diverse experience managing multi-disciplinary science and engineering organizations supporting national security and defense. Our Board believes that Dr. John's scientific background and leadership experience enable her to provide our Board with critical perspectives on issues important to our business.

Anita K. Jones has served on our Board of Directors since 1998. Dr. Jones is University Professor Emerita at the University of Virginia, where she has taught since 1989. From 1993 to 1997, Dr. Jones was on leave of absence from the University to serve as Director of Defense Research and Engineering of the U.S. Department of Defense. Dr. Jones also served as one of our directors from 1987 to 1993. She has been a director of ATS Corporation since 2010.

Dr. Jones is a distinguished leader in computer science, widely recognized for her scholarship in the field and her prior service to the U.S. Government in managing the U.S. Department of Defense's science and technology program and overseeing its numerous research activities. She has also served on an array of advisory boards for national security and high technology matters. In addition to her exceptional professional reputation and expertise in areas critical to SAIC's business, Dr. Jones has demonstrated a deep commitment to business ethics and an ability to build consensus, enhancing the effectiveness of our Board.

John P. Jumper has served on our Board of Directors since 2007. General Jumper retired from the United States Air Force in 2005 after nearly 40 years of service. From September 2001 to November 2005, General Jumper was the Chief of Staff of the United States Air Force, serving as the senior uniformed Air Force officer responsible for the organization, training and equipping of active-duty, guard, reserve and civilian forces serving in the United States and overseas. As a member of the Joint Chiefs of Staff, General Jumper functioned as a military advisor to the Secretary of Defense, National Security Council and the President. General Jumper is also a member of the Boards of Directors of Goodrich Corporation, Jacobs Engineering Group Inc. and Wesco Aircraft Holdings, Inc. He was previously a director of TechTeam Global, Inc. until May 2009 and Somanetics Corporation until June 2010.

The Board believes that General Jumper's proven leadership ability and management skills, demonstrated by his service as the highest-ranking officer in the U.S. Air Force, and his expertise in defense and intelligence matters, make him highly qualified to serve as a director. General Jumper's experience gives him a unique understanding of the needs of our largest customers. He is also an audit committee financial expert as defined in SEC rules.

Harry M.J. Kraemer, Jr. has served on our Board of Directors since 1997. Mr. Kraemer has been an executive partner of Madison Dearborn Partners, LLC, a private equity investment firm, since April 2005, and has served as a professor at the Kellogg School of Management at Northwestern University since January 2005. Mr. Kraemer previously served as the Chairman of Baxter International, Inc., a health-care products, systems and services company, from January 2000 until April 2004, as Chief Executive Officer of Baxter from January 1999 until April 2004, and as President of Baxter from April 1997 until April 2004. Mr. Kraemer also served as the Senior Vice President and Chief Financial Officer of Baxter from November 1993 to April 1997. Mr. Kraemer is also a member of the Boards of Directors of Sirona Dental Systems, Inc. and VWR Funding, Inc.

Mr. Kraemer brings comprehensive executive management experience to our Board as a former Chairman, Chief Executive Officer and Chief Financial Officer of a major global corporation. His investment and health expertise, background in commercial and international business, qualification as an audit committee financial expert as defined by SEC rules, and thought leadership as a distinguished educator at a leading business school provide valuable contributions to our Board.

Lawrence C. Nussdorf has served on our Board of Directors since 2010. Mr. Nussdorf since 1998 has been President and Chief Operating Officer of Clark Enterprises, Inc., a privately held investment and real estate company based in Bethesda, Maryland, whose interests include the Clark Construction Group, LLC, a general contracting company, of which Mr. Nussdorf has been Vice President and Treasurer since 1977. Mr. Nussdorf is responsible for all aspects of its financial, investment and legal activities and directs the company's business strategies for growth and diversification. Mr. Nussdorf is also a member of the Board of Directors of Pepco Holdings, Inc. He was previously a director of CapitalSource, Inc. until 2010.

Mr. Nussdorf has been at the forefront of strategic and long-term planning and has vast experience managing operations and finance for multiple businesses. Our Board believes that this experience, as well as Mr. Nussdorf's public company board leadership experience, adds valuable perspectives to our Board and our Finance and Audit committees. He is an audit committee financial expert as defined in SEC rules.

Edward J. Sanderson, Jr. has served on our Board of Directors since 2002. Mr. Sanderson retired from Oracle Corporation in 2002 as an Executive Vice President after having served since 1995. At Oracle, Mr. Sanderson was responsible for Oracle Product Industries, Oracle Consulting and the Latin American Division. Prior to Oracle, he was President of Unisys Worldwide Services and a partner at both McKinsey & Company and Accenture (formerly Andersen Consulting). He was previously a director of Quantum Corp. until September 2005.

Mr. Sanderson has over 25 years of experience in senior management in the technology industry and consulting with major commercial and federal government clients on a broad array of issues. His expertise in information technology and leadership experience managing technology businesses, including international operations, provides insights and perspectives that our Board views as important to SAIC as a global provider of information technology services.

Louis A. Simpson has served on our Board of Directors since 2006. Mr. Simpson served as President and Chief Executive Officer, Capital Operations, of GEICO Corporation, an automobile insurance company, from May 1993 through December 2010. Mr. Simpson previously served as Vice Chairman of the Board of Directors of GEICO from 1985 to 1993. Mr. Simpson is also a member of the Board of Directors of VeriSign, Inc., Chesapeake Energy Corporation and Chesapeake Granite Wash Trust. He was previously a director of Western Asset Funds Inc. and Western Asset Income Fund and a trustee of Western Asset Premier Bond Fund until 2006.

Mr. Simpson's executive management experience and extensive background in finance and investment matters provide important contributions to our Board. His past service on a number of public company boards provides additional relevant experience beneficial to our Board.

A. Thomas Young has served on our Board of Directors since 1995. Mr. Young retired from Lockheed Martin Corp. in 1995 after having served as an Executive Vice President from March 1995 to July 1995. Prior to its merger with Lockheed Corporation, Mr. Young served as the President and Chief Operating Officer of Martin Marietta Corp. from 1990 to 1995. Mr. Young was previously a member of the Board of Directors of Goodrich Corporation until April 2010 and of Pepco Holdings, Inc. until May 2005.

The Board believes that Mr. Young's extensive experience organizing and directing complex, technically challenging space and defense programs and serving in senior management at major companies in our industry is a significant benefit to our Board, as demonstrated by his leadership as our Board's Chair.

Director Independence

The Board of Directors annually determines the independence of each of our directors and nominees in accordance with SAIC's Corporate Governance Guidelines. These guidelines provide that independent directors are those who are independent of management and free from any relationship that, in the judgment of the Board of Directors, would interfere with their exercise of independent judgment. No director qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with us (either directly or as a partner, shareholder or officer of an organization with which we have a relationship). The Board of Directors has established independence standards set forth in the Corporate Governance Guidelines that include all elements of independence required by the listing standards of the New York Stock Exchange, or NYSE.

All members of the Audit, Human Resources and Compensation and Nominating and Corporate Governance Committees must be independent directors as defined by SAIC's Corporate Governance Guidelines. Members of the Audit Committee must also satisfy a separate independence requirement pursuant to the Securities Exchange Act of 1934 which requires that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from us or any of our subsidiaries other than their directors' compensation or be an affiliated person of ours or any of our subsidiaries.

Each year, directors are obligated to complete a questionnaire which requires them to disclose any transactions with us in which the director or any member of his or her immediate family might have a direct or potential conflict of interest. Based on its review of an analysis of the responses, the Board of Directors determined that all directors, except for Walter P. Havenstein because of his role as our CEO, are independent under SAIC's guidelines and free from any relationship that would interfere with the exercise of their independent judgment.

In making these independence determinations, the Board considered that in the ordinary course of business, transactions may occur between us and organizations with which some of our directors are or have been affiliated. Specifically, the Board considered that we make payments or contributions in the usual course of business and annual giving programs to the following organizations that employ a member of our Board: (i) the Center for Strategic and International Studies, a non-profit, public policy research institution for which Dr. Hamre serves as Chief Executive Officer; (ii) entities affiliated with Clark Enterprises, Inc., for which Mr. Nussdorf serves as President and Chief Operating Officer; (iii) Purdue University, for which Dr. Córdova serves as President; and (iv) Northwestern University, for which Mr. Kraemer serves as a professor at the Kellogg School of Management. The Board determined that our relationships with these organizations are immaterial and would not interfere with the exercise of independent judgment by those directors who are affiliated with these organizations.

Although Science Applications is not subject to the same independence requirements as SAIC, the respective Boards of Directors are comprised of the same individuals and, therefore, all directors of Science Applications, except for Walter P. Havenstein because of his role as CEO, are likewise considered to be independent.

Compensation Committee Interlocks and Insider Participation

None of the members of our Human Resources and Compensation Committee has, at any time, been an officer or employee of ours. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Human Resources and Compensation Committee.

Certain Relationships and Related Person Transactions

The Board of Directors has adopted written policies and procedures for the review and approval of transactions between us and certain related parties, which are generally considered to be our directors and executive officers, nominees for director, holders of five percent or more of our outstanding capital stock and members of their immediate families. The Board of Directors has delegated to the Ethics and Corporate Responsibility Committee the authority to review and approve the material terms of any proposed related party transaction. If a proposed related party transaction involves a non-employee director or nominee for election as a director and may be material to a consideration of that person's independence, the matter is also considered by the Chair of the Board of Directors and the Chair of the Nominating and Corporate Governance Committee.

In determining whether to approve or ratify a related party transaction, the Ethics and Corporate Responsibility Committee considers, among other factors it deems appropriate, the potential benefits to us, the impact on a director's or nominee's independence or an executive officer's relationship with or service to us, whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. In deciding to approve a transaction, the Committee may, in its sole discretion, impose such conditions as it deems appropriate on us or the related party. Any transactions involving the compensation of executive officers, however, are to be reviewed and approved by the Human Resources and Compensation Committee. If a related party transaction will be ongoing, the Ethics and Corporate Responsibility Committee may establish guidelines to be followed in our ongoing dealings with the related party. Thereafter, the Ethics and

Corporate Responsibility Committee will review and assess ongoing relationships with the related party on at least an annual basis to determine whether they are in compliance with the Committee's guidelines and that the related party transaction remains appropriate.

We engage in transactions and have relationships with many entities, including educational and professional organizations, in the ordinary course of our business. Some of our directors, executive officers or their immediate family members may be directors, officers, partners, employees or shareholders of these entities. We carry out transactions with these firms on customary terms. There were no transactions during fiscal 2011 in which any related party had a direct or indirect material interest.

Non-Employee Director Compensation

The Board of Directors uses a combination of cash and stock-based incentives to attract and retain qualified candidates to serve as directors. In determining director compensation, the Board of Directors considers the significant amount of time required of our directors in fulfilling their duties, as well as the skill and expertise of our directors. The Human Resources and Compensation Committee periodically reviews director compensation with the assistance of independent compensation consultants and recommends to the Board of Directors the form and amount of compensation to be provided. The director compensation described below represents the total compensation received by our directors for their service as directors for both SAIC and Science Applications.

The following is a summary of the compensation that we provide to our non-employee directors:

Cash Compensation. Our directors receive a cash retainer for their service on the Board of Directors. For fiscal 2011, our directors were paid an annual retainer of \$50,000 and the Chair of each committee of the Board was paid an additional annual retainer of \$10,000, except for the Chair of the Audit Committee who was paid an additional annual retainer of \$15,000. The non-executive Chair of the Board also receives an additional annual retainer of \$160,000. In addition to the cash retainers, non-employee directors also received \$2,000 for each meeting of the Board and committee they attended. We also reimburse our directors for expenses incurred while attending meetings or otherwise performing services as a director.

Equity Compensation. Directors receive annual equity awards under our equity incentive plan. For fiscal 2011, each of our directors received equity awards valued at approximately \$150,000, of which two-thirds was in the form of restricted shares of SAIC common stock and one-third was in the form of stock options. These equity awards will vest on the later of one year from the date of grant or on the date of SAIC's next annual meeting of stockholders following the date of grant. If a director retires due to our mandatory retirement policy, the director's equity awards will continue to vest as scheduled and options will remain exercisable for the remainder of the option term.

Deferral Plans. The directors are eligible to defer all or any portion of their cash bonus or certain equity compensation into our Keystaff Deferral Plan or Key Executive Stock Deferral Plan, or both. These plans are described in further detail under the caption "Executive Compensation - Nonqualified Deferred Compensation" below.

Stock Ownership Guidelines and Policies. The Board of Directors believes that its members should acquire and hold shares of SAIC stock in an amount that is meaningful and appropriate. To encourage directors to have a material investment in SAIC stock, the Board has adopted stock ownership guidelines that encourage directors to hold shares of SAIC stock with a value of at least five times the amount of the annual cash retainer within three years of joining the Board. All of our directors met this requirement in fiscal 2011. In addition to these ownership guidelines, our directors are also subject to policies that prohibit certain short-term or speculative transactions in SAIC securities that we believe carry a greater risk of liability for insider trading violations or may create an appearance of impropriety. Our policy requires directors to obtain preclearance from our General Counsel for all transactions in our securities.

The following table sets forth information regarding the compensation paid to our directors for service in fiscal 2011:

Name ⁽¹⁾	Fees earned or paid in cash (\$) ⁽²⁾	Stock awards (\$) ⁽³⁾	Option awards (\$) ⁽⁴⁾	All other compensation(\$)	Total (\$)
France A. Córdova	100,000	100,008	50,001		250,009
Kenneth C. Dahlberg ⁽⁵⁾				363,888	363,888
Jere A. Drummond	108,000	100,008	50,001		258,009
Thomas F. Frist, III	112,000	100,008	50,001		262,009
John J. Hamre	104,000	100,008	50,001		254,009
Miriam E. John	104,000	100,008	50,001		254,009
Anita K. Jones	110,000	100,008	50,001		260,009
John P. Jumper	90,000	100,008	50,001		240,009
Harry M. J. Kraemer, Jr.	127,000	100,008	50,001		277,009
Lawrence C. Nussdorf	39,000	100,001	49,999		189,000
Edward J. Sanderson, Jr.	124,000	100,008	50,001		274,009
Louis A. Simpson	116,000	100,008	50,001		266,009
A. Thomas Young	232,250	100,008	50,001		382,259

- (1) Walter P. Havenstein, our CEO, is not included in this table because he received no additional compensation for his services as a director.
- (2) Amounts in this column represent the aggregate dollar amount of all fees earned or paid in cash for services as a director for annual retainer fees, committee and/or chair fees and meeting fees. The directors are eligible to defer such cash fees into our Keystaff Deferral Plan and Key Executive Stock Deferral Plan. Director fees that are deferred into the Key Executive Stock Deferral Plan result in stock units of equal value based on the closing sales price of SAIC common stock on the second business day of the calendar quarter. In fiscal 2011, John P. Jumper deferred \$38,750 into our Keystaff Deferral Plan and the following directors deferred the following amounts and received the following number of stock units in our Key Executive Stock Deferral Plan:

Name	Amount deferred (\$)	Stock units received upon deferral of fees (#)
Jere A. Drummond	60,000	3,678
Thomas F. Frist, III	99,500	6,130
John J. Hamre	104,000	6,342
Miriam E. John	104,000	6,329
Harry M. J. Kraemer, Jr.	127,000	7,759
A. Thomas Young	232,250	14,227

- (3) Amounts in this column reflect the grant date fair value computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718). For fiscal 2011, each of our non-employee directors received 5,741 restricted shares of SAIC common stock, except for Mr. Nussdorf, who received 6,460 shares. For more information regarding our application of FASB ASC Topic 718, including the assumptions used in the calculations of these amounts, see Note 11 of Combined Notes to Consolidated Financial Statements for the fiscal year ended January 31, 2011 contained within this prospectus.

At the end of fiscal 2011, the following non-employee directors held the following number of unvested stock awards and the following number of unvested stock units in our Key Executive Stock Deferral Plan:

Name	Unvested stock awards	Unvested stock units
France A. Córdova		5,741
Jere A. Drummond	8,165	
Thomas F. Frist, III	5,741	
John J. Hamre		8,164
Miriam E. John		8,111
Anita K. Jones	8,165	
John P. Jumper	5,242	2,870
Harry M. J. Kraemer, Jr.		8,164
Lawrence C. Nussdorf	6,460	
Edward J. Sanderson, Jr.	8,165	
Louis A. Simpson	8,165	
A. Thomas Young		8,164

- (4) Amounts in this column reflect the grant date fair value computed in accordance with FASB ASC Topic 718. Option awards granted to directors in fiscal 2009 and after vest on the later of one year from the date of grant or on the date of SAIC's next annual meeting of stockholders following the date of grant. Option awards granted to directors prior to fiscal 2009 vest as to 20%, 20%, 20% and 40% of the underlying shares on the first, second, third and fourth year anniversaries of the date of grant, respectively.

During fiscal 2011, each of our non-employee directors was issued options to purchase 13,959 shares of SAIC common stock (except for Mr. Nussdorf who was issued an option to purchase 18,683 shares), with a grant date fair value of approximately \$50,000. At the end of fiscal 2011, our non-employee directors held vested and unvested options to purchase the following number of shares of SAIC common stock:

Name	Aggregate shares subject to outstanding options
France A. Córdova	38,127
Jere A. Drummond	47,211
Thomas F. Frist, III	24,905
John J. Hamre	47,211
Miriam E. John	47,016
Anita K. Jones	47,211
John P. Jumper	47,016
Harry M. J. Kraemer, Jr.	47,211
Lawrence C. Nussdorf	18,683
Edward J. Sanderson, Jr.	47,211
Louis A. Simpson	47,211
A. Thomas Young	47,211

- (5) Mr. Dahlberg served as our CEO until September 21, 2009 and remained employed by the company as Executive Chairman until his retirement on June 18, 2010. Amounts shown for Mr. Dahlberg represent \$345,534 in base salary, \$10,854 in matching contributions that we made on his behalf in Science Applications' Retirement Plan and a gift valued at \$7,500 given in connection with his retirement. In addition, in recognition of Mr. Dahlberg's contributions to the company, we extended our Strategic University Alliances Program to include a donation of \$500,000 to the University of Southern California's Viterbi School of Engineering over the next five years, of which \$75,000 was funded in fiscal 2011.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) provides important information on our executive compensation program and the amounts shown in the executive compensation tables that follow. In this prospectus, the term *named executive officers* means the executive officers named in the executive compensation tables. In this CD&A, the *Committee* refers to the Human Resources and Compensation Committee of the Board of Directors of SAIC and Science Applications, which is responsible for overseeing the compensation program for all of our executives. The members of the Committee are the same for SAIC and Science Applications. All compensation is paid or payable for services rendered in all capacities to SAIC and its subsidiaries, including Science Applications.

Executive Summary

Our Pay for Performance Philosophy

Our executive compensation program is designed to align the interests of senior management with stockholders by tying a significant majority of their potential compensation to the achievement of performance goals or stock price appreciation through annual incentive bonuses, stock options and performance share awards. Each year the Committee establishes performance targets for the annual incentive plan and performance share plan that require the achievement of significant financial results. At the end of each year (or three-year performance period), the Committee assesses actual performance against these financial targets. While the Committee believes that financial performance should be the most significant driver of compensation, other factors that drive long-term value for stockholders are also considered as part of our annual cash incentive program, including factors contributing to a top-tier workplace environment, improvements in efficiency and effectiveness, and winning key business opportunities. Ultimately, the amount of compensation awarded to executives is determined based on performance and what the Committee believes is in the best interests of stockholders.

For fiscal 2011, the Committee continued its practice of awarding a significant majority of total compensation to the named executive officers in the form of performance-based incentive compensation, with only a small minority of the total potential compensation being provided in the form of base salary. In the case of our CEO, Mr. Havenstein, only about 19% of his target compensation in fiscal 2011 was paid in the form of base salary. The value of the remaining 81% is linked directly to performance. For our other named executive officers, about 75% of their targeted compensation was tied to performance.

As shown in the chart below, our performance in fiscal 2011 improved over the prior year in several of the key financial measures that we believe help drive stockholder value, and which we therefore use as part of our incentive compensation program. However, our financial performance on the financial metrics used for our annual incentive program was below the targets set by the Committee at the beginning of the year. As a result, the total compensation paid to our named executive officers decreased in fiscal 2011 from the prior year, consistent with our pay for performance philosophy.

	Fiscal 2010	Fiscal 2011	% Increase or (Decrease)
	(in millions, except per share amounts)		
Revenue ⁽¹⁾	\$ 10,846	\$ 11,117	2.5%
Operating Income ⁽¹⁾	\$ 867	\$ 958	10.5%
Diluted Earnings Per Share from Continuing Operations ⁽¹⁾	\$ 1.24	\$ 1.51	21.8%
Total CEO Compensation ⁽²⁾	\$ 5.76	\$ 5.15	(10.6)%
Average Total Other NEO Compensation ⁽³⁾	\$ 2.05	\$ 1.99	(2.9)%

- (1) Amounts shown are derived from SAIC's audited financial statements included in our annual report on Form 10-K filed with the SEC on March 25, 2011, which the Committee used as a basis for determining performance-based compensation for fiscal 2011. Subsequently, in the second quarter of fiscal 2012, we

sold certain components of our business primarily focused on providing information technology services to international oil and gas companies. In the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements included in this prospectus, we have classified the operating results of these business components as discontinued operations for all periods presented.

- (2) The amount for fiscal 2010 is compensation for Mr. Dahlberg, who served as our CEO for two-thirds of the year and continued as Executive Chair of the Board throughout fiscal 2010 without adjustment to his compensation. This amount includes the target value of unvested performance share awards granted in fiscal 2010, although Mr. Dahlberg will only be eligible for a pro rata portion because he retired before the end of the performance period. The amount for fiscal 2011 is compensation for Mr. Havenstein for his first full year as CEO. More information about Mr. Havenstein's compensation for fiscal 2010, including one-time equity awards received upon joining the company, is provided in the Summary Compensation Table on page 85.
- (3) Average total compensation for the three executives, other than the CEO, who qualified as named executive officers in both fiscal 2010 and 2011 based on the compensation reported in the Summary Compensation Table on page 85.

Compensation Governance

Other aspects of our compensation program are intended to further align our executives' interest with stockholders. These include:

total compensation for executives targeted at competitive market median levels;

stock ownership guidelines that require executive officers to accumulate and hold SAIC shares with a value of at least five times their base salary;

a "clawback" policy that permits the Committee to recover incentive compensation if there is a material restatement of our financial results for any reason, or if the executive was involved in misconduct;

an annual compensation risk assessment to identify incentives that could lead to excessive risk-taking;

no special or supplemental pension, health or death benefits for executives; and

a "double-trigger" for change in control benefits, meaning that no benefits are paid solely due to a change in control (an executive's employment must be terminated following a change in control to receive benefits).

Elements and Objectives of Our Compensation Program

Under the direction of the Committee, we provide the following principal elements of compensation to our executive officers:

Base Salary. Consistent with our philosophy of tying pay to performance, our executives receive a relatively small percentage of their overall compensation in the form of base pay. In order to effectively attract and retain talented executives, we provide a fixed base salary to our executive officers based on their level of responsibility, expertise, skills, knowledge and experience and on competitive peer company data.

Annual Cash Incentive Awards. We provide cash incentive awards to our executive officers that vary in amount depending upon performance against predetermined goals and objectives for the fiscal year, to encourage the achievement of annual financial and operating goals.

Long-Term Equity Incentive Awards. We provide equity incentive awards to our executive officers, consisting of stock options and performance share awards, which are intended to motivate them to stay with us and build stockholder value through their future performance. We believe that stock options motivate our executives to build stockholder value because they may realize value only if SAIC's stock appreciates over the

option term. Beginning with options granted in fiscal 2012, option awards will have a term of seven years (compared to a five-year term for previously granted options) to encourage a longer term perspective. Under our performance share award program, shares may be earned based upon the achievement of specific financial performance objectives over a three-year period. We believe this program plays an important role in further aligning the compensation of executives with key financial metrics that drive stockholder value over the long-term. Because these equity awards are intended to help motivate our executive officers to stay with us and to continue to build *future* stockholder value, the Committee generally does not consider an executive officer's current stock or option holdings in making additional awards.

Other Benefits. We also provide our executive officers with benefits generally available to other employees, such as participation in our health, benefit and retirement programs. Our executive officers are also entitled to certain benefits if their employment is terminated following a change in control.

Considerations in Determining Direct Compensation

In determining the amounts of direct compensation (salary, annual and long-term incentives) to be awarded to our executive officers, the Committee considers the company's overall performance, the performance of operating units under the executive officer's management, individual performance as measured against performance goals and criteria, and comparative market data for our compensation peer group. The Committee reviews and approves the amounts of direct compensation to be provided to our executive officers for each fiscal year. At the beginning of each fiscal year, the Committee reviews and approves:

the amount of base salary to be provided for the upcoming year;

the payout range for the cash incentive awards that may be earned for the year and the performance goals and criteria upon which the amounts of the awards will be determined;

the payout range for performance share awards that may be earned for the three-year performance period beginning in that fiscal year and the performance goals and criteria upon which the amounts of the awards will be determined; and

the mix and amount of equity incentive awards to be granted to our executive officers.

In approving payout ranges, the Committee determines a threshold level of performance that must be achieved in order to receive a minimum payout and also establishes a maximum payout amount. Upon completion of each fiscal year, the Committee approves the payment of cash incentive awards that are based upon the achievement of the predetermined performance goals and criteria for the year just completed.

Company and Operational Group Performance

Our overall performance (or a combination of company and group performance for executive officers with operational responsibilities) determines 80% of the amount of any cash incentive awards to be paid upon completion of the fiscal year. Amounts are principally determined based upon the company's or group's achievement of financial and operating objectives set at the beginning of the fiscal year, but the Committee retains the discretion to reduce the payouts when it considers a reduction appropriate.

Individual Performance

Individual performance is a key factor in setting base salaries, and individual contributions to the achievement of our enterprise goals determine 20% of the amount of any cash incentive awards to be paid upon completion of the fiscal year. For the CEO and Group Presidents, one-half of their individual performance objectives were tied to employee retention. In determining base salaries, the Committee reviews a performance assessment for each of our executive officers, as well as compensation recommendations provided by the CEO and the Executive Vice President for Human Resources. The Committee also considers market data and recommendations provided by its independent compensation consultant. Executive officers do not propose their

own compensation. In addition, the Committee considers whether the executive officer has achieved predetermined objectives applicable to his or her organization, his or her individual contributions to us and other leadership accomplishments. The individual performance goals consist of objectives relating to matters such as success in retaining and obtaining new customers, building capability through training and retaining workforce and certain other financial and operating goals.

If, during the recently completed fiscal year, any executive officer has demonstrated exceptional performance that the Committee determines is not fully recognized through the predetermined incentive award criteria, such exceptional contributions may be rewarded in the form of discretionary cash bonuses but generally not through increases in base salary. Additional awards of restricted stock may be issued in limited circumstances to address a specific retention concern or a significant mid-year change in role. No such discretionary cash bonuses or retention awards were paid or issued to our named executive officers in fiscal 2011. If an executive officer's performance does not meet expectations, the executive will receive a lower or no incentive award payout for the individual performance component of our cash incentive program.

Assessing CEO Performance

In determining compensation for our CEO, the Committee meets in executive session and evaluates his performance based on his achievement of performance objectives that were established and agreed upon at the beginning of the fiscal year. Formal input is received from the independent directors and senior management and through the CEO's self-assessment. The Committee also considers the CEO's leadership contributions towards the company's performance, including financial and operating results, development and achievement of strategic objectives, progress in building capability among the senior management team and corporate governance leadership, as well as market data and recommendations provided by the Committee's independent compensation consultant. The Committee determines the CEO's compensation and then reviews his evaluation and compensation with the Board's independent directors. The Chair of the Board and the Chair of the Committee then present the Committee's evaluation and compensation determination to the CEO, who subsequently discusses his evaluation with the Board of Directors. The CEO does not propose his own compensation.

Comparable Market Compensation

The Committee compares the amount of direct compensation we provide to that provided by companies with whom we compete for executive talent with similar roles and responsibilities. To assist with this effort, the Committee asks its independent compensation consulting firm, Frederic W. Cook & Co., to review and benchmark each element of direct compensation (including salary and cash and equity incentives) we provide to our executive officers.

For fiscal 2011, Frederic W. Cook & Co. compared each element of direct compensation we provide to our CEO, CFO and certain other members of senior management against that provided by other publicly-traded engineering, information technology, consulting and defense companies, which we refer to as our compensation peer group. The compensation peer group for fiscal 2011 consisted of the following companies:

Accenture, Ltd.	Fiserv, Inc.	Rockwell Collins, Inc.
Automatic Data Processing, Inc.	General Dynamics Corporation	Synnex Corporation
Computer Sciences Corporation	L-3 Communications Holdings, Inc.	Unisys Corporation
CGI Group, Inc.	Raytheon Company	URS Corporation

This compensation peer group is periodically reviewed and updated. It consists of companies that we believe have similar revenues and industry focus to ours, as well as companies against which we compete for talent and stockholder investment. In order to help provide better comparative data and analysis, the compensation peer group is structured so that no company within the survey has annual revenues greater than three times or less than approximately one-third of ours. We eliminated Affiliated Computer Services, Inc. from our compensation peer group in fiscal 2011 because it was acquired by another company that does not satisfy

these parameters. For comparison purposes for fiscal 2011, our annual revenues were at approximately the 57th percentile of the revenues of the compensation peer group. In addition to the compensation peer group, Frederic W. Cook & Co. also reviewed multiple broad-based third-party surveys and compiled information for the Committee's consideration regarding compensation that other comparably-sized companies provide to their chief executive officer, chief financial officer and other members of senior management. For our Group Presidents, we compare the compensation we provide against compensation received by managers of operating units or subsidiaries of similar size to our groups.

The Committee considers this survey data and analysis when evaluating appropriate levels of direct compensation. To be competitive in the market for our executive-level talent, we generally will:

target overall compensation for our executive officers at the market median, although the actual cash incentive awards paid will vary based on operating performance and may therefore generate compensation that is higher or lower than the market median; and

award higher levels of compensation, when appropriate, in recognition of the importance or uniqueness of the role of an executive officer.

Compensation Decisions for Fiscal 2011

Compensation Mix

The charts below depict each principal element of targeted compensation as a percentage of total targeted compensation for our CEO and for our other named executive officers as a group for fiscal 2011.

As indicated above, base salary represents a small portion of overall compensation compared to performance-based cash and equity incentive awards. The allocation of a meaningful portion of overall compensation to cash incentive awards demonstrates the Committee's belief that a substantial portion of total compensation should reflect the actual achievement of predetermined individual and company goals. The allocation of a majority of compensation in the form of stock option and performance share awards reflects the principle that a substantial portion of total compensation should be delivered in the form of equity awards in order to align the interests of our executive officers with those of our stockholders. We believe that an approximately equal allocation between performance share awards and stock options provides an appropriate balance of medium and long-term incentives. The various amounts of compensation provided to our named executive officers for fiscal 2011 are set forth in more detail in the tables in this prospectus under the caption Executive Compensation. The allocation of performance share awards and stock options in the charts above are based on the grant date fair value as disclosed in the Grants of Plan-Based Awards table. The actual value of these awards will be based on future financial performance and our stock price.

Base Salary

In approving the fiscal 2011 base salaries for our named executive officers and other executive officers, the Committee considered its independent consultant's analysis of pay levels among the compensation peer group and survey data which indicated that base salaries for our executive officers were, on average, at approximately competitive median levels, although each executive officer may have a base salary above or below the median of the market. Actual individual salary amounts also reflect the Committee's judgment with respect to each executive officer's responsibility, performance, experience and other factors, including internal equity considerations, the individual's historical compensation and any retention concerns. The Committee reviews executive officers' base salaries annually or at the time of promotion or a substantial change in responsibilities based on the criteria described above.

We believe that our CEO is better positioned than any other executive officer to set the strategic direction of the company and impact overall company performance. Accordingly, the Committee has not increased CEO base salary since 2005 and has instead provided opportunities through variable, performance-based compensation. Following this approach, our CEO, Mr. Havenstein, did not receive an increase in base salary for fiscal 2011. Our other named executive officers received increases in base salary of approximately 3% over the prior year.

Annual Cash Incentive Awards

We provided cash incentive awards to our executive officers in fiscal 2011, the amounts of which depended upon the achievement of specific financial, operating and individual performance goals approved by the Committee. In the first quarter of fiscal 2011, the Committee approved the threshold, target and maximum bonus amounts for the cash incentive awards and the performance goals and criteria upon which the amounts of the awards would be determined. Following the end of fiscal 2011, the Committee approved the payment of cash incentive awards based upon performance against the predetermined goals and criteria.

Target and Maximum Cash Incentive Awards. For fiscal 2011, the Committee set the target amount of the cash incentive award at 125% of base salary for the CEO and approximately 100% of base salary for each other named executive officer.

The actual amount of the cash incentive award paid was based upon the extent to which performance under each of the criteria met, exceeded or was below target. Award levels were structured to range from 0% to 150% of the target amount for all performance criteria. However, to the extent that performance was less than 80% as measured against our performance goals, no bonus amount would be paid with respect to such performance criteria (other than voluntary turnover, as described below).

For our named executive officers, the target and maximum bonus amounts for the fiscal 2011 cash incentive awards and the amounts of the awards actually earned by the officers, were as follows:

	Target Award	Maximum Award	Actual Award	Actual Award as a % of Target
Walter P. Havenstein, <i>CEO</i>	\$ 1,250,000	\$ 1,875,000	\$ 1,077,750	86%
Mark W. Sopp, <i>CFO</i>	570,000	855,000	520,000	91%
Deborah H. Alderson, <i>Group President</i>	490,000	735,000	445,000	91%
K. Stuart Shea, <i>Group President</i>	480,000	720,000	428,000	89%
Joseph W. Craver, III, <i>Group President</i>	470,000	705,000	405,000	86%
Vincent A. Maffeo, <i>General Counsel</i>	550,000	825,000	500,000	91%

The actual cash incentive awards paid to the named executive officers for fiscal 2011 were below the targeted award amounts because we did not fully achieve the targeted level of performance for all of the goals established by the Committee at the beginning of the year. The targeted achievement levels and actual performance for each of the key measures are described below.

Performance Goals for Cash Incentive Awards. The actual amount of the cash incentive award to be paid upon completion of fiscal 2011 was determined based upon the achievement of financial and other corporate and individual performance goals set at the beginning of the fiscal year. The performance goals and their relative weightings for fiscal 2011 were:

Financial Goals 80%

Revenue (30%)

Operating Income (45%)

For Group Presidents, a portion of this weighting is based on Group-level profit before taxes.

Average Days Working Capital (DWC) (25)%

Determined by dividing (a) total working capital at quarter-end by (b) average daily sales during the quarter. Goals and payouts are based on the average of quarter-end DWC for the four fiscal quarters.

Other Performance Goals 20%

Individual Contributions to Enterprise Goals, including

employee engagement and development

customer satisfaction and retention

new business development in key strategic areas

financial and operating goals

Employee Retention ⁽²⁾

voluntary employee turnover percentage

- (1) Award amounts for the CEO, CFO and other corporate-level executives based on achievement of financial goals are determined by reference to our consolidated financial information. Award amounts for Group Presidents based on achievement of financial goals are determined by reference to both the financial results of their respective Groups and our consolidated financial information, weighted equally, to encourage a balanced focus on group and company-wide goals.
- (2) For fiscal 2011, the employee retention goal was only applicable to senior managers whose operational roles placed them in a position to have a direct impact on retention, including Mr. Havenstein, Ms. Alderson, Mr. Shea and Mr. Craver. For these executives, employee retention and individual contributions to enterprise goals each comprised 10% of these executives' annual cash incentive opportunity. The employee retention goal did not apply to Mr. Sopp and Mr. Maffeo for fiscal 2011. However, the retention goal will apply to all executive officers in fiscal 2012, comprising 10% of the total incentive opportunity for each executive under our annual cash incentive program.

Revenue and operating income were used as financial goals because they most directly align with our growth strategy and we believe they generally are strongly correlated with potential stockholder value. We use average days working capital to measure how efficiently we use our working capital relative to the size of our business and operating units. We believe that individual contributions to our other enterprise goals contribute to the achievement of our financial goals over time and that a 20% weighting for these goals is appropriate to encourage individual efforts in an array of areas that should ultimately lead to improved financial performance for the company. Because the financial goals are considered the most important factors and annual performance is objectively measurable, we weigh these goals more heavily at 80%.

For fiscal 2011, the targeted achievement levels and actual performance for each of the key corporate measures were as follows:

	Target	Actual ⁽¹⁾	Achievement Level
Revenue	\$ 11.8 billion	\$ 11.1 billion	94.2%
Operating Income	\$ 965 million	\$ 958 million	99.3%

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Average Days Working Capital	45.9 days	46.2 days	99.3%
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- (1) Amounts shown are derived from our audited financial statements included in SAIC's annual report on Form 10-K filed with the SEC on March 25, 2011, which the Committee used as a basis for determining performance-based compensation for fiscal 2011. Subsequently, in the second quarter of fiscal 2012, we sold certain components of our business primarily focused on providing information technology services to international oil and gas companies. In the section entitled "Management's Discussion and Analysis of

Financial Condition and Results of Operations and the financial statements included in this prospectus, we have classified the operating results of these business components as discontinued operations for all periods presented.

For employee turnover, our targeted voluntary employee turnover rate was set slightly above the prior year's actual rate in expectation of increasing external employment opportunities, particularly in the government sector. The potential award levels ranged from 0% to 150% based on the variance from the target rate, with each 1% increase from the target rate resulting in a 25% decrease in the award level and vice versa. For example, a turnover rate 2% lower (better) than target would result in a maximum payout at the 150% level, a turnover rate 2% higher than target would result in a payout at the 50% level and a turnover rate 4% higher than target would result in no payout for the retention element of the program. Based on this scale, our actual retention performance in fiscal 2011 was 55% of targeted performance because our actual voluntary turnover rate was higher than the targeted rate.

Determination of Cash Incentive Award Amounts. Following the end of fiscal 2011, the Committee reviewed financial and individual performance during the year and approved the cash incentive award payments to be made to each of our executive officers, including the named executive officers. In evaluating fiscal 2011 financial performance, the Committee reviewed actual performance compared to targeted performance levels and determined that, while threshold performance levels were achieved, actual performance was below targeted performance. In analyzing individual performance, the Committee reviewed the individual's level of achievement and also considered input from the CEO with respect to the degree of success and the difficulty of achieving the individual performance goals. Ultimately, weighted average scores for such financial and other corporate and individual objectives were determined and applied against the target bonus applicable to such objectives to determine a formula-based bonus amount. The Committee then exercised its discretion to reduce these amounts for each named executive officer, which resulted in non-equity incentive awards between 86% and 91% of targeted levels as indicated in the table on page 78 and reported in the Summary Compensation Table. In addition, in accordance with our compensation recoupment policy, actual cash incentive awards paid to the named executive officers for fiscal 2011 were further reduced by an average of \$4,861 to offset inadvertent overpayments made in fiscal 2010 due to a calculation error.

Long-Term Incentive Awards

The amounts of these awards are determined based on market data and vary based upon an executive officer's position and responsibilities.

Stock Options. Approximately 50% of the targeted total value of equity awards granted to our named executive officers in fiscal 2011 was comprised of options to purchase SAIC stock. These options vest as follows: 20% of the shares at the end of each of the first three years and 40% of the shares at the end of the fourth year and expire at the end of the fifth year. The objective of these awards is to link rewards to the creation of stockholder value over a longer term and aid in employee retention with a vesting schedule weighted toward the end of the option term.

Performance Share Awards. Approximately 50% of the targeted total value of equity awards granted to our named executive officers in fiscal 2011 was in the form of performance share awards that may result in SAIC shares being issued depending on the company's achievement of specific financial performance goals over the three-year performance period covering fiscal year 2011 through fiscal year 2013. The number of shares that will ultimately be issued can range from 0% to 150% of the target number of shares. If cumulative performance over the three-year period is below the threshold level of performance, no shares will be issued. The objective of these awards is to reward targeted financial performance over a three-year period.

Target and Maximum Performance Share Awards. In the first quarter of fiscal 2011, the Committee approved the threshold, target and maximum performance share award amounts, which are set forth in the Grants of Plan-Based Awards table on page 86, and approved the performance goals and criteria upon which

the actual payout amounts of the awards would be determined. The value of the target number of shares at the date of grant for the performance share awards awarded to the named executive officers were between 90% and 110% of base salary, except for Mr. Havenstein, for whom the target value was 169% of base salary. The target value for Mr. Havenstein was higher as a percentage of base salary to reflect market data and practice based on the CEO's higher level of responsibility and impact on company performance. As a result, it is appropriate for a greater percentage of his total compensation to be contingent on company performance. The threshold amounts represented 50% of the value of the target number of shares and the maximum amounts represented 150% of the value of the target number of shares. The actual value of any awards received will depend on the value of SAIC common shares at the time they are earned and issued to participants.

Performance Goals for Performance Share Awards. Performance for the three-year performance period covering fiscal year 2011 through fiscal year 2013 will be measured against two metrics:

three-year growth in diluted earnings per share from continuing operations, expressed in dollars; and

three-year operating margin growth, expressed in basis points.

The number of shares to be issued will be based on performance against separate targets for each measure, and each performance measure is equally weighted. The payout for each performance measure will be determined by the performance level achieved for each measure at the end of the three-year period.

We use diluted earnings per share as a performance metric for our performance share awards because it is a key measure of profitability followed by our stockholders and market analysts and it also reflects share dilution management and non-recurring items. As a below-the-line measure, it encourages control of tax expense and includes the dilutive or accretive effect of acquisitions. We use operating margin growth because it encourages profitable growth without regard to diluted shares outstanding and non-recurring items. We believe that an equal weighting provides an appropriate balance between these measures.

Other Benefits Provided in Fiscal 2011

In addition to the elements of direct compensation described above, we also provide our executive officers with the following benefits:

Health and Welfare Benefits

Our executive officers are entitled to participate in all health and welfare plans that we generally offer to all of our eligible employees, which provide medical, dental, health, group term life insurance and disability benefits. We believe that these health and welfare benefits are reasonable in scope and amount and are of the kind typically offered by other companies against which we compete for executive talent.

Retirement Benefits

Our executive officers are entitled to participate in the same retirement plan that is generally available to all of our eligible employees. We make matching contributions to eligible participants' retirement plan accounts equal to 100% of each participant's own contributions up to 6% of their eligible compensation under applicable rules. The average amount of contributions we made to the retirement plan accounts of our named executive officers in fiscal 2011 was \$9,825. The Committee believes that this retirement program permits our executives to save for their retirement in a tax-effective manner.

Deferred Compensation Plans

To provide another tax-deferred means to save for retirement, we maintain deferred compensation plans that allow eligible participants to elect to defer all or a portion of any cash or certain equity incentive awards granted to them under our cash incentive or stock plans. We make no contributions to participants' accounts under these

plans. Vested deferred balances under the plans will generally be paid upon retirement or termination. These plans are described in more detail under *Nonqualified Deferred Compensation* on page 88.

Perquisites and Personal Benefits

We generally do not provide perquisites and personal benefits to our executive officers that are not otherwise available to other employees. In fiscal 2011, in connection with our hiring of Vincent A. Maffeo as our General Counsel, the Committee approved relocation benefits, not to exceed \$625,000, to cover costs incurred by Mr. Maffeo to relocate closer to our corporate headquarters. These benefits include closing costs and commissions relating to the sale and purchase of a home, moving and storage of household goods, temporary living expenses and a gross-up for any additional tax liability in connection with such relocation benefits. Mr. Maffeo used \$60,368 of his relocation allowance in fiscal 2011 and we expect additional relocation costs to be incurred during fiscal 2012.

Other Policies and Considerations

Assessment of Risks in our Compensation Programs

In fiscal 2011, the Committee directed management to undertake a risk assessment of our compensation programs and asked Frederic W. Cook & Co., the Committee's independent compensation consultant, to review the assessment. In conducting the assessment, we reviewed our pay practices and incentive programs to identify any potential risks inherent in our compensation programs. We also reviewed the risks facing the company and evaluated whether our compensation practices and programs could be expected to increase or help mitigate these risks. The finding of the assessment, with which the Committee concurred, was that our compensation programs are effectively designed to help mitigate excessive risk-taking that could harm our value or reward poor judgment by our executives. The factors considered in reaching this conclusion include:

short-term incentive measures are balanced among different financial measures, with targets that are intended to be achievable upon realistic levels of performance;

significant weighting towards long-term incentive compensation promotes long-term decision making and discourages short-term risk taking;

maximum payouts are capped at levels that do not reward excessive risk-taking;

goals are based on company and group performance measures, which mitigates excessive risk-taking within any particular business unit;

our compensation recoupment policy allows us to recover compensation based on financial results that are subsequently restated or if fraud or intentional misconduct is involved; and

our stock ownership guidelines encourage a long-term perspective.

Equity Award Grant Practices

The Committee is responsible for the administration of our equity incentive plans. In advance of each fiscal year, the Committee predetermines the dates on which equity awards will be granted during the following fiscal year to new and existing employees, including our executive officers. These grant dates are selected to occur after the dates we anticipate releasing our annual and quarterly financial results. We generally grant equity incentive awards with respect to SAIC stock to our directors, executive officers and all other eligible employees on an annual basis shortly after we announce our financial results for the recently completed fiscal year. In addition to these annual grants, the Committee predetermines four quarterly dates on which any additional equity incentive awards may be made to eligible executive officers or other employees in connection with a new hire, for retention purposes or otherwise. The equity award grant dates for fiscal 2011 were fixed by the Committee in December 2009 and the grant dates for fiscal 2012 were fixed by the Committee in December 2010. The Committee approves all

equity awards made to our directors and executive officers.

The exercise price of any option grant is determined by reference to the fair market value of the shares on the grant date, which our 2006 Equity Incentive Plan defines as the closing sales price of SAIC's common stock on the NYSE on the previous trading day.

Stock Ownership Guidelines and Policies

We encourage our employees to own SAIC stock so that they are motivated to maximize our long-term performance and stock value. Under stock ownership guidelines we have established, our named executive officers are required to accumulate and maintain stockholdings in an amount of SAIC stock with a value at least equal to five times their base salary. Because they must hold all SAIC shares acquired under our equity incentive programs until they meet this ownership requirement, which we expect will take several years, we do not have specific time-based holding periods following the exercise of stock options or vesting of other equity awards. In addition to these ownership guidelines, we have also established policies for our executive officers that prohibit certain short-term or speculative transactions in SAIC securities that we believe carry a greater risk of liability for insider trading violations and also create an appearance of impropriety. For example, with respect to SAIC securities, our executive officers are not permitted to engage in any short sales or any trading in puts, calls or other derivatives on an exchange or other organized market. In addition, our executive officers are required to obtain preclearance from our General Counsel for all transactions in our securities.

Compensation Recoupment Policy

Under our compensation recoupment policy, the Committee may require members of senior management to return incentive compensation if there is a material restatement of the financial results upon which the incentive compensation was originally based. If the Committee determines that recovery is appropriate, the company will seek repayment of the difference between the incentive compensation paid and the incentive compensation that would have been paid, if any, based on the restated financial results.

The policy also provides for recovery of incentive compensation from any employee involved in fraud or intentional misconduct, whether or not it results in a restatement of our financial results. In such a situation, the Committee would exercise its business judgment to determine what action it believes is appropriate under the circumstances.

We may seek to recover the applicable amount of compensation from incentive compensation paid or awarded after the adoption of the policy, from future payments of incentive compensation, cancellation of outstanding equity awards and reduction in or cancellation of future equity awards. In cases of fraud or misconduct, we may also seek recovery from incentive compensation paid or awarded prior to the adoption of the policy.

Post-Employment Benefits

We do not maintain a defined benefit or other supplemental retirement plan that would entitle our executive officers to receive company-funded payments if they leave the company.

Upon certain terminations of employment, including death, disability, retirement or a change in control, our named executive officers may be eligible for continued vesting of equity awards on the normal schedule or accelerated vesting in full or on a pro rata basis, depending on the nature of event and the type of the award. The purpose of these provisions is to protect previously earned or granted awards by making them available following the specified event. Because these termination provisions are contained in our standard award agreements for all recipients and relate to previously granted or earned awards, we do not consider these potential termination benefits as a separate item in compensation decisions for our named executive officers. Our long-term incentive plans do not provide for additional benefits or tax gross-ups. For more information about potential post-employment benefits, see *Executive Compensation Potential Payments Upon Termination or a Change in Control* beginning on page 89.

Potential Change in Control and Severance Benefits

We maintain severance protection agreements with our executive officers that would provide them with payments and benefits if their employment is involuntarily terminated following an acquisition of our company as further described in this prospectus under **Executive Compensation Potential Payment Upon a Change in Control**. We believe that these agreements provide an important benefit to us by helping alleviate any concern the executive officers might have during a potential change in control of our company and permitting them to focus their attention on our business. In addition, we believe that these agreements are an important recruiting and retention tool, as many of the companies with which we compete for talent have similar arrangements in place for their senior management.

These severance protection agreements renew for successive one-year terms each year, unless either the Committee or an executive officer to which the agreement applies decides not to extend the term of the agreement before October 31st of the prior year. This annual term permits the Committee to regularly review the amount of benefits that would be provided to our executive officers in connection with a change in control and to consider whether to continue providing such benefits.

Tax Deductibility of Executive Compensation

We attempt to provide compensation that is structured, to the extent possible, to maximize favorable tax benefits for us. Section 162(m) of the Internal Revenue Code generally limits the deductibility of certain compensation in excess of \$1,000,000 paid in any one year to the CEO and the three other most highly compensated named executive officers (other than our CFO). Qualified performance-based compensation will not be subject to this deduction limit if certain requirements are met.

The Committee periodically reviews and considers the deductibility of executive compensation under Section 162(m) in designing and implementing our compensation programs and arrangements. As indicated above, at least 80% of our target cash incentive awards and all of our performance share award payouts are determined based upon the achievement of certain predetermined financial performance goals under a stockholder-approved plan, which is intended to permit us to deduct such amounts pursuant to Section 162(m).

While we will continue to monitor our compensation programs in light of Section 162(m), the Committee considers it important to retain the flexibility to design compensation programs that are in the best long-term interests of our company and our stockholders. As a result, the Committee may conclude that paying compensation at levels that are not deductible under Section 162(m) is nevertheless in the best interests of our company and our stockholders.

Executive Compensation

Summary Compensation Table

The following table sets forth information regarding compensation earned by our named executive officers for service to SAIC and its subsidiaries, including Science Applications, during fiscal 2011 and, if applicable, fiscal 2010 and 2009, whether or not such amounts were paid in such year:

Name and principal position	Year ⁽¹⁾	Salary ⁽²⁾ (\$)	Bonus (\$)	Stock awards ⁽³⁾ (\$)	Option awards ⁽³⁾ (\$)	Non-equity incentive plan compensation ⁽⁴⁾ (\$)	All other compensation ⁽⁵⁾ (\$)	Total (\$)
Walter P. Havenstein ⁽⁶⁾ Chief Executive Officer	2011	1,000,000		1,693,607	1,381,683	1,077,750		5,153,040
	2010	346,154		4,981,789	1,475,867	1,250,000		8,053,810
Mark W. Sopp Executive Vice President and Chief Financial Officer	2011	566,923		609,700	497,405	520,000	14,792	2,208,820
	2010	547,115		600,000	533,315	560,000	13,605	2,254,035
	2009	521,154		480,012	675,900	550,000	13,863	2,240,929
Deborah H. Alderson Group President	2011	497,116		508,089	414,505	445,000	14,769	1,879,479
	2010	479,519		500,000	444,110	512,000	13,881	1,949,510
	2009	431,154		350,008	486,648	485,000	13,506	1,766,316
K. Stuart Shea Group President	2011	505,997		508,089	414,505	428,000	15,190	1,871,781
	2010	484,473		500,000	444,110	504,000	15,851	1,948,434
Joseph W. Craver, III Group President	2011	483,758		508,089	414,505	405,000		1,811,352
	2010	455,192		500,000	444,110	500,000		1,899,302
Vincent A. Maffeo ⁽⁷⁾	2011	349,038		500,008	500,003	500,000	74,566	1,923,615

General Counsel

- (1) Compensation is provided only for fiscal years for which each individual qualified as a named executive officer.
- (2) This column includes amounts paid in lieu of accrued and unused comprehensive leave time.
- (3) These columns reflect the grant date fair value computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718). Values for awards subject to performance conditions are computed based upon the probable outcome of the performance conditions as of the grant date of the award. All of the awards shown in the Stock awards column in the above table are subject to performance conditions. Assuming the highest level of the performance conditions is achieved, the value of the 2011 awards in the Stock Awards column as of the grant date would be as follows: Mr. Havenstein, \$2,540,411; Mr. Sopp, \$914,550; Ms. Alderson, Mr. Shea and Mr. Craver, \$762,134 each; and Mr. Maffeo, \$750,012. The awards shown in the Option awards column are not subject to performance conditions. For more information regarding our application of FASB ASC Topic 718, including the assumptions used in the calculations of these amounts, please refer to Note 11 of Combined Notes to Consolidated Financial Statements contained in this prospectus.
- (4) Amounts shown in this column represent the actual amounts paid to the named executive officers under our cash incentive award program for performance in fiscal 2011. The threshold, target and maximum payouts are shown in the Grants of Plan-Based Awards table under the column headed Estimated future payouts under non-equity incentive plan awards.
- (5) Amounts shown in this column for fiscal 2011 represent matching contributions that we made on behalf of our named executive officers in the SAIC Retirement Plan. Amounts for Mr. Maffeo also include payments or reimbursements of \$37,365 for relocation costs and \$23,003 for taxes on imputed income associated with the relocation benefits provided to Mr. Maffeo as an inducement to join us as our General Counsel.
- (6) Mr. Havenstein joined us as CEO on September 21, 2009. As an inducement to join us as our CEO, we agreed to issue equity awards to Mr. Havenstein comprised of stock options, performance share awards

and restricted stock having an aggregate value equivalent to the value of the equity awards of his former employer that he forfeited as a result of joining us. The aggregate replacement value was determined to be \$6.46 million, which is reflected in the stock awards and option awards columns for fiscal 2010.

(7) Mr. Maffeo joined us as General Counsel on June 7, 2010 and therefore the amount in the Salary column reflects a partial year of service.

Grants of Plan-Based Awards

The following table sets forth information regarding the cash and equity incentive awards made to our named executive officers in fiscal 2011 pursuant to our 2006 Equity Incentive Plan, including any portion of such awards deferred into our Key Executive Stock Deferral Plan and Keystaff Deferral Plan:

Name	Award type	Grant date	Approval date	Estimated future payouts under non-equity incentive plan awards ⁽¹⁾			Estimated future payouts under equity incentive plan awards ⁽²⁾			All other stock awards; number of shares of stock or underlying securities ⁽³⁾	All other option awards; number of options ⁽³⁾	Exercise or base price of option awards ⁽⁴⁾ (\$/share)	Grant date fair value of stock and option awards ⁽⁵⁾ (\$)
				Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Mr. Havenstein	Cash	4/2/10	3/25/10	676,250	1,250,000	1,875,000							
	Options	4/2/10	3/25/10										
	PSA	4/2/10	3/25/10				48,611	97,222	145,833		347,567	\$ 17.42	1,381,683
Mr. Sopp	Cash	4/2/10	3/25/10	342,000	570,000	855,000							
	Options	4/2/10	3/25/10										
	PSA	4/2/10	3/25/10				17,500	35,000	52,500		125,124	\$ 17.42	497,405
Ms. Alderson	Cash	4/2/10	3/25/10	265,090	490,000	735,000							
	Options	4/2/10	3/25/10										
	PSA	4/2/10	3/25/10				14,583	29,167	43,750		104,270	\$ 17.42	414,505
Mr. Shea	Cash	4/2/10	3/25/10	259,680	480,000	720,000							
	Options	4/2/10	3/25/10										
	PSA	4/2/10	3/25/10				14,583	29,167	43,750		104,270	\$ 17.42	414,505
Mr. Craver	Cash	4/2/10	3/25/10	254,270	470,000	705,000							
	Options	4/2/10	3/25/10										
	PSA	4/2/10	3/25/10				14,583	29,167	43,750		104,270	\$ 17.42	414,505
Mr. Maffeo	Cash	6/18/10	5/14/10	330,000	550,000	825,000							
	Options	6/18/10	5/14/10										
	PSA	6/18/10	5/14/10				13,820	27,640	41,460		124,633	\$ 18.09	500,003

- (1) Amounts in these columns represent the threshold, target and maximum payout amounts of cash incentive awards with actual payouts based upon the achievement of pre-established levels of performance during fiscal 2011, as discussed in our CD&A beginning on page 73. The target payout amounts for the cash incentive awards were between 95% and 125% of base salary. The threshold payout amounts generally represented between 50% and 60% of the target amounts and the maximum payout amounts represented 150% of the target amount. The actual amounts that were paid to our named executive officers with respect to fiscal 2011 are set forth in the table entitled Summary Compensation Table under the column headed Non-equity incentive plan compensation.
- (2) Amounts in these columns represent the threshold, target and maximum payout amounts of performance share awards (PSA) granted in fiscal 2011 that may result in shares being issued at the end of a three-year performance period based upon the company's achievement of pre-established levels of performance over the three-year performance period covering fiscal year 2011 through fiscal year 2013, as discussed in our CD&A beginning on page 73. The number of shares that will ultimately be issued can range from 0% to 150% of the target number of shares. If cumulative performance over the three-year period is below the threshold level of performance, no shares will be issued. The target payout amounts for the performance share awards were between 90% and 110% of base salary, except for Mr. Havenstein, whose target payout amount was 169% of base salary. The target number of shares underlying these awards was based on a value of \$17.42 per share (\$18.09 per share for Mr. Maffeo), the closing sales price of SAIC common stock on the NYSE on the trading day before the grant date. The threshold payout amounts represented 50% of the target amounts and the maximum payout amounts represented 150% of the target amounts.
- (3) Amounts in this column represent the number of shares of SAIC common stock underlying options issued in fiscal 2011. All such options vest as to 20%, 20%, 20% and 40% of the underlying shares on the first, second, third and fourth year anniversaries of the date of grant, respectively.
- (4) The exercise price is the closing sales price of SAIC common stock on the NYSE on the trading day before the grant date.
- (5) Amounts represent the grant date fair value determined in accordance with FASB ASC Topic 718. These amounts do not reflect the value actually realized by the recipient and do not reflect changes in SAIC's stock price after the date of grant.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding outstanding option, restricted stock and performance share awards issued pursuant to our 2006 Equity Incentive Plan that were held by our named executive officers at the end of fiscal 2011, including awards previously deferred under our Key Executive Stock Deferral Plan:

Name	Option awards ⁽¹⁾				Stock awards				Equity incentive plan awards; market or payout value of unearned shares, units or other rights that have not vested ⁽⁵⁾	
	Number of securities underlying unexercised options (exercisable)(unexercisable)	Number of securities underlying unexercised options	Option exercise price (\$)	Option expiration date	Grant Date	Restricted Stock ⁽²⁾	Stock Units ⁽³⁾	Market value of shares of stock or units that have not vested ⁽⁴⁾	Equity incentive plan awards; market or payout value of unearned shares, units or other rights that have not vested ⁽⁵⁾	Equity incentive plan awards; market or payout value of unearned shares, units or other rights that have not vested ⁽⁴⁾
Mr. Havenstein	61,447	245,912	17.71	9/20/14	9/21/09		75,764	1,255,409		
		347,567	17.42	4/01/15	9/21/09		84,322	1,397,216	41,668	690,439
					4/02/10				48,611	805,484
Mr. Sopp	93,000	62,000	17.61	3/28/12	3/29/07	9,086		150,555		
	60,000	90,000	18.73	4/03/13	4/04/08		15,377	254,797		
	22,240	88,960	18.46	4/02/14	4/03/09				16,252	269,296
		125,124	17.42	4/01/15	4/02/10				17,500	289,975
Ms. Alderson	69,000	46,000	17.61	3/28/12	3/29/07	3,408	3,407	112,925		
	43,200	64,800	18.73	4/03/13	4/04/08	11,213		185,799		
	18,520	74,080	18.46	4/02/14	4/03/09				13,542	224,391
		104,270	17.42	4/01/15	4/02/10				14,584	241,657
Mr. Shea	15,124	10,084	17.61	3/28/12	3/29/07	2,109	703	46,595		
	53,875	35,917	20.12	12/19/12	12/20/07	2,624	875	57,978		
	43,200	64,800	18.73	4/03/13	4/04/08	8,409	2,803	185,783		
	18,520	74,080	18.46	4/02/14	4/03/09				13,542	224,391
		104,270	17.42	4/01/15	4/02/10				14,584	241,657
Mr. Craver	30,000	20,000	17.61	3/28/12	3/29/07	3,976		65,882		
	39,000	26,000	18.00	6/18/12	6/19/07	2,778		46,031		
	43,200	64,800	18.73	4/03/13	4/04/08	11,213		185,799		
	18,520	74,080	18.46	4/02/14	4/03/09				13,542	224,391
		104,270	17.42	4/01/15	4/02/10				14,584	241,657
Mr. Maffeo		124,633	18.09	6/17/15	6/18/10				13,820	228,997

(1) Information in these columns relates to options to purchase shares of SAIC common stock held by our named executive officers at the end of fiscal 2011. All such options were granted five years prior to the date immediately following their respective expiration dates and vest as to 20%, 20%, 20% and 40% of the underlying shares on the first, second, third and fourth year anniversaries of the date of grant, respectively.

(2) Information in this column relates to shares of SAIC common stock underlying restricted stock awards held by our named executive officers at the end of fiscal 2011. All restricted stock awards vest as to 20%, 20%, 20% and 40% of the shares on the first, second, third and fourth year anniversaries of the date of grant, respectively.

(3) Information in this column relates to restricted stock units held by our named executive officers at the end of fiscal 2011 in our Key Executive Stock Deferral Plan. All restricted stock units vest as to 20%, 20%, 20% and 40% of the underlying shares on the first, second, third and fourth year anniversaries of the date of grant, respectively, except that 75,764 of Mr. Havenstein's unvested restricted stock units will vest in two equal installments on each of the next two anniversaries of the grant date and 84,322 shares will vest in a single installment on the third anniversary of the grant date. Any restricted stock awards previously deferred by our named executive officers are also reflected in the table under the caption "Nonqualified Deferred Compensation" below.

(4) The market value is based upon \$16.57 per share, the closing sales price of SAIC common stock on the NYSE on January 31, 2011.

(5) Amounts in this column represent the number of shares that would be issued upon achieving the threshold level of performance for the applicable three-year performance period.

Option Exercises and Stock Vested

The following table sets forth information regarding shares of SAIC common stock acquired by our named executive officers during fiscal 2011 upon the exercise of stock options and vesting of restricted stock awards:

Name	Option awards		Stock awards		
	Number of shares acquired on exercise	Value realized on exercise(\$)	Number of shares acquired on vesting		
			Restricted stock ⁽¹⁾	stock units ⁽²⁾	Value realized on vesting (\$)
Mr. Havenstein				37,877	599,964
Mr. Sopp	97,987	120,201	4,543	5,126	176,786
Ms. Alderson	228,267	215,830	5,440	3,525	164,979
Mr. Shea	48,000	61,400	6,125	2,042	143,955
Mr. Craver	45,000	59,400	7,933		144,051
Mr. Maffeo					

- (1) Information in this column relates to shares of SAIC common stock underlying stock awards in which our named executive officers vested in fiscal 2011. All restricted stock awards vest as to 20%, 20%, 20% and 40% of the underlying shares on the first, second, third and fourth year anniversaries of the date of grant, respectively.
- (2) Information in this column relates to restricted stock units held in our Key Executive Stock Deferral Plan in which our named executive officers vested in fiscal 2011. All restricted stock units, other than Mr. Havenstein's, vest as to 20%, 20%, 20% and 40% of the underlying shares on the first, second, third and fourth year anniversaries of the date of grant, respectively. Any restricted stock awards previously deferred by our named executive officers are reflected in the table under the caption **Nonqualified Deferred Compensation** below.

Nonqualified Deferred Compensation

We provided benefits to our named executive officers during fiscal 2011 under the following nonqualified deferred compensation plans, which are summarized below:

The Keystaff Deferral Plan allows eligible participants to elect to defer all or a portion of any cash or vested equity incentive awards granted to them under our cash incentive or stock incentive plans. We make no contributions to participants' accounts under the Keystaff Deferral Plan, although participant deferrals, which are reflected in dollars, earn interest during the deferral period. Distributions under the Keystaff Deferral Plan are then made to participants in cash. Deferred balances under this plan will generally be paid upon retirement or termination.

The Key Executive Stock Deferral Plan allows eligible participants to elect to defer all or a portion of their cash or certain equity incentive awards granted to them under our cash incentive or stock incentive plans. Participant deferrals generally correspond to stock units of SAIC common stock. Shares equivalent to deferrals may be deposited to a rabbi trust to fund benefits for participants. We make no contributions to participants' accounts under the Key Executive Stock Deferral Plan. Distributions under the Key Executive Stock Deferral Plan are then made to participants in shares of SAIC common stock corresponding to the number of vested stock units held for the participant. Vested deferred balances under this plan will generally be paid upon retirement or termination.

The following table sets forth information regarding deferrals under and aggregate earnings and withdrawals in fiscal 2011 through our nonqualified deferred compensation plans:

Name	Plan	Executive contributions in fiscal 2011 (\$) ⁽¹⁾	Aggregate earnings in fiscal 2011 (\$) ⁽²⁾	Aggregate withdrawals/distributions in fiscal 2011	Aggregate balance at fiscal year-end (\$) ⁽³⁾
Mr. Havenstein	Keystaff Deferral Plan	598,827	21,940		620,767
	Key Executive Stock Deferral Plan	625,000	(378,911)		3,874,745
Mr. Sopp	Keystaff Deferral Plan				
	Key Executive Stock Deferral Plan		(53,219)		501,044
Ms. Alderson	Keystaff Deferral Plan				
	Key Executive Stock Deferral Plan		(124,096)		1,168,334
Mr. Shea	Keystaff Deferral Plan	25,200	2,976		69,833
	Key Executive Stock Deferral Plan	10,080	(22,495)		216,752
Mr. Craver	Keystaff Deferral Plan				
	Key Executive Stock Deferral Plan				
Mr. Maffeo	Keystaff Deferral Plan				
	Key Executive Stock Deferral Plan				

(1) Amounts in this column represent deferred cash awards. These amounts are also included as compensation in the Summary Compensation Table.

(2) With respect to the Keystaff Deferral Plan, amounts in this column represent interest earned during fiscal 2011 on cash previously deferred based on the Moody's Seasoned Corporate Bond Rate minus 1% (4.84% in calendar 2010).

With respect to the Key Executive Stock Deferral Plan, amounts in this column represent the aggregate increases or (decreases) in value of stock units corresponding to shares of SAIC common stock during fiscal 2011. The market value of the shares is based upon \$16.57 per share, the closing sales price of SAIC common stock on the NYSE on January 31, 2011.

(3) Amounts in this column represent the value of the holders' accounts at the end of fiscal 2011. With respect to the Key Executive Stock Deferral Plan, the amounts represent the value of stock units corresponding to shares of SAIC common stock held by the named executive officers based on \$16.57 per share, the closing sales price of SAIC common stock on the NYSE on January 31, 2011. Amounts in this column include the following amounts reported as compensation in the Summary Compensation Table for prior years: (a) Mr. Havenstein, \$3,505,925; (b) Mr. Sopp, \$480,012; (c) Ms. Alderson, \$225,002; and (d) Mr. Shea, \$45,000. With respect to our Key Executive Stock Deferral Plan, our named executive officers held the following number of stock units at the end of fiscal 2011: (a) Mr. Havenstein, 233,841; (b) Mr. Sopp, 30,238; (c) Ms. Alderson, 70,509; and (d) Mr. Shea, 13,081.

Potential Payments Upon Termination or a Change in Control

We are not obligated to offer any kind of severance benefits to our named executive officers solely upon termination of employment, except that Mr. Maffeo currently remains entitled to severance benefits for a limited time in accordance with his employment offer letter if his employment is involuntarily terminated by us during the first 24 months of his employment for reasons other than cause. In that case, he will be entitled to a continuation of base salary, target short-term cash incentives and the same health, life and disability insurance benefits available generally to salaried employees, but only up to June 7, 2012 and only if he releases us of any claims and agrees to abide by non-compete and non-solicitation covenants. The Human Resources and Compensation Committee approved these severance benefits for this limited period, after considering the potential costs, as an inducement for Mr. Maffeo to join the company.

We have entered into the following agreements and arrangements with our named executive officers that would provide them with certain payments and benefits, which are described below, if we are subject to a change in control:

Severance Protection Agreements. We have entered into severance protection agreements with each of our executive officers, including each of the named executive officers, which provide that if the executive officer is involuntarily terminated without cause or resigns for good reason within a 24-month period following a change in control, he or she will be entitled to receive all accrued salary and a pro rata bonus for the year of termination, plus a single lump sum payment equal to two-and-one-half times the executive officer's then current salary and bonus amount. The executive officer will also receive such life insurance, disability, medical, dental and hospitalization benefits as are provided to other similarly situated executive officers who continue to be employed for the 30 months following termination and up to 12 months of outplacement counseling. In order to receive the lump sum payment and the 30 months of continued benefits, the executive officer is required to execute a written release of claims. The executive officer is not entitled to receive a gross up payment to account for any excise tax that might be payable under the Internal Revenue Code, and the amount of the payments may be reduced by us to the extent necessary to avoid an excise tax.

Stock Incentive and Deferred Compensation Plans. Under the terms of our stock incentive and deferred compensation plans, all unvested stock, options and deferred compensation awards held by all participants under those plans, including our named executive officers, are subject to accelerated vesting upon the occurrence of a change in control under certain circumstances. Outstanding stock options, stock awards and stock units issued to the named executive officers under our Key Executive Stock Deferral Plan, generally become fully vested upon the occurrence of a change in control. Our 2006 Equity Incentive Plan generally provides that vesting will accelerate if the holder is involuntarily terminated or terminates his employment for good reason within 18 months following a change in control. For performance share awards issued under our 2006 Equity Incentive Plan, shares would be paid out on an immediate pro rata basis based on the percentage of the performance period completed at the time of the change in control. If more than 50 percent of the performance period is completed, the prorated number of shares that would vest is based on company performance up to the date of change in control. If less than 50 percent of the performance period is completed, a prorated target number of shares would vest based on the time elapsed during the performance period.

The following table sets forth our estimates regarding the potential value of any cash payments and benefits and accelerated vesting of equity awards to be received by the named executive officers under the foregoing agreements and plans, assuming that a change in control occurred on the last business day of fiscal 2011:

Name	Severance protection benefits				Accelerated equity awards			Total	
	Salary and Bonus ⁽¹⁾	Pro rata bonus ⁽²⁾	Life insurance, healthcare ⁽³⁾	Outplacement services ⁽⁴⁾	Restricted stock and restricted stock units ⁽⁵⁾	Option awards ⁽⁶⁾	Performance Share Awards ⁽⁷⁾	Applicable scale-back ⁽⁸⁾	Total gross severance benefits and equity awards ⁽⁹⁾
Mr. Havenstein	\$ 5,625,000	\$ 1,250,000	\$ 119,377	\$ 15,000	\$ 2,652,625		\$ 1,457,575	\$	\$ 11,119,577
Mr. Sopp	2,825,000	560,000	85,213	15,000	405,352		552,366	(810,357)	3,632,574
Ms. Alderson	2,505,000	512,000	94,837	15,000	298,724		460,309		3,885,870
Mr. Craver	2,412,500	500,000	100,701	15,000	297,713		460,309		3,786,223
Mr. Shea	2,447,500	504,000	99,453	15,000	290,356		460,309		3,816,618
Mr. Maffeo	2,750,000	550,000	143,135	15,000			152,665		3,610,800

- (1) Amounts in this column represent a single lump sum equal to two-and-one-half times the sum of (a) the named executive officer's fiscal 2011 salary and (b) the greater of (i) the bonus received in fiscal 2010, (ii) the average of the bonuses received in fiscal years 2010, 2009 and 2008 or (iii) in the event that the named executive officer was not employed by us for all of fiscal 2010, the amount of his or her target bonus for fiscal 2011. This amount of the bonus calculated under subsection (b) is referred to as the Bonus Amount.
- (2) Amounts in this column represent a pro rata portion of the Bonus Amount to which the named executive officer would be entitled depending on the number of days that had elapsed in the fiscal year in which he or she is terminated. Because we are required to present all information in this table assuming that the named executive officer is terminated on the last business day of fiscal 2011, the amount of the pro rata Bonus Amount in this column represents the full amount of the executive officers' respective Bonus Amounts. In addition to the amounts set forth in the column, our named executive officers would also be entitled to be paid for any unused comprehensive leave time they had accrued.
- (3) Amounts in this column represent the estimated value to the named executive officer of life insurance, disability, medical, dental and hospitalization benefits to be received for 30 months following termination.

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- (4) Amounts in this column represent the estimated value to the named executive officer of the outplacement counseling services to be provided for 12 months following termination.
- (5) Amounts in this column represent the value of accelerated vesting at the end of fiscal 2011 of (a) shares of restricted stock issued pursuant to the 2006 Equity Incentive Plan, and (b) restricted stock units in our Key Executive Stock Deferral Plan. For more information regarding the number of shares of unvested stock and stock units held by each of the named executive officers, see the table under the caption Outstanding Equity Awards at Fiscal Year-End.
- (6) Amounts in this column represent the value of accelerated vesting of unvested options to purchase shares of SAIC common stock issued pursuant to the 2006 Equity Incentive Plan that were held by the named executive officer at the end of fiscal 2011. The exercise price of all unvested options held by the named executive officers exceeded the closing sales price of SAIC common stock on the NYSE. For more information regarding the number of shares underlying unvested options held by each of the named executive officers, see the table under the caption Outstanding Equity Awards at Fiscal Year-End.
- (7) Amounts in this column represent the value of a pro-rated number of shares underlying outstanding performance share awards issued under our 2006 Equity Incentive Plan-based on (a) the target number of shares shown in the Estimated future payouts under equity incentive plan awards column of the Grants of Plan-Based Awards table, (b) the time elapsed during the performance period as of the last business day of fiscal 2011 and (c) a market value based on \$16.57 per share, the closing sales price of SAIC common stock on the NYSE on January 31, 2011.
- (8) Represents amount of gross severance payments to be reduced to avoid excise taxes which may be payable pursuant to Section 280G of the Internal Revenue Code.
- (9) Amounts in this column represent the gross amount of change in control benefits to be received by the named executive officer, without reflecting any federal and/or state income taxes payable with respect to such amounts.

Treatment of Equity Awards Upon Termination

With respect to outstanding equity awards, our executive officers are generally treated in the same way as all other employee award recipients if their employment is terminated due to death, disability, retirement or voluntary departure.

In the case of death or disability, restricted stock awards and options will vest immediately and options would remain exercisable for a period of time, depending on the nature of the event and the plan under which the awards were issued. Under our performance share award program, shares would be paid out on a pro rata basis promptly upon death and at the end of the three-year performance period in case of disability.

Under our continued vesting program, equity award recipients who retire, including our executive officers, may continue holding and vesting in their restricted stock awards and options if they have held such securities for at least 12 months prior to retirement and they retire (i) after age 59 1/2 with at least ten years of service or (ii) after age 59 1/2 when age at termination plus years of service equals at least 70. Our executive officers who retire after reaching the applicable mandatory retirement age, however, will be allowed to continue to vest in such awards without regard to the 12 month holding requirement. Retirees meeting these qualifications who hold performance share awards will receive a pro rata number of shares after the end of the applicable three-year performance period, based on actual company performance over the full period. We have the right to terminate continued vesting if a retiree violates confidentiality, non-solicitation or similar obligations to us.

In any other case, if the employment of an equity award recipient, including an executive officer, is terminated for any reason, all unvested restricted stock, options and performance share awards are forfeited. Vested options remain exercisable for 30 to 90 days or until the option expiration date, if earlier.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Stock Ownership of Certain Beneficial Owners

The following table provides information regarding the beneficial ownership of each person known by us to beneficially own more than five percent of SAIC's common stock.

Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Vanguard Fiduciary Trust Company	69,010,164 shares ⁽¹⁾	19%
500 Admiral Nelson Boulevard, Malvern, PA 19355		

- (1) These shares are held by Vanguard Fiduciary Trust Company as trustee of the SAIC Retirement Plan. According to a Schedule 13G/A filed with the SEC by Vanguard on February 4, 2011, subject to ERISA, Vanguard votes these shares as directed by the plan participants and votes all shares as to which no voting instructions are received in the same proportion as shares for which voting instructions are received. Accordingly, Vanguard has shared voting and dispositive power with respect to these shares. Vanguard disclaims beneficial ownership of all shares held in trust for which it receives voting instructions. Shares held by Vanguard are also included in the amounts held by individuals and the group set forth in the table below.

Stock Ownership of Directors and Officers

The following table sets forth, as of July 31, 2011, the beneficial ownership of SAIC's common stock by our directors and the named executive officers, and all of our directors and executive officers as a group. None of these individuals beneficially owns more than one percent of SAIC's common stock. As a group, our directors and executive officers beneficially own approximately 1.38% of SAIC's common stock. Unless otherwise indicated, each individual has sole investment power and sole voting power with respect to the shares beneficially owned by such person, except for such power that may be shared with a spouse. No shares have been pledged.

Beneficial Owner	Common stock ⁽¹⁾	Stock units ⁽²⁾	Option shares ⁽³⁾	Total shares beneficially owned
<i>Non-Employee Directors</i>				
France A. Córdova		25,410	38,127	63,537
Jere A. Drummond	31,388	17,433	47,211	96,032
Thomas F. Frist, III	606,828 ⁽⁴⁾	8,345	24,905	640,078
John J. Hamre	4,916	57,041	47,211	109,168
Miriam E. John		54,136	47,016	101,152
Anita K. Jones	82,832	11,951	47,211	141,994
John P. Jumper	20,087	11,249	47,016	78,352
Harry M. J. Kraemer, Jr.	232,423	101,768	47,211	381,402
Lawrence C. Nussdorf	17,371			17,371
Edward J. Sanderson, Jr.	80,724	13,074	47,211	141,009
Louis A. Simpson	30,468		47,211	77,679
A. Thomas Young	54,167	132,259	47,211	233,637
<i>Named Executive Officers</i>				
Walter P. Havenstein	53,000	265,689	192,468	511,157
Mark W. Sopp	33,481	30,238	314,504	378,223
Deborah H. Alderson	42,965	70,509	237,694	351,168
K. Stuart Shea	55,886	13,081	201,777	270,744
Joseph W. Craver, III	101,203		237,694	338,897
Vincent A. Maffeo	1,304		24,926	26,230
<i>All directors and executive officers as a group (23 persons)</i>	1,734,360	952,693	2,056,833	4,743,886

- (1) Includes the approximate number of shares allocated to the account of the individual by the trustee of the SAIC Retirement Plan as follows: Mr. Sopp, 748 shares; Ms. Alderson, 610 shares; Mr. Shea, 11,775 shares; Mr. Craver, 2,393 shares; and all directors and officers as a group, 58,172 shares. For all directors and officers as a group, also includes a total of 9,688 shares held by certain trusts established by the individuals.
- (2) Represents stock units attributable to the individual or the group in the Key Executive Stock Deferral Plan and the Management Stock Compensation Plan.
- (3) Shares subject to options exercisable within 60 days following July 31, 2011.
- (4) Includes 590,000 shares held by FS Partners II, LLC, an investment vehicle controlled by Mr. Frist.

Security Ownership of Science Applications

SAIC owns 100% of Science Applications common stock. There is no trading market for Science Applications common stock. We have made no unregistered sales of Science Applications securities within the past three years other than the sales of the guarantees on the Old Notes as described elsewhere in this prospectus.

DESCRIPTION OF THE NEW NOTES AND RELATED GUARANTEE

The Old Notes were issued, and the New Notes will be issued, under an indenture dated December 20, 2010 by and among SAIC, Science Applications, as the subsidiary guarantor, and The Bank of New York Mellon Trust Company, N.A., as may be supplemented from time to time. Each series of New Notes will constitute separate series under the indenture. The Bank of New York Mellon Trust Company, N.A. is the trustee for any and all securities issued under the indenture, as amended, including the New Notes, and is referred to herein as the trustee. The New Notes are the unsecured and unsubordinated obligations of SAIC and will be fully and unconditionally guaranteed by the subsidiary guarantor.

The summary herein of certain provisions of the indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the indenture, a form of which is available upon request from us. In this section and in the section entitled The Exchange Offer, references to the Issuer, we, us and our refer only to SAIC, Inc. and not any existing or future subsidiary and references to the subsidiary guarantor or Science Applications refer to Science Applications International Corporation.

General

We are offering to exchange up to \$450,000,000 of our 4.450% Notes Due 2020 (the New 2020 Notes) for up to \$450,000,000 of our existing 4.450% Notes due 2020 (the Old 2020 Notes) and up to \$300,000,000 of our 5.950% Notes Due 2040 (the New 2040 Notes) for up to \$300,000,000 of our existing 5.950% Notes Due 2040 (the Old 2040 Notes).

The New 2020 Notes and the New 2040 Notes are collectively referred to as the New Notes. The Old 2020 Notes and the Old 2040 Notes are collectively referred to as the Old Notes. The Old Notes and New Notes are referred to as the Notes.

Under the indenture, the Old Notes of each series and the New Notes issued in exchange for each such series, in each case together with any additional Notes of such series we may issue under the indenture as described below under Issuance of Additional Notes, will be treated as a single series of such Notes for all purposes under the indenture.

The terms of each series of New Notes are identical in all material respects to the terms of such series of Old Notes, except that the New Notes will be issued in a transaction registered under the Securities Act and the transfer restrictions and registration rights relating to the Old Notes will not apply to the New Notes. The New Notes will be issued in book-entry form only, in denominations of \$2,000 in principal amount and multiples of \$1,000 in excess thereof.

Interest on the New Notes will accrue at the respective rates per annum shown on the cover of this prospectus from the last interest payment date on which interest was paid on the Old Notes surrendered in the exchange. If your Old Notes are tendered and accepted for exchange, you will receive interest on the New Notes and not the Old Notes. Any Old Notes not tendered or not accepted for exchange will remain outstanding and continue to accrue interest according to their terms. Interest on the New Notes will be payable semi-annually on June 1 and December 1, commencing on the next interest payment date after the issuance of the New Notes, to the persons in whose names the New Notes are registered at the close of business on the preceding May 15 or November 15, as the case may be. Interest on the New Notes will be paid to but excluding the relevant interest payment date. Interest on the New Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The indenture does not limit the ability of SAIC or the subsidiary guarantor to incur additional indebtedness. The New Notes will be the unsecured and unsubordinated obligations of SAIC and will rank *pari passu* with its other unsecured and unsubordinated indebtedness. The New Notes will be structurally subordinated to all indebtedness and liabilities (including trade payables and preferred stock obligations) of SAIC's non-guarantor

subsidiaries and will be effectively subordinated to the secured indebtedness of SAIC, if any, and that of its subsidiaries, if any, to the extent of the assets securing such indebtedness. As of July 31, 2011, we had approximately \$1.9 billion of total indebtedness on a consolidated basis, all of which is unsecured and unsubordinated, and substantially all of which are obligations of SAIC or the subsidiary guarantor. Also, as of July 31, 2011, we had approximately \$3.7 billion of total liabilities on a consolidated basis. SAIC also maintains a revolving credit facility, guaranteed by Science Applications, the subsidiary guarantor, providing for \$750 million in unsecured borrowing capacity in place with no amounts outstanding as of July 31, 2011.

Guarantee

Science Applications, the subsidiary guarantor, will fully and unconditionally guarantee, on an unsubordinated basis, SAIC's obligations under the New Notes and all obligations under the indenture. The guarantee will rank equally with all senior indebtedness of the subsidiary guarantor and will be senior in right of payment to all existing and future subordinated obligations of the subsidiary guarantor. The guarantee will be subject to the prior rights of the holders of any secured indebtedness of the subsidiary guarantor to the extent of the assets securing such indebtedness.

As of July 31, 2011, the senior indebtedness of the subsidiary guarantor, excluding the guarantees of the Notes, consisted of \$1.1 billion outstanding under existing notes.

The obligations of the subsidiary guarantor under the guarantee will be limited as necessary to prevent the guarantee from constituting a fraudulent conveyance or fraudulent transfer under applicable law. See Risk Factors.

See Covenants for a description of the restrictions on consolidation, merger or sale of assets of the subsidiary guarantor under the indenture.

Issuance of Additional Notes

SAIC may, without the consent of the holders, increase the principal amount of any series of New Notes by issuing additional Notes of such series (and related guarantee) in the future on the same terms and conditions, except for any differences in the issue price and interest accrued prior to the issue date of the additional Notes. Under the indenture, each series of New Notes and any additional Notes of such series (and related guarantee) SAIC may issue will be treated as a single series for all purposes under the indenture, including for purposes of determining whether the required percentage of the holders of record has given approval or consent to an amendment or waiver or joined in directing the trustee to take certain actions on behalf of all holders.

SAIC also may, without the consent of the holders, issue other series of debt securities under the indenture in the future on terms and conditions different from the series of New Notes offered hereby.

Optional Redemption

The New Notes will be redeemable, in whole or in part at any time, or from time to time, at SAIC's option, each at a make-whole premium redemption price calculated by SAIC equal to the greater of:

- (a) 100% of the principal amount of the New Notes of the series to be redeemed; and
- (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below), plus 20 basis points with respect to the New 2020 Notes and 25 basis points with respect to the New 2040 Notes,

plus, in each case, accrued interest thereon to the date of redemption. Notwithstanding the foregoing, installments of interest on New Notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the New Notes and the indenture.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the New Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such New Notes.

Comparable Treasury Price means, with respect to any redemption date, (i) the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Quotation Agent obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations, or (iii) if only one Reference Treasury Dealer Quotation is received, such quotation.

Quotation Agent means the Reference Treasury Dealers appointed by SAIC.

Reference Treasury Dealer means (i) Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated (or their respective affiliates that are Primary Treasury Dealers) and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a Primary Treasury Dealer), SAIC will substitute therefor another Primary Treasury Dealer, and (ii) any other Primary Treasury Dealer selected by SAIC.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of the New Notes to be redeemed. Unless SAIC defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes or portions thereof called for redemption. If less than all of the New Notes are to be redeemed, the New Notes to be redeemed shall be selected by lot by DTC, in the case of New Notes represented by a global note, or by the trustee by a method the trustee deems to be fair and appropriate, in the case of New Notes that are not represented by a global note.

In addition, beginning 90 days prior to the maturity date of the New 2020 Notes, SAIC will have the right to redeem the New 2020 Notes, and beginning 180 days prior to the maturity date of the New 2040 Notes, SAIC will have the right to redeem the New 2040 Notes, in each case, at a price equal to 100% of the principal amount of such New Notes being redeemed, plus accrued interest thereon. Notwithstanding the foregoing, installments of interest on New Notes that are due and payable on interest payment dates falling on or prior to the redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the New Notes and the indenture. Notice of the redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of the New Notes to be redeemed. Unless SAIC defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes or portions thereof called for redemption.

Repurchase Upon Change of Control Triggering Event

If a Change of Control Triggering Event (as defined below) occurs, unless we have exercised our right to redeem the New Notes as described above, we will be required to make an offer to each holder of New Notes to purchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of that holder's New Notes at a purchase price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that after giving effect to the purchase, any New Notes that remain outstanding shall have a denomination of \$2,000 and integral multiples of \$1,000 above that amount.

Within 30 days following the date upon which the Change of Control Triggering Event has occurred or, at our option, prior to any Change of Control (as defined below), but after the public announcement of the transaction that constitutes or may constitute the Change of Control, except to the extent that we have exercised our right to redeem the New Notes as described under Optional Redemption, we will mail a notice (a Change of Control Offer) to each holder with a copy to the trustee describing the transaction or transactions that constitute or may constitute a Change of Control Triggering Event and offering to purchase New Notes on the date specified in the notice, which date will be no earlier than 30 days nor later than 60 days from the date such notice is mailed (other than as may be required by law) (such date, the Change of Control Payment Date). The notice will, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on the Change of Control being consummated on or prior to the Change of Control Payment Date specified in the notice.

On each Change of Control Payment Date, we will, to the extent lawful:

accept for payment all New Notes or portions of the New Notes properly tendered pursuant to the applicable Change of Control Offer;

deposit with the paying agent an amount equal to the change of control payment in respect of all New Notes or portions of New Notes properly tendered pursuant to the applicable Change of Control Offer; and

deliver or cause to be delivered to the trustee the New Notes properly accepted together with an officers' certificate stating the aggregate principal amount of New Notes or portions of New Notes being purchased.

The trustee will promptly mail, or cause the paying agent to promptly mail, to each holder of New Notes so tendered the payment for such New Notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new Note equal in principal amount to any unpurchased portion of the New Notes surrendered, if any.

Except as described above with respect to a Change of Control Triggering Event, the indenture and the New Notes do not contain provisions that permit the holders to require us to repurchase or redeem the New Notes in the event of a takeover, recapitalization or similar transaction.

We will comply, to the extent applicable, with the requirements of Rule 14(e)-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and any other securities laws or regulations in connection with the purchase of New Notes pursuant to a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the terms described in the New Notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations by virtue thereof.

Holders of New Notes electing to have New Notes purchased pursuant to a Change of Control Offer will be required to surrender their New Notes, with the form entitled Repurchase Exercise Notice Upon a Change of Control on the reverse of the New Note completed, to the paying agent at the address specified in the notice, or

transfer their New Notes to the paying agent by book-entry transfer pursuant to the applicable procedures of the paying agent, prior to the close of business on the third business day prior to the Change of Control Payment Date.

We will not be required to make a Change of Control Offer if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all New Notes properly tendered and not withdrawn under its offer.

In addition, we will not purchase any New Notes if there has occurred and is continuing on the Change of Control Payment Date an Event of Default under the indenture, other than a default in the payment of the change of control payment upon a Change of Control Triggering Event.

If holders of not less than 95% in aggregate principal amount of the outstanding New Notes validly tender and do not withdraw such New Notes in a Change of Control Offer and we, or any third party making a Change of Control Offer in lieu of us, as described above, purchases all of the New Notes validly tendered and not withdrawn by such holders, we will have the right, upon not less than 30 nor more than 60 days prior notice, given not more than 30 days following such purchase pursuant to the Change of Control Offer described above, to redeem all New Notes that remain outstanding following such purchase at a redemption price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption (subject to the right of holders of record on a record date to receive interest on the relevant interest payment date).

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of all or substantially all of our assets and the assets of our subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of New Notes to require us to repurchase its New Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and the assets of our subsidiaries taken as a whole to another person may be uncertain.

For purposes of the Change of Control Offer provisions of the New Notes, the following definitions are applicable:

Change of Control means the occurrence of any one of the following:

- (a) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our assets and the assets of our subsidiaries taken as a whole to any person (as that term is used in Section 13(d)(3) of the Exchange Act) other than to us or one of our subsidiaries;
- (b) the consummation of any transaction (including without limitation, any merger or consolidation) the result of which is that any person (as that term is used in Section 13(d)(3) of the Exchange Act) becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) directly or indirectly, of more than 50% of our outstanding Voting Stock, measured by voting power rather than number of shares; or
- (c) the adoption of a plan relating to our liquidation or dissolution.

Notwithstanding the foregoing, a transaction will not be considered to be a Change of Control if (a) we become a direct or indirect 100%-owned subsidiary of a holding company and (b) immediately following that transaction, (1) the direct or indirect holders of the Voting Stock of the holding company are substantially the same as the holders of our Voting Stock immediately prior to that transaction or (2) no person or group is the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the holding company.

Change of Control Triggering Event means the occurrence of both a Change of Control and a Ratings Event.

Investment Grade means a rating of Baa3 or better by Moody's (or its equivalent under any successor rating category of Moody's); a rating of BBB- or better by S&P (or its equivalent under any successor rating category of S&P); and the equivalent investment grade rating from any replacement Rating Agency or Agencies appointed by us.

Moody's means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

Rating Agency means each of Moody's and S&P; provided, that if either of Moody's or S&P ceases to rate the New Notes or fails to make a rating of the New Notes publicly available, we will appoint a replacement for such Rating Agency that is a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act.

Ratings Event means the New Notes cease to be rated Investment Grade by each of the Rating Agencies on any day during the period (the **Trigger Period**) commencing on the date 60 days prior to the first public announcement by us of any Change of Control (or pending Change of Control) and ending 60 days following consummation of such Change of Control (which Trigger Period will be extended for so long as the rating of the New Notes is under publicly announced consideration for a possible downgrade by either of the Rating Agencies).

S&P means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

Voting Stock of any specified person as of any date means the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

No Sinking Fund

The New Notes will not be entitled to any sinking fund.

Book-Entry; Delivery and Form; Global Note

Each series of New Notes will be issued in the form of one or more fully registered Global Notes (**Global Notes**) without interest coupons. The Global Notes will be deposited upon issuance with the trustee as custodian for DTC and registered in the name of DTC's nominee, Cede & Co., in each case for credit to an account of a direct or indirect participant in DTC as described below. Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in the Global Notes may be held through the Euroclear System (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream**) (as indirect participants in DTC). Beneficial interests in the Global Notes may not be exchanged for New Notes in certificated form (**certificated New Notes**) except in the limited circumstances described below. See **Exchange of Global Notes for Certificated New Notes**.

Exchange of Global Notes for Certificated New Notes

We will issue certificated New Notes to each person that DTC identifies as the beneficial owner of the New Notes represented by a Global Note upon surrender by DTC of the Global Note if:

DTC notifies us that it is no longer willing or able to act as a depositary for such Global Note or ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), and we have not appointed a successor depositary within 90 days of that notice or becoming aware that DTC is no longer so registered or willing or able to act as a depositary;

an Event of Default has occurred and is continuing, and DTC requests the issuance of certificated New Notes; or

we determine not to have the New Notes represented by a Global Note.

In all cases, certificated New Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be in registered form, registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in Transfer Restrictions, unless that legend is not required by applicable law.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC has advised us that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the Participants) and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the Indirect Participants). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised us that, pursuant to procedures established by it:

upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the initial purchasers with portions of the principal amount of the Global Notes; and

ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) that are Participants in such system. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC.

Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a person having beneficial interests in a Global Note to pledge such interests to persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described above, owners of beneficial interests in the Global Notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or Holders thereof under the indenture for any purpose.

Payments in respect of the principal of, and interest and premium, if any, on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder of the New Notes under the indenture. Under the terms of the indenture, we and the trustee will treat the persons in whose names the New Notes, including the Global Notes, are registered as the owners of the New Notes for the purpose of receiving payments and for all other purposes. Consequently, neither we, the trustee nor any of our or the trustee's agents have or will have any responsibility or liability for:

any aspect of DTC's records or any Participant's or Indirect Participant's records relating to, or payments made on account of, beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or

any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the New Notes, is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of New Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or us. Neither we nor the trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the New Notes, and we and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Transfers between the Participants will be effected in accordance with DTC's procedures and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised us that it will take any action permitted to be taken by a holder of New Notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the New Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the New Notes, DTC reserves the right to exchange the Global Notes for certificated notes, and to distribute such notes to the Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures and may discontinue such procedures at any time. None of us, the trustee or any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Events of Default

When we use the term **Event of Default** in the indenture with respect to the debt securities of any series, including the New Notes, here are some examples of what we mean:

- (1) default in paying interest on the debt securities when it becomes due and the default continues for a period of 30 days or more;
- (2) default in paying principal, or premium, or sinking fund installment, if any, on the debt securities when due;
- (3) default in the performance, or breach, of any covenant in the indenture (other than defaults specified in clause (1) or (2) above) and the default or breach continues for a period of 90 days or more after we receive written notice from the trustee or the trustee receives notice from the holders of at least 25% in aggregate principal amount of all of the outstanding debt securities of all series affected (voting together as a single class);
- (4) the guarantee of Science Applications is not (or is claimed by Science Applications not to be) in full force and effect; and
- (5) certain events of bankruptcy, insolvency, reorganization, administration or similar proceedings with respect to us, Science Applications International Corporation or any material subsidiary has occurred.

If an Event of Default (other than an Event of Default specified in clause (5) with respect to SAIC or Science Applications) under the indenture occurs with respect to the debt securities of any series and is continuing, then the trustee may and, at the direction of the holders of at least 25% in aggregate principal amount of all of the outstanding debt securities of all series affected (voting together as a single class), will by written notice, require us to repay immediately the entire principal amount of all of the outstanding debt securities of all series affected, together with all accrued and unpaid interest and premium, if any.

If an Event of Default under the indenture specified in clause (5) with respect to us, Science Applications or any material subsidiary occurs and is continuing, then the entire principal amount of the outstanding debt securities will automatically become due immediately and payable without any declaration or other act on the part of the trustee or any holder.

After a declaration of acceleration or any automatic acceleration under clause (5) described above, the holders of a majority in aggregate principal amount of all of the outstanding debt securities of all series affected (voting together as a single class) may rescind this accelerated payment requirement if all existing Events of Default, except for nonpayment of the principal and interest on the debt securities that have become due solely as a result of the accelerated payment requirement, have been cured or waived and if the rescission of acceleration would not conflict with any judgment or decree. The holders of a majority in aggregate principal amount of all of the outstanding debt securities of all series affected (voting together as a single class) also have the right to waive past defaults, except a default in paying principal or interest on any outstanding debt security, or in respect of a covenant or a provision that cannot be modified or amended without the consent of all affected holders of the debt securities.

Holders of at least 25% in aggregate principal amount of all of the outstanding debt securities of all series affected (voting together as a single class) may seek to institute a proceeding only after they have made written request, and offered such indemnity as the trustee may reasonably require, to the trustee to institute a proceeding

and the trustee has failed to institute a proceeding within 60 days after it received this notice. In addition, within this 60-day period the trustee must not have received directions inconsistent with this written request by holders of a majority in aggregate principal amount of all of the outstanding debt securities of all series affected. These limitations do not apply, however, to a suit instituted by a holder of a debt security for the enforcement of the payment of principal, interest or any premium on or after the due dates for such payment.

During the existence of an Event of Default of which a responsible officer of the trustee has actual knowledge or has received written notice from us or any holder of the debt securities, the trustee is required to exercise the rights and powers vested in it under the indenture and use the same degree of care and skill in its exercise as a prudent person would under the circumstances in the conduct of that person's own affairs. If an Event of Default has occurred and is continuing, the trustee is not under any obligation to exercise any of its rights or powers at the request or direction of any of the holders unless the holders have offered to the trustee such security or indemnity as the trustee may reasonably require. Subject to certain provisions, the holders of a majority in aggregate principal amount of all of the outstanding debt securities of all series affected (voting together as a single class) have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust, or power conferred on the trustee.

The trustee will, within 45 days after it has knowledge that an Event of Default has occurred, give notice of the default to the holders of all of the debt securities of all series affected, unless the default was already cured or waived. Unless there is a default in paying principal, interest or any premium when due, the trustee can withhold giving notice to the holders if it determines in good faith that the withholding of notice is in the interest of the holders.

We are required to furnish to the trustee an annual statement as to compliance with all conditions and covenants under the indenture.

Covenants

Principal and Interest

We covenant to pay the principal of and interest on the New Notes when due and in the manner provided in the indenture.

Consolidation, Merger or Sale of Assets

Neither SAIC nor Science Applications will consolidate or combine with or merge with or into or, directly or indirectly, sell, assign, convey, lease, transfer or otherwise dispose of all or substantially all of our assets to any person or persons in a single transaction or through a series of transactions, unless:

SAIC (or Science Applications, as applicable) will be the continuing person or, if SAIC (or Science Applications, as applicable) is not the continuing person the resulting, surviving or transferee person (the surviving entity) is a company organized and existing under the laws of the United States, any state thereof, or the District of Columbia;

the surviving entity will expressly assume all obligations of SAIC (or Science Applications, as the case may be) under the debt securities and the indenture, and will, if required by law to effectuate the assumption, execute a supplemental indenture, in a form satisfactory to the trustee, which will be delivered to the trustee;

immediately after giving effect to such transaction or series of transactions on a pro forma basis, no default or Event of Default has occurred and is continuing; and

SAIC, Science Applications or the surviving entity, as applicable, will have delivered to the trustee an officer's certificate and opinion of counsel stating that the transaction or series of transactions and a supplemental indenture, if any, complies with this covenant and that all conditions precedent in the indenture relating to the transaction or series of transactions have been satisfied.

The restrictions in the third bullet above shall not be applicable to:

the merger or consolidation of SAIC or Science Applications with an affiliate, if our board of directors determines in good faith that the purpose of such transaction is principally to change the state of incorporation or convert one form of organization to another form; or

the merger of SAIC or Science Applications with or into a single direct or indirect 100%-owned subsidiary pursuant to Section 251(g) (or any successor provision) of the General Corporation Law of the State of Delaware (or similar provision of our or its state of incorporation).

If any consolidation or merger or any sale, assignment, conveyance, lease, transfer or other disposition of all or substantially all assets of SAIC (or Science Applications, as applicable) occurs in accordance with the indenture, the successor person will succeed to, and be substituted for, and may exercise every right and power of SAIC (or Science Applications) under the indenture with the same effect as if such successor person had been named in SAIC's (or Science Applications') place in the indenture. SAIC will, or Science Applications will, as applicable, (except in the case of a lease) be discharged from all obligations and covenants under the indenture and any debt securities (or guarantee, as applicable) issued thereunder.

Negative Covenants

In addition to the covenants set forth above, the following additional covenants shall apply to the New Notes and related guarantee, and to other debt securities and guarantee issued under the indenture (unless otherwise provided pursuant to a board resolution and set forth in an officer's certificate or a supplemental indenture). These covenants do not limit SAIC's ability or the ability of the subsidiary guarantor to incur indebtedness and apply only to SAIC and Science Applications.

Limitation on Liens

With respect to each series of debt securities, including the New Notes, neither SAIC nor Science Applications will create or incur any Lien on any of such person's Properties, whether now owned or hereafter acquired, or upon any income or profits therefrom, in order to secure any of such person's Indebtedness, without effectively providing that such series of debt securities shall be equally and ratably secured until such time as such Indebtedness is no longer secured by such Lien, except:

- (1) Liens existing as of the closing date of the offering of the series of debt securities;
- (2) Liens granted after the closing date of the offering of the series of debt securities, created in favor of the holders of such series of debt securities;
- (3) Liens securing SAIC's or Science Applications' Indebtedness which are incurred to extend, renew or refinance Indebtedness which is secured by Liens permitted to be incurred under the indenture so long as such Liens are limited to all or part of substantially the same Property which secured the Liens extended, renewed or replaced and the amount of Indebtedness secured is not increased (other than by the amount equal to any costs and expenses (including any premiums, fees or penalties) incurred in connection with any extension, renewal or refinancing); and
- (4) Permitted Liens.

Notwithstanding the foregoing, SAIC and Science Applications may, without securing any series of debt securities, create or incur Liens which would otherwise be subject to the restrictions set forth in the preceding paragraph, if after giving effect thereto, such person's Aggregate Debt does not exceed 15% of its Consolidated Net Worth calculated as of the date of the creation or incurrence of the Lien.

Limitation on Sale and Lease-Back Transactions

With respect to each series of debt securities, including the New Notes, neither SAIC nor Science Applications will enter into any sale and lease-back transaction for the sale and leasing back of any Property, whether now owned or hereafter acquired, unless:

- (1) such transaction was entered into prior to the closing date of the offering of the series of debt securities;
- (2) such transaction was for the sale and leasing back to SAIC or Science Applications of any Property by one of our Subsidiaries;
- (3) such transaction was for the sale and leasing back to SAIC or Science Applications of any Property by any domestic or foreign government agency in connection with pollution control, industrial revenue, private activity bonds or similar financing;
- (4) such transaction involves a lease for less than three years;
- (5) SAIC or Science Applications, as applicable, would be entitled to incur Indebtedness secured by a mortgage on the Property to be leased in an amount equal to the Attributable Liens with respect to such sale and lease-back transaction without equally and ratably securing such series of debt securities pursuant to the first paragraph of *Limitation on Liens* above; or
- (6) SAIC or Science Applications, as applicable, apply an amount equal to the fair value of the Property sold to the purchase of Property or to the retirement of the New Notes or SAIC's or Science Applications' other long-term Indebtedness within 365 days of the effective date of any such sale and lease-back transaction. In lieu of applying such amount to such retirement, SAIC or Science Applications may deliver debt securities to the trustee therefor for cancellation, such debt securities to be credited at the cost thereof to SAIC or Science Applications.

Notwithstanding the foregoing, SAIC and Science Applications may enter into any sale lease-back transaction which would otherwise be subject to the foregoing restrictions, if after giving effect thereto and at the time of determination, such person's Aggregate Debt does not exceed 15% of its Consolidated Net Worth calculated as of the closing date of the sale and lease-back transaction.

Existence

Except as permitted under *Consolidation, Merger and Sale of Assets*, the indenture requires SAIC and Science Applications to do or cause to be done all things necessary to preserve and keep in full force and effect our respective existence, rights and franchises; *provided, however*, that neither SAIC nor the subsidiary guarantor shall be required to preserve any right or franchise if we determine that their preservation is no longer desirable in the conduct of business.

Certain Definitions

As used in this section, the following terms have the meanings set forth below.

Aggregate Debt means the sum of the following, calculated as of the date of determination in accordance with GAAP:

- (1) the aggregate amount of such Person's Indebtedness incurred after the closing date of the offering of the debt securities, and secured by Liens not permitted by the first sentence under *Limitation on Liens*; and
- (2) the aggregate amount of such Person's Attributable Liens in respect of sale and lease-back transactions entered into after the closing date of the offering of the debt securities pursuant to the second paragraph of *Limitation on Sale and Lease-Back Transactions*.

Attributable Liens means, in connection with a sale and lease-back transaction, the lesser of:

- (1) the fair market value of the assets subject to such transaction (as determined in good faith by our board of directors); and
- (2) the present value (discounted at a rate per annum equal to the average interest borne by all outstanding debt securities issued under the indenture (which may include debt securities in addition to the New Notes offered hereby) determined on a weighted average basis and compounded semi-annually) of the obligations of the lessee for rental payments during the term of the related lease.

Capital Lease means any Indebtedness represented by a lease obligation of a Person incurred with respect to real property or equipment acquired or leased by such Person and used in its business that is required to be recorded as a capital lease in accordance with GAAP.

Consolidated Net Worth means, as of any date of determination and with respect to any Person, the Stockholders' Equity of such Person and its Consolidated Subsidiaries on that date.

Consolidated Subsidiary means, as of any date of determination and with respect to any Person, any Subsidiary of that Person whose financial data is, in accordance with GAAP, reflected in that Person's consolidated financial statements.

GAAP means generally accepted accounting principles set forth in the opinions and pronouncements of the Public Company Accounting Oversight Board (United States) and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect as of the date of determination.

Hedging Obligations means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (2) other agreements or arrangements designed to manage interest rates or interest rate risk;
- (3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices; and
- (4) other agreements or arrangements designed to protect such person against fluctuations in equity prices.

Indebtedness of any specified Person means, without duplication, (a) all indebtedness in respect of borrowed money, (b) all obligations of such Person evidenced by bonds, notes, debentures or similar instruments, (c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement agreements with respect thereto), (d) the Indebtedness of any other Persons to the extent guaranteed by such Person and (e) all obligations of such Person to pay the deferred and unpaid purchase price of any Property (including pursuant to Capital Leases), but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business; but only, for each of clause (a) through (e), if and to the extent any of the foregoing indebtedness would appear as a liability upon an unconsolidated balance sheet of such Person prepared in accordance with GAAP (but does not include contingent liabilities which appear only in a footnote to a balance sheet). Notwithstanding the foregoing, in no event shall the term **Indebtedness** be deemed to include letters of credit that secure performance, bonds that secure performance, surety bonds or similar instruments that are issued in the ordinary course of business.

Lien means any lien, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any agreement to give any security interest).

Permitted Liens means:

- (1) Liens on any assets of SAIC or Science Applications, created solely to secure obligations incurred to finance the refurbishment, improvement or construction of such asset, which obligations are incurred no later than 24 months after completion of such refurbishment, improvement or construction, and all renewals, extensions, refinancings, replacements or refundings of such obligations;
- (2) (a) Liens given to secure the payment of the purchase price incurred in connection with the acquisition (including acquisition through merger or consolidation) of Property (including shares of stock), including Capital Lease transactions in connection with any such acquisition, and
(b) Liens existing on Property at the time of acquisition thereof or at the time of acquisition by SAIC or Science Applications of any Person then owning such Property whether or not such existing Liens were given to secure the payment of the purchase price of the Property to which they attach; *provided* that, with respect to clause (a), the Liens shall be given within 24 months after such acquisition and shall attach solely to the Property acquired or purchased and any improvements then or thereafter placed thereon;
- (3) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other Property relating to such letters of credit and the products and proceeds thereof;
- (4) Liens encumbering customary initial deposits and margin deposits and other Liens in the ordinary course of business, in each case securing Hedging Obligations and forward contracts, options, futures contracts, futures options, equity hedges or similar agreements or arrangements designed to protect from fluctuations in interest rates, currencies, equities or the price of commodities;
- (5) Liens in favor of SAIC or Science Applications;
- (6) Liens consisting of pledges or deposits of Property to secure performance in connection with operating leases made in the ordinary course of business to which SAIC or Science Applications are a party as lessee, *provided* the aggregate value of all such pledges and deposits in connection with any such lease does not at any time exceed 16 ²/₃% of the annual fixed rentals payable under such lease;
- (7) Liens securing the performance of statutory obligations or bids, surety, appeal or customs bonds, standby letters of credit, performance or return-of-money bonds or other obligations of a like nature incurred in the ordinary course of SAIC's or Science Applications' business;
- (8) Liens securing Indebtedness owing by SAIC or Science Applications to a Subsidiary (*provided* that, upon either (a) the transfer or other disposition of any Indebtedness secured by such Lien to a Person other than another Subsidiary or (b) the issuance, sale, lease, transfer or other disposition of more than a majority of the capital stock of or any other ownership interest in such Subsidiary to which such secured Indebtedness is owed to a Person other than SAIC, Science Applications or another Subsidiary, such Lien will no longer qualify as a Permitted Lien pursuant to this clause (8))
- (9) Liens arising in the ordinary course of business in favor of a customer;
- (10) Liens associated with a sale or discount of SAIC's accounts receivable or those of Science Applications *provided* that such Lien (a) does not involve the creation of a Lien or negative pledge on any accounts receivable not so sold or discounted and (b) does not involve in the aggregate the sale or discount of accounts receivable having a book value exceeding \$100,000,000;
- (11) Liens arising in connection with synthetic leases which do not exceed \$250,000,000 in the aggregate at any one time; and
- (12) Liens securing industrial revenue bonds, pollution control bonds or other similar tax exempt bonds.

Person means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization, or any other entity, including any government or any agency or political subdivision thereof.

Property means any property or asset, whether real, personal or mixed, or tangible or intangible, including shares of capital stock.

Stockholders' Equity means, as of any date of determination, stockholders' equity as reflected on the most recent consolidated balance sheet available to us prepared in accordance with GAAP.

Subsidiary of any specified Person means any corporation, limited liability company, limited partnership, association or other business entity of which more than 50% of the total voting power of shares of capital stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such person or one or more of the other Subsidiaries of that Person or a combination thereof.

Notices

Notices to holders of the New Notes will be made by first-class mail, postage prepaid, to the addresses that appear on the security register of the New Notes.

Modification and Waiver

SAIC, the subsidiary guarantor and the trustee may amend or modify the indenture or the debt securities, including the New Notes, without the consent of any holder of debt securities in order to:

cure ambiguities, defects or inconsistencies;

make any change that would provide any additional rights or benefits to the holders of the debt securities of a series;

provide for or add additional guarantors with respect to the debt securities of any series;

secure the debt securities of any series;

establish the form or forms of debt securities of any series;

provide for uncertificated debt securities of any series in addition to or in place of certificated debt securities of the applicable series;

evidence and provide for the acceptance of appointment by a successor trustee;

provide for the assumption by our successor, if any, to our obligations to holders of any outstanding debt securities of any series in compliance with the provisions of the indenture;

maintain the qualification of the indenture under the Trust Indenture Act;

conform any provision in the indenture to this Description of the New Notes and Related Guarantee ; or

make any change that does not adversely affect the rights of any holder in any material respect.

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Other amendments and modifications of the indenture or the debt securities, including the New Notes, may be made with the consent of the holders of not less than a majority of the aggregate principal amount of all of the outstanding debt securities affected by the amendment or modification (voting together as a single class), and our compliance with any provision of the indenture with respect to any series of debt securities may be waived by written notice to the trustee by the holders of a majority of the aggregate principal amount of all of the outstanding debt securities affected by the waiver (voting together as a single class). However, no modification or amendment may, without the consent of the holder of each outstanding debt security affected:

reduce the principal amount, or extend the fixed maturity, of the debt securities, alter or waive the redemption provisions of the debt securities;

impair the right of any holder of the debt securities to receive payment of principal or interest on the debt securities on and after the due dates for such principal or interest;

change the currency in which principal, any premium or interest is paid;

reduce the percentage in principal amount outstanding of debt securities of any series which must consent to an amendment, supplement or waiver or consent to take any action;

impair the right to institute suit for the enforcement of any payment on the debt securities;

waive a payment default with respect to the debt securities or any guarantor;

reduce the interest rate or extend the time for payment of interest on the debt securities; or

adversely affect the ranking of the debt securities of any series.

Satisfaction, Discharge and Covenant Defeasance

We may terminate our obligations under the indenture, together with the obligations of the subsidiary guarantor, when:

either:

all the debt securities of any series issued that have been authenticated and delivered have been accepted by the trustee for cancellation; or

all the debt securities of any series issued that have not been accepted by the trustee for cancellation have become due and payable, or are by their terms to become due and payable within one year (a discharge), and we have made irrevocable arrangements satisfactory to the trustee for the giving of notice of redemption by such trustee in our name, and at our expense and we have irrevocably deposited or caused to be deposited with the trustee sufficient funds to pay and discharge the entire indebtedness on the series of debt securities to pay principal, interest and any premium;

we have paid or caused to be paid all other sums then due and payable under the indenture; and

we have delivered to the trustee an officer's certificate and an opinion of counsel, each stating that all conditions precedent under the indenture relating to the satisfaction and discharge of the indenture have been complied with.

We may elect to have our obligations under the indenture, together with the obligations of the subsidiary guarantor, discharged with respect to the outstanding debt securities of any series, including the New Notes (legal defeasance). Legal defeasance means that we will be deemed to have paid and discharged the entire indebtedness represented by the outstanding debt securities of such series under the indenture, except for:

the rights of holders of the debt securities to receive principal, interest and any premium when due;

our obligations with respect to the debt securities concerning issuing temporary debt securities, registration of transfer of debt securities, mutilated, destroyed, lost or stolen debt securities and the maintenance of an office or agency for payment for debt securities payments held in trust;

the rights, powers, trusts, duties and immunities of the trustee; and

the defeasance provisions of the indenture.

In addition, we may elect to have our obligations and the obligations of the subsidiary guarantor released with respect to certain covenants in the indenture (covenant defeasance). Any failure to comply with these obligations will not constitute a default or an event of default with respect to the debt securities of any series, including the New Notes. In the event covenant defeasance occurs, certain events, not including non-payment, bankruptcy and insolvency events, described under Events of Default will no longer constitute an event of default for that series.

In order to exercise either legal defeasance or covenant defeasance with respect to outstanding debt securities of any series, including the New Notes:

we must irrevocably have deposited or caused to be deposited with the trustee as trust funds for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to the benefits of the holders of the debt securities of a series:

money in an amount;

U.S. Government Obligations; or

a combination of money and U.S. Government Obligations,

in each case sufficient without reinvestment, in the written opinion of a nationally recognized firm of independent public accountants to pay and discharge, and which shall be applied by the trustee to pay and discharge, all of the principal, interest and any premium at due date or maturity or if we have made irrevocable arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in our name and at our expense, the redemption date;

in the case of legal defeasance, we have delivered to the trustee an opinion of counsel stating that, as a result of an Internal Revenue Service (the IRS) ruling or a change in applicable U.S. federal income tax law, the holders of the debt securities of that series will not recognize gain or loss for U.S. federal income tax purposes as a result of the deposit, defeasance and discharge to be effected and will be subject to the same U.S. federal income tax as would be the case if the deposit, defeasance and discharge did not occur;

in the case of covenant defeasance, we have delivered to the trustee an opinion of counsel to the effect that the holders of the debt securities of that series will not recognize gain or loss for U.S. federal income tax purposes as a result of the deposit and covenant defeasance to be effected and will be subject to the same federal income tax as would be the case if the deposit and covenant defeasance did not occur;

no default with respect to the outstanding debt securities of that series has occurred and is continuing at the time of such deposit after giving effect to the deposit or, in the case of legal defeasance, no default relating to bankruptcy or insolvency has occurred and is continuing at any time on or before the 91st day after the date of such deposit (other than an Event of Default resulting from the borrowing of funds to be applied to such deposit and the grant of any Lien securing such borrowings), it being understood that this condition is not deemed satisfied until after the 91st day;

the legal defeasance or covenant defeasance will not cause the trustee to have a conflicting interest within the meaning of the Trust Indenture Act, assuming all debt securities of a series were in default within the meaning of such Act;

the legal defeasance or covenant defeasance will not result in a breach or violation of, or constitute a default under the indenture (other than an Event of Default resulting from the borrowing of funds to be applied to such deposit and the grant of any Lien securing such borrowings) or any other material agreement or instrument to which we or any subsidiary guarantor is a party;

the legal defeasance or covenant defeasance will not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act of 1940, as amended, unless the trust is registered under such act or exempt from registration; and

we have delivered to the trustee an officer's certificate and an opinion of counsel stating that all conditions precedent with respect to the legal defeasance or covenant defeasance have been complied with.

Unclaimed Funds

All funds deposited with the trustee or any paying agent for the payment of principal, interest, premium or additional amounts in respect of the New Notes that remain unclaimed for two years after the maturity date of such New Notes will be repaid to us upon our request. Thereafter, any right of any note holder to such funds shall be enforceable only against us, and the trustee and paying agents will have no liability therefor.

Governing Law

The indenture, including the guarantee and the New Notes for all purposes shall be governed by and construed in accordance with the laws of the State of New York.

Concerning Our Relationship with the Trustee

We maintain ordinary banking relationships and credit facilities with The Bank of New York Mellon Trust Company, N.A. and its affiliates. In addition, BNY Mellon Shareowner Services, an affiliate of the trustee, is our stock transfer agent and stock plan administrator.

THE EXCHANGE OFFER

In a registration rights agreement among SAIC, Science Applications as the subsidiary guarantor and the initial purchasers of the Old Notes, we agreed to use our reasonable best efforts:

- (1) to file a registration statement with the SEC with respect to notes (and related guarantee) identical in all material respects to the Old Notes (and related guarantee) (except that the notes will not contain terms with respect to transfer restrictions and will not provide for any increase in the interest rate thereon under the circumstances described below) no later than 270 days after December 20, 2010 (the issue date of the Old Notes),
- (2) to, promptly after the registration statement has been declared effective, offer to holders of the Old Notes the opportunity to exchange all their Old Notes (and related guarantee) for New Notes (and related guarantee), and
- (3) to keep the exchange offer open for not less than 20 business days after notice of the exchange offer is mailed, but in any event, to cause the exchange offer to be consummated no later than 365 days after December 20, 2010 (the issue date of the Old Notes).

If we determine that because of any change in law or applicable interpretations thereof by the SEC, we are not permitted to effect the exchange offer, or under certain other circumstances, we will file with the SEC and use our reasonable best efforts to cause to become effective after such determination a shelf registration statement with respect to resales of the Old Notes and New Notes and to keep the registration statement effective for a period of six months from the first day it becomes effective, or, if earlier, the date when (i) all Old Notes and New Notes covered by the shelf registration statement have been sold pursuant to the shelf registration statement or (ii) all Old Notes cease to be transfer-restricted securities. SAIC and the subsidiary guarantor will, in the event a shelf registration statement is filed, provide to each holder copies of a prospectus, notify each holder when the shelf registration statement for the Old Notes has become effective and take certain other actions as are required to permit unrestricted resales of such Old Notes.

A holder selling Old Notes or New Notes under the shelf registration statement will be required to be named as a selling security holder in the related prospectus, to provide information related thereto and to deliver such prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the registration rights agreement that are applicable to such holder (including certain indemnification rights and obligations).

The registration rights agreement provides that, in the event we (i) do not file a registration statement with the SEC within 270 days after December 20, 2010 (the issue date of the Old Notes), or (ii) if required, the shelf registration statement is not declared effective within 365 days after December 20, 2010 (the issue date of the Old Notes) (or such later required date), or (iii) the exchange offer is not consummated on or prior to 365 days after December 20, 2010 (the issue date of the Old Notes) or (iv) a required shelf registration statement is declared effective but shall thereafter cease to be effective (at any time we are obligated to maintain the effectiveness thereof) without being succeeded within 30 days by an additional shelf registration statement filed and declared effective (each such event referred to in clauses (i) through (iv) above, an "Additional Interest Trigger"), the interest rate borne by the Old Notes will be increased by 0.25% per annum until the underlying default that caused the Additional Interest Trigger is cured. Once we complete this exchange offer, holders of Old Notes will not be entitled to any increase in the annual interest rate or have any other rights under the applicable registration rights agreement.

The exchange offer is not being made to, nor will we accept tenders for exchange from, holders of Old Notes in any jurisdiction in which the exchange offer or acceptance of the exchange offer would violate the securities or blue sky laws of that jurisdiction.

Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. See Plan of Distribution.

Terms of the Exchange Offer; Period for Tendering Old Notes

This prospectus and the accompanying letter of transmittal contain the terms and conditions of the exchange offer. Upon the terms and subject to the conditions included in this prospectus and in the accompanying letter of transmittal, which together are the exchange offer, we will accept for exchange Old Notes which are properly tendered on or prior to the expiration date, unless you have previously withdrawn them.

When you tender to us Old Notes as provided below, our acceptance of the Old Notes will constitute a binding agreement between you and us upon the terms and subject to the conditions in this prospectus and in the accompanying letter of transmittal.

For each \$1,000 principal amount of any series of Old Notes surrendered to us in the exchange offer, we will give you \$1,000 principal amount of New Notes of such series; *provided* that New Notes will be issued in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

We will keep the exchange offer open for not less than 20 business days, or longer if required by applicable law, after the date that we first mail notice of the exchange offer to the holders of the Old Notes. We are sending this prospectus, together with the letter of transmittal, on or about the date of this prospectus to all of the registered holders of Old Notes at their addresses listed in the trustee's security register with respect to the Old Notes.

The exchange offer expires at 5:00 p.m., New York City time, on _____, 2011; *provided, however*, that we, in our sole discretion, may extend the period of time for which the exchange offer is open. The term "expiration date" means _____, 2011 or, if extended by us, the latest time and date to which the exchange offer is extended.

As of the date of this prospectus, \$750,000,000 in aggregate principal amount of Old Notes was outstanding. Holders may tender some or all of their Old Notes pursuant to the exchange offer, except that if any Old Notes of a series are tendered for exchange in part, the untendered amount of such Old Notes must be in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The exchange offer is not conditioned upon any minimum principal amount of Old Notes of any series being tendered.

Our obligation to accept Old Notes for exchange in the exchange offer is subject to the conditions that we describe in the section called "Conditions to the Exchange Offer" below.

We expressly reserve the right, at any time, to extend the period of time during which the exchange offer is open, and thereby delay acceptance of any Old Notes, by giving oral or written notice of an extension to the exchange agent and notice of that extension to the holders as described below. During any extension, all Old Notes previously tendered will remain subject to the exchange offer unless withdrawal rights are exercised. Any Old Notes not accepted for exchange for any reason will be returned without expense to the tendering holder promptly following the expiration or termination of the exchange offer.

We expressly reserve the right to amend or terminate the exchange offer, and not to accept for exchange any Old Notes that we have not yet accepted for exchange, if any of the conditions of the exchange offer specified below under "Conditions to the Exchange Offer" are not satisfied. In the event of a material change in the exchange offer, including the waiver of a material condition, we will extend the offer period if necessary so that at least five business days remain in the exchange offer following notice of the material change.

We will give oral or written notice of any extension, amendment, termination or non-acceptance described above to holders of the Old Notes promptly. If we extend the expiration date, we will give notice by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the business day after the previously scheduled expiration date. Without limiting the manner in which we may choose to make any public announcement and subject to applicable law, we will have no obligation to publish, advertise or otherwise communicate any public announcement other than by issuing a release to the Dow Jones News Service.

Holders of Old Notes do not have any appraisal or dissenters' rights in connection with the exchange offer.

Old Notes which are not tendered for exchange or are tendered but not accepted in connection with the exchange offer will remain outstanding and be entitled to the benefits of the indenture, but will not be entitled to any further registration rights under the applicable registration rights agreement.

We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act and the rules and regulations of the SEC thereunder.

By executing, or otherwise becoming bound by, the letter of transmittal, you will be making the representations described below to us. See Resale of the New Notes.

Important rules concerning the exchange offer

You should note that:

All questions as to the validity, form, eligibility, time of receipt and acceptance of Old Notes tendered for exchange will be determined by SAIC in its sole discretion, which determination shall be final and binding.

We reserve the absolute right to reject any and all tenders of any particular Old Notes not properly tendered or to not accept any particular Old Notes which acceptance might, in our judgment or the judgment of our counsel, be unlawful.

We also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer as to any particular Old Notes either before or after the expiration date, including the right to waive the ineligibility of any holder who seeks to tender Old Notes in the exchange offer. Unless we agree to waive any defect or irregularity in connection with the tender of Old Notes for exchange, you must cure any defect or irregularity within any reasonable period of time as we shall determine.

Our interpretation of the terms and conditions of the exchange offer as to any particular Old Notes either before or after the expiration date shall be final and binding on all parties.

None of SAIC, the subsidiary guarantor, the exchange agent or any other person shall be under any duty to give notification of any defect or irregularity with respect to any tender of Old Notes for exchange, nor shall any of them incur any liability for failure to give any notification.

Procedures for Tendering Old Notes

What to submit and how

If you, as the registered holder of an Old Note, wish to tender your Old Notes for exchange in the exchange offer, you must transmit a properly completed and duly executed letter of transmittal to or an agent's message in lieu of a letter of transmittal and all other documents required by the letter of transmittal to The Bank of New York Trust Company, N.A. at the address set forth below under Exchange Agent on or prior to the

expiration date.

In addition,

- (1) certificates for Old Notes must be received by the exchange agent along with the letter of transmittal, or

- (2) a timely confirmation of a book-entry transfer of Old Notes, if such procedure is available, into the exchange agent's account at DTC using the procedure for book-entry transfer described below, must be received by the exchange agent prior to the expiration date, or

- (3) you must comply with the guaranteed delivery procedures described below.

The term *agent's message* means a message, transmitted by DTC to and received by the exchange agent and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgement from the tendering participant that such participant has received and agrees to be bound by the letter of transmittal and that we may enforce such letter of transmittal against such participant.

The method of delivery of Old Notes, letters of transmittal and other required documents and notices of guaranteed delivery is at your election and risk. If delivery is by mail, we recommend that registered mail, properly insured, with return receipt requested, be used. In all cases, sufficient time should be allowed to assure timely delivery. No letters of transmittal or Old Notes should be sent to SAIC.

Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. See *Plan of Distribution*.

How to sign your letter of transmittal and other documents

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the Old Notes being surrendered for exchange are tendered

- (1) by a registered holder of the Old Notes who has not completed the box entitled *Special Issuance Instructions* or *Special Delivery Instructions* on the letter of transmittal or

- (2) for the account of an eligible institution.

If signatures on a letter of transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, the guarantee must be by any of the following eligible institutions:

a firm which is a member of a registered national securities exchange or a member of the Financial Industry Regulatory Authority, Inc. or

a commercial bank or trust company having an office or correspondent in the United States

If the letter of transmittal is signed by a person or persons other than the registered holder or holders of Old Notes tendered therewith, the Old Notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders that appear on the Old Notes and with the signature guaranteed by an eligible institution.

If the letter of transmittal or any certificates for Old Notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers or corporations or others acting in a fiduciary or representative capacity, the person should so indicate when signing and, unless waived by us, proper evidence satisfactory to us of its authority to so act must be submitted.

Acceptance of Old Notes for Exchange; Delivery of New Notes

Once all of the conditions to the exchange offer are satisfied or waived, we will accept, promptly after the expiration date, all Old Notes properly tendered and will issue the New Notes promptly after the expiration of the exchange offer. See *Conditions to the Exchange Offer* below. For purposes of the exchange offer, our giving of oral or written notice of our acceptance to the exchange agent will be considered our acceptance of the exchange offer.

In all cases, we will issue New Notes in exchange for Old Notes that are accepted for exchange only after timely receipt by the exchange agent of:

certificates for Old Notes, or

a timely book-entry confirmation of transfer of Old Notes into the exchange agent's account at DTC using the book-entry transfer procedures described below, and

a properly completed and duly executed letter of transmittal or, in the case of a book-entry transfer, an agent's message in lieu of the letter of transmittal and any other documents required by the letter of transmittal.

If we do not accept any tendered Old Notes for any reason included in the terms and conditions of the exchange offer or if you submit certificates representing Old Notes in a greater principal amount than you wish to exchange, we will return any unaccepted or non-exchanged Old Notes without expense to the tendering holder or, in the case of Old Notes tendered by book-entry transfer into the exchange agent's account at DTC using the book-entry transfer procedures described below, non-exchanged Old Notes will be credited to an account maintained with DTC promptly following the expiration or termination of the exchange offer.

Book-Entry Transfer

The exchange agent will make a request to establish an account with respect to the Old Notes at DTC for purposes of the exchange offer promptly after the date of this prospectus. Any financial institution that is a participant in DTC's systems may make book-entry delivery of Old Notes by causing DTC to transfer Old Notes into the exchange agent's account in accordance with DTC's Automated Tender Offer Program, or ATOP, procedures for transfer. However, the exchange for the Old Notes so tendered will only be made after timely confirmation of book-entry transfer of Old Notes into the exchange agent's account, and timely receipt by the exchange agent of an agent's message, transmitted by DTC and received by the exchange agent and forming a part of a book-entry confirmation.

Although delivery of Old Notes may be effected through book-entry transfer into the exchange agent's account at DTC, an agent's message or a letter of transmittal, or a facsimile copy, properly completed and duly executed, with any required signature guarantee, must in any case be delivered to and received by the exchange agent at its address listed under "Exchange Agent" on or prior to the expiration date.

DTC's ATOP is the only method of processing exchange offers through DTC. To accept the exchange offer through ATOP, DTC participants must send electronic instructions to DTC through its communication system instead of sending a signed, hard copy letter of transmittal. DTC is obligated to communicate those electronic instructions to the exchange agent. To tender outstanding Old Notes through ATOP, the electronic instructions sent to DTC and transmitted by DTC to the exchange agent must contain the character by which the participant acknowledges its receipt of and agrees to be bound by the letter of transmittal.

Guaranteed Delivery Procedures

If you are a registered holder of Old Notes and you want to tender your Old Notes but your Old Notes are not immediately available, or time will not permit your Old Notes, letter of transmittal or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

- (1) the tender is made through an eligible institution,
- (2) prior to the expiration date, the exchange agent receives, by facsimile transmission, mail or hand delivery, from that eligible institution a properly completed and duly executed notice of guaranteed delivery, substantially in the form provided by us, stating:

the name and address of the holder of Old Notes,

the amount of Old Notes tendered,

the tender is being made by delivering that notice and guaranteeing that within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the certificates of all physically tendered Old Notes, in proper form for transfer, or a book-entry confirmation, as the case may be, will be deposited by that eligible institution with the exchange agent, and

- (3) the certificates for all physically tendered Old Notes, in proper form for transfer, or a book-entry confirmation, as the case may be, are received by the exchange agent within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

Withdrawal Rights

You can withdraw your tender of Old Notes at any time on or prior to the expiration date.

For a withdrawal to be effective, a written notice of withdrawal must be received by the exchange agent at one of the addresses listed below under Exchange Agent. Any notice of withdrawal must specify:

the name of the person having tendered the Old Notes to be withdrawn,

the Old Notes to be withdrawn,

the principal amount of the Old Notes to be withdrawn,

if certificates for Old Notes have been delivered to the exchange agent, the name in which the Old Notes are registered, if different from that of the withdrawing holder,

if certificates for Old Notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of those certificates, you must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an eligible institution unless you are an eligible institution, and

if Old Notes have been tendered using the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn Old Notes and otherwise comply with the procedures of that facility.

Please note that all questions as to the validity, form, eligibility and time of receipt of notices of withdrawal will be determined by us, and our determination shall be final and binding on all parties. Any Old Notes so withdrawn will be considered not to have been validly tendered for exchange for purposes of the exchange offer.

If you have properly withdrawn Old Notes and wish to re-tender them, you may do so by following one of the procedures described under Procedures for Tendering Old Notes above at any time on or prior to the expiration date.

Conditions to the Exchange Offer

Notwithstanding any other provisions of the exchange offer, we will not be required to accept for exchange, or to issue New Notes in exchange for, any Old Notes and may terminate or amend the exchange offer, if at any time before the acceptance of Old Notes for exchange or the exchange of the New Notes for Old Notes, that acceptance or issuance would violate applicable law or any interpretation of the staff of the SEC.

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That condition is for our sole benefit and may be asserted by us regardless of the circumstances giving rise to that condition. Our failure at any time to exercise the foregoing rights shall not be considered a waiver by us of that right. Our rights described in the prior paragraph are ongoing rights which we may assert at any time and from time to time.

In addition, we will not accept for exchange any Old Notes tendered, and no New Notes will be issued in exchange for any Old Notes, if at that time any stop order shall be threatened or in effect with respect to the exchange offer to which this prospectus relates or the qualification of the indenture under the Trust Indenture Act.

Consequences of Failure to Exchange

If you do not exchange your Old Notes for New Notes in the exchange offer, your Old Notes will remain subject to the restrictions on transfer of such Old Notes:

as set forth in the legend printed on the Old Notes as a consequence of the issuance of the Old Notes pursuant to the exemptions from the registration requirements of the Securities Act; and

as otherwise set forth in the offering memorandum distributed in connection with the private offering of such Old Notes.

In general, you may not offer or sell your Old Notes unless they are registered under the Securities Act or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the Old Notes under the Securities Act.

Exchange Agent

The Bank of New York Mellon Trust Company, N.A. has been appointed as the exchange agent for the exchange offer. All executed letters of transmittal and other required documents should be directed to the exchange agent at the address set forth below. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should be directed to the exchange agent, addressed as follows:

Deliver To:

The Bank of New York Mellon Trust Company, N.A., as Exchange Agent

c/o Bank of New York Mellon Corporation

Corporate Trust Operations Reorganization Unit

101 Barclay Street, Floor 7 East

New York, NY 10286

Attn: David Mauer

Facsimile Transmissions:

(212) 298-1915

To Confirm by Telephone

or for Information:

(212) 815-3687

Delivery to an address other than as listed above or transmission of instructions via facsimile other than as listed above does not constitute a valid delivery.

Fees and Expenses

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We have not retained any dealer-manager or similar agent in connection with the exchange offer. We will not pay any additional compensation to any of our officers and employees who engage in soliciting tenders. We will not make any payment to brokers, dealers, or others soliciting acceptances of the exchange offer. However, we will pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection with the exchange offer.

The estimated cash expenses to be incurred in connection with the exchange offer, including legal, accounting, SEC filing, printing and exchange agent expenses, will be paid by us and are estimated in the aggregate to be approximately \$400,000.

Transfer Taxes

Holders who tender their Old Notes for exchange will not be obligated to pay any transfer taxes in connection therewith, except that holders who instruct us to register New Notes in the name of, or request that Old Notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer tax thereon.

Resale of the New Notes

Under existing interpretations of the staff of the SEC contained in several no-action letters to third parties, the New Notes would in general be freely transferable after the exchange offer without further registration under the Securities Act. The relevant no-action letters include the Exxon Capital Holdings Corporation letter, which was made available by the SEC on May 13, 1988, and the Morgan Stanley & Co. Incorporated letter, made available on June 5, 1991.

However, any purchaser of Old Notes who is an affiliate of SAIC or who intends to participate in the exchange offer for the purpose of distributing the New Notes:

- (1) will not be able to rely on the interpretation of the staff of the SEC,
- (2) will not be able to tender its Old Notes in the exchange offer, and
- (3) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the Notes unless that sale or transfer is made using an exemption from those requirements.

By executing, or otherwise becoming bound by, the Letter of Transmittal each holder of Old Notes will represent that:

- (1) it is not our affiliate,
- (2) any New Notes to be received by it were acquired in the ordinary course of its business, and
- (3) it has no arrangement or understanding with any person to participate, and is not engaged in and does not intend to engage, in the distribution, within the meaning of the Securities Act, of the New Notes.

In addition, in connection with any resales of New Notes, any broker-dealer participating in the exchange offer who acquired securities for its own account as a result of market-making or other trading activities must deliver a prospectus meeting the requirements of the Securities Act. The SEC has taken the position in the Shearman & Sterling no-action letter, which it made available on July 2, 1993, that participating broker-dealers may fulfill their prospectus delivery requirements with respect to the New Notes, other than a resale of an unsold allotment from the original sale of the Old Notes, with the prospectus contained in the exchange offer registration statement. Under the registration rights agreements, we have agreed to allow participating broker-dealers and other persons, if any, subject to similar prospectus delivery requirements to use this prospectus as it may be amended or supplemented from time to time, in connection with the resale of New Notes during the period required under the Securities Act.

MATERIAL UNITED STATES TAX CONSEQUENCES OF THE EXCHANGE OFFER

The exchange of the Old Notes for New Notes in the exchange offer will not result in any United States federal income tax consequences to holders. When a holder exchanges an Old Note for a New Note in the exchange offer, the holder will have the same adjusted basis and holding period in the New Note as in the Old Note immediately before the exchange.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the exchange offer by employee benefit plans that are subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (ERISA), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the Code), or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA (collectively, Similar Laws), and entities whose underlying assets are considered to include plan assets of any such plan, account or arrangement (each, a Plan).

General Fiduciary Matters

ERISA imposes certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an ERISA Plan), and ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA, any person who exercises any discretionary authority or control over the administration of an ERISA Plan, who manages or controls the assets of an ERISA Plan, or who renders investment advice for a fee or other compensation to an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering exchanging Old Notes for New Notes with a portion of the assets of any Plan, a fiduciary should determine whether the transaction is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code and any other applicable Similar Laws, including, without limitation, prudence, diversification and delegation of control provisions.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are parties in interest, within the meaning of ERISA, or disqualified persons, within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition or holding of notes (or exchange notes) by an ERISA Plan with respect to which we or an initial purchaser is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or PTCEs, that may apply to the acquisition or holding of the Note. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more and receives no less than adequate consideration in connection with the transaction. There can be no assurance that any such statutory or class exemptive relief will be available with respect to the exchange of Old Notes for New Notes.

Because of the foregoing, the Old Notes should not be exchanged for New Notes by any person investing plan assets of any Plan, unless such transaction will not constitute a non-exempt prohibited transaction under ERISA and Section 4975 of the Code or a similar violation of any applicable Similar Laws.

Representation

Accordingly, by exchanging an Old Note for a New Note, each purchaser and subsequent transferee will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Notes or any interest therein constitutes the assets of any Plan or (ii) neither the exchange of Old Notes for New Notes nor the holding or disposition of the New Notes by such purchaser or transferee will result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering exchanging Old Notes for New Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the transaction. Persons exchanging Old Notes for New Notes have exclusive responsibility for ensuring that the exchange does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any Similar Laws. The participation of any Plan in the exchange of the Old Notes for the New Notes is in no respect a representation by us or any of our affiliates or representatives that such a transaction is appropriate for, or meets all relevant legal requirements with respect to investments by, any such Plan generally or any particular Plan.

PLAN OF DISTRIBUTION

Each broker-dealer that receives New Notes for its own account in the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of up to 90 days after the expiration date, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any resale of New Notes received by it in exchange for Old Notes. In addition, until _____, 2011, all dealers effecting transactions in the New Notes may be required to deliver a prospectus.

We will not receive any proceeds from any sale of New Notes by broker-dealers.

New Notes received by broker-dealers for their own account in the exchange offer may be sold from time to time in one or more transactions:

in the over-the-counter market,

in negotiated transactions,

through the writing of options on the New Notes, or

a combination of those methods of resale,
at market prices prevailing at the time of resale, at prices related to prevailing market prices or negotiated prices.

Any resale may be made:

directly to purchasers, or

to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any broker-dealer or the purchasers of any New Notes.

Any broker-dealer that resells New Notes that were received by it for its own account in the exchange offer and any broker or dealer that participates in a distribution of those New Notes may be considered to be an underwriter within the meaning of the Securities Act. Any profit on any resale of those New Notes and any commission or concessions received by any of those persons may be considered to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be considered to admit that it is an underwriter within the meaning of the Securities Act.

For the period described above, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests those documents in the letter of transmittal. We have agreed to pay all expenses incident to the exchange offer, including the expenses of one counsel for the holders of the Notes, other than commissions or concessions of any broker-dealers and will indemnify the holders of the Notes, including any broker-dealers, against some liabilities, including liabilities under the Securities Act.

VALIDITY OF NEW NOTES AND RELATED GUARANTEE

Davis Polk & Wardwell LLP, Menlo Park, California will opine for us on whether the New Notes and the guarantee of the New Notes are valid and binding obligations of SAIC and Science Applications, the subsidiary guarantor.

EXPERTS

The consolidated financial statements of SAIC and Science Applications as of January 31, 2011 and 2010, and for each of the three years in the period ended January 31, 2011 included in this prospectus, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein (which reports express an unqualified opinion on the consolidated financial statements and for which the SAIC report includes an explanatory paragraph referring to a change in method of recognizing pension expense). Such consolidated financial statements have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-4 under the Securities Act of 1933, as amended, (Registration No. 333-). This prospectus, which is a part of the registration statement, does not contain all of the information included in the registration statement. For further information regarding SAIC, Science Applications and the exchange offer, please refer to the registration statement, including its exhibits.

SAIC files annual, quarterly and current reports, proxy statements and other information with the SEC. Science Applications is not currently subject to the informational requirements of the Exchange Act. As a result of the exchange offer, Science Applications will become subject to the informational requirements of the Exchange Act, and accordingly, will file reports and other information with the SEC. You may read and copy any document that we file at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at <http://www.sec.gov>, from which interested persons can electronically access such information.

SAIC, INC.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

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UNAUDITED INTERIM FINANCIAL STATEMENTS

SAIC, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

SAIC, Inc.

McLean, Virginia

We have audited the accompanying consolidated balance sheets of SAIC, Inc. and subsidiaries (the Company) as of January 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended January 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SAIC, Inc. and subsidiaries as of January 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on February 1, 2011, the Company has elected to change its method of recognizing pension expense.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 31, 2011 based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2011 (not presented herein) expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California

March 25, 2011

(September 18, 2011 as to the effects of the change in pension accounting, the effects of the change in segments, the effects of discontinued operations, legal proceedings, and other commitments and contingencies discussed in Notes 1, 17, 18, 19, and 20, respectively)

SAIC, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended January 31		
	2011	2010 as adjusted	2009
	(in millions, except per share amounts)		
Revenues	\$ 10,921	\$ 10,580	\$ 9,768
Costs and expenses:			
Cost of revenues	9,476	9,151	8,464
Selling, general and administrative expenses	498	593	557
Operating income	947	836	747
Non-operating income (expense):			
Interest income	2	2	20
Interest expense	(79)	(76)	(78)
Other income (expense), net	2	6	(15)
Income from continuing operations before income taxes	872	768	674
Provision for income taxes	(314)	(289)	(246)
Income from continuing operations	558	479	428
Discontinued operations (Note 18):			
Income from discontinued operations before income taxes	89	24	1
Benefit (provision) for income taxes	(28)	(7)	17
Income from discontinued operations	61	17	18
Net income	\$ 619	\$ 496	\$ 446
Earnings per share (Note 2):			
Basic:			
Income from continuing operations	\$ 1.48	\$ 1.20	\$ 1.05
Income from discontinued operations	.17	.05	.05
	\$ 1.65	\$ 1.25	\$ 1.10
Diluted:			
Income from continuing operations	\$ 1.48	\$ 1.19	\$ 1.03
Income from discontinued operations	.16	.04	.05
	\$ 1.64	\$ 1.23	\$ 1.08

See accompanying combined notes to consolidated financial statements.

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SAIC, INC.

CONSOLIDATED BALANCE SHEETS

	January 31	
	2011	2010
	as adjusted	
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,367	\$ 861
Receivables, net	2,069	2,013
Inventory, prepaid expenses and other current assets	382	282
Assets of discontinued operations	49	56
Total current assets	3,867	3,212
Property, plant and equipment, net	359	387
Intangible assets, net	211	105
Goodwill	1,664	1,420
Deferred income taxes	51	103
Other assets	71	68
	\$ 6,223	\$ 5,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,205	\$ 1,172
Accrued payroll and employee benefits	511	491
Notes payable and long-term debt, current portion	3	3
Liabilities of discontinued operations	29	40
Total current liabilities	1,748	1,706
Notes payable and long-term debt, net of current portion	1,849	1,103
Other long-term liabilities	135	195
Commitments and contingencies (Notes 15, 19 and 20)		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 10 million shares authorized at January 31, 2011 and 2010, no shares issued and outstanding at January 31, 2011 and 2010		
Common stock, \$.0001 par value, 2 billion shares authorized, 362 million and 388 million shares issued and outstanding at January 31, 2011 and 2010, respectively		
Additional paid-in capital	2,090	2,096
Retained earnings	408	212
Accumulated other comprehensive loss	(7)	(17)
Total stockholders' equity	2,491	2,291
	\$ 6,223	\$ 5,295

See accompanying combined notes to consolidated financial statements.

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SAIC, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME**

	Shares		Additional paid-in capital	Retained earnings as adjusted	Accumulated other comprehensive loss	Total	Comprehensive Income
	Common stock	Preferred stock					
	(in millions)						
Balance at January 31, 2008	179	234	\$ 1,804	\$ 67	\$ (3)	\$ 1,868	
Net income				446		446	\$ 446
Other comprehensive loss, net of tax					(21)	(21)	(21)
Issuances of stock		24	235			235	
Repurchases of stock	(20)	(11)	(239)	(356)		(595)	
Conversion of preferred stock to common stock	51	(51)					
Adjustments for income tax benefits from stock-based compensation			56			56	
Stock-based compensation			94			94	
Balance at January 31, 2009	210	196	1,950	157	(24)	2,083	\$ 425
Net income				496		496	\$ 496
Other comprehensive income, net of tax					7	7	7
Issuances of stock	3	13	177			177	
Repurchases of stock	(28)	(6)	(173)	(441)		(614)	
Conversion of preferred stock to common stock	203	(203)					
Adjustments for income tax benefits from stock-based compensation			36			36	
Stock-based compensation			106			106	
Balance at January 31, 2010	388		2,096	212	(17)	2,291	\$ 503
Net income				619		619	\$ 619
Other comprehensive income, net of tax					10	10	10
Issuances of stock	9		83			83	
Repurchases of stock	(35)		(202)	(423)		(625)	
Adjustments for income tax benefits from stock-based compensation			11			11	
Stock-based compensation			102			102	
Balance at January 31, 2011	362		\$ 2,090	\$ 408	\$ (7)	\$ 2,491	\$ 629

See accompanying combined notes to consolidated financial statements.

SAIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended January 31		
	2011	2010 as adjusted	2009
	(in millions)		
Cash flows from continuing operations:			
Net income	\$ 619	\$ 496	\$ 446
Income from discontinued operations	(61)	(17)	(18)
Adjustments to reconcile net income to net cash provided by continuing operations:			
Depreciation and amortization	110	90	88
Stock-based compensation	100	103	91
Excess tax benefits from stock-based compensation	(11)	(36)	(56)
Impairment losses	4	7	29
Other items	(4)	(7)	(3)
Increase (decrease) in cash and cash equivalents, excluding effects of acquisitions and divestitures, resulting from changes in:			
Receivables	(13)	(110)	3
Inventory, prepaid expenses and other current assets	(29)	54	