Science Applications International Corporation
An Employee-Owned Company

VIA FEDERAL EXPRESS

17 November 1994

mb:aoreg.ltr

Office of the General Counsel
Federal Election Commission
999 E Street NW
Washington, DC 20463

RE: Request for Advisory Opinion AOR 1994-36

Dear Sir or Madam:

Science Applications International Corporation (SAIC) hereby submits a request for an advisory opinion from the Federal Election Commission pursuant to 11 CFR Section 112. The issue upon which we request the Commission's opinion is whether federal law and regulations permit SAIC to solicit contributions to a separate segregated fund (SSF) we are about to form from employees who are beneficial stockholders.

SAIC is in the process of establishing an SSF as permitted by federal law and regulations and we are reviewing Commission regulations regarding which employees may be solicited for contributions to the SSF. We have also met with Lisa Stolaruk and Commissioner McGary to obtain guidance for this effort.

We note that 11 CFR Section 114.5(a)(1) permits a corporation to solicit its stockholders and their families on an unlimited basis as well as its executive and administrative personnel as defined by Commission regulations. SAIC is the largest U.S. employee-owned high technology company and has approximately 15,300 current employees who are beneficial owners of SAIC stock directly and through various company plans. Many of these individuals would not qualify under the Commission's definition of executive or administrative personnel pursuant to 11 CFR 114.1(c) and thus the Commission's guidance on whether non-qualified personnel may be solicited would be helpful to our planning efforts.

Section 114.1(h) defines stockholders according to three (3) criteria as those possessing: (1) a "vested beneficial interest" in the stock; (2) voting rights if it is voting stock; and (3) the right to receive dividends. Commission Advisory Opinion 1988-19 reviewed these criteria as they applied to Ashland Oil's employee stock ownership plan and concluded that employee stockholders who were otherwise ineligible for solicitation could be solicited based on the facts and documentation submitted by Ashland. Although it would appear that Ashland's situation is analogous to SAIC, we intend to comply strictly with FEC regulations and therefore set forth information about our stock program as Attachment A to this letter.

We look forward to receiving the Commission's opinion. Please call me at (703) 556-7236, if you require further information.

Sincerely,

Susan M. Frank

Susan M. Frank
Corporate Counsel

Attachments

cc: J.D. Heipt
D.E. Scott
Jay Killeen

Attachment A

OVERVIEW OF SAIC STOCK OWNERSHIP PROGRAMS

Since its inception, SAIC ("the Company") has followed a policy of remaining essentially employee owned. As a result, there is no public market for any of the Company's securities. In order to provide liquidity for its stockholders, the Company established a wholly-owned subsidiary, Bull, Inc., which was organized in 1973 to create a limited market for SAIC stockholders. The limited market permits existing stockholders to sell and approved buyers to buy stock on four predetermined trade days a year.

Approximately 90% of the Company's 17,000 employees (approximately 15,300) own stock in the Company, either directly or indirectly through their participation in the Company's retirement plans. As of October 1, 1994, approximately 91% of the Company's stock was held either directly or indirectly by the Company's employees, directors, officers, and consultants, with the remainder held by former affiliates of the Company.

Employees may acquire stock in the Company through a variety of methods. Employees may purchase stock directly on the limited market. Employees may acquire stock through a variety of bonus and other programs by which they may acquire options to purchase stock, shares of fully vested stock or stock which vests over a period of time. Employees may also participate in the Employee Stock Purchase Plan, which is a voluntary payroll withholding plan. Finally, employees may acquire stock through participation in various retirement plans offered by the Company. These plans include the Employee Stock Ownership Plan (a stock-based retirement plan) and the Cash or Deferred Arrangement (a 401(k) plan).

The Company's stock has the following rights:

Beneficial rights: The majority of shares are subject to a right of repurchase upon termination of employment or affiliation of the stockholder. The shares are repurchased at the formula price in effect on the termination date. The majority of shares are also subject to a right of first refusal in favor of the Company on proposed transfers of stock.

Voting rights: Stockholders may vote their stock on all matters brought before the stockholders or on all matters which require the approval of the stockholders of the Company. Each holder of Class A Common Stock is entitled to one vote per share. For stock held in the Company's retirement plans, participants may instruct the Trustee of the plans how to vote the stock allocated to their account.

Dividends: The stockholders of the Company are eligible to receive dividends if and when declared. However, the Company has never declared or paid dividends and none are contemplated for the foreseeable future. The Company's intention is to retain future earnings for use in its business.

We hope this information is sufficient and enclose a copy of SAIC's most recent Prospectus for more detailed information on SAIC's stock.

No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Selling Stockholders. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create an implication that the information contained herein is correct as of any time subsequent to the date hereof. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

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PROSPECTUS

28,360,000 Shares of Class A Common Stock

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

Of the 28,360,000 shares of Class A Common Stock, par value $.01 per share, of the Company (the "Class A Common Stock") offered hereby, 28,151,000 shares may be offered and sold by the Company and 209,000 shares may be offered and sold by certain directors of the Company (the "Selling Stockholders"). See "Securities Offered by the Prospectus." The Company will not receive any portion of the net proceeds from the sale of shares by the Selling Stockholders.

The 28,151,000 shares of Class A Common Stock offered by the Company are anticipated to be offered as follows: (i) 3,000,000 shares may be offered and sold by the Company (including shares sold by stockholders through the limited market maintained by Bull, Inc. (the "Limited Market"), the sale of which may be attributed to the Company) to present and future employees, consultants and directors and to the trustees for the benefit of employees of certain subsidiaries of the Company under their retirement plans; (ii) 50,000 shares may be issued and delivered to a trustee for the benefit of employees under the Company's Profit Sharing Retirement Plan II; (iii) 1,500,000 shares may be issued and delivered to a trustee for the benefit of employees under the Company's Employee Stock Ownership Plan; (iv) 2,250,000 shares may be issued and delivered to a trustee for the benefit of employees under the Company's Cash or Deferred Arrangement; (v) 1,000,000 shares may be awarded to employees and directors under the Company's 1984 Bonus Compensation Plan; (vi) 600,000 shares may be issued and delivered to a trustee for the benefit of employees under the Company's Stock Compensation Plan and Management Stock Compensation Plan; (vii) 441,000 shares may be offered and sold to a trustee or agent for the benefit of employees under the Company's 1993 Employee Stock Purchase Plan; and (viii) 19,310,000 shares may be issued upon the exercise of options granted and available to be granted under the Company's 1982 and 1992 stock option plans. The foregoing allocation of the total shares offered by the Company represents the Company's current anticipated use of such shares and is provided for illustrative purposes only. The actual number of shares offered and sold by the Company under each category may exceed or be less than the indicated number. All of the shares of Class A Common Stock offered hereby will be subject to certain restrictions (including restrictions on their transferability) set forth in the Company's Certificate of Incorporation (the "Certificate of Incorporation") and may be subject to certain other contingencies. See "Securities Offered by the Prospectus," "Employee Benefit Plans" and "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock." The Selling Stockholders and all other stockholders (other than the Company) will pay a commission to Bull, Inc., a wholly-owned subsidiary of the Company, equal to two percent of the proceeds from the sale of shares of Class A Common Stock sold by them in the Limited Market. Bull, Inc. is a registered broker-dealer whose business is limited to effecting purchases and sales of the Company's securities. See "Market Information — The Limited Market."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The purchase price of the shares of Class A Common Stock offered hereby, other than those shares issuable upon exercise of options or awarded under the Company's 1984 Bonus Compensation Plan, the Management Stock Compensation Plan or the Stock Compensation Plan, will be the formula price described below (the "Formula Price"). The Formula Price is reviewed four times each year, generally in conjunction with Board of Directors meetings which are currently scheduled for April, July, October and January and is subject to the limitation that in no case may it be less than 90% of the net book value per share of Class A Common Stock at the end of the quarter immediately preceding the date on which a price revision is to occur. The price applicable to shares of Class B Common Stock, par value $.05 per share, of the Company (the "Class B Common Stock") will be equal to five times the Formula Price. The Formula Price is determined according to the following formula (the "Formula"): the price per share is equal to the sum of (i) a fraction, the numerator of which is the stockholders' equity of the Company at the end of the fiscal quarter immediately preceding the date on which a price revision is to occur ("E") and the denominator of which is the number of outstanding common shares and common share equivalents at the end of that fiscal quarter ("W_1"), and (ii) a fraction, the numerator of which is 5.66 multiplied by the market factor ("M" or "Market Factor"), multiplied by the earnings of the Company for the four fiscal quarters immediately preceding the price revision ("P"), and the denominator of which is the weighted average number of outstanding common shares and common share equivalents for those four fiscal quarters, as used by the Company in computing primary earnings per share ("W"). The number of outstanding common shares and common share equivalents described above assumes the conversion of each share of Class B Common Stock into five shares of Class A Common Stock. The 5.66 multiplier is a constant which was first included in the Formula in March 1976. The Market Factor is a numerical factor which is intended to reflect existing securities market conditions relevant to the valuation of the Class A Common Stock and the Class B Common Stock. The Market Factor is generally reviewed quarterly by the Board of Directors in conjunction with an appraisal which is prepared by an independent appraisal firm for the committee administering the Company's qualified retirement plans (the "Committee") and which is relied upon by the Committee and the Board of Directors. See "Market Information — Price Range of Class A Common Stock and Class B Common Stock." Since January 14, 1994, the Market Factor has been 1.5. Prior thereto and since April 12, 1991, the Market Factor was 1.4. Subject to the limitation set forth above, the Formula Price of the Class A Common Stock, expressed as an equation, is as follows:

$$\textit{Formula Price} = \frac{E}{W_1} + \frac{5.66MP}{W}$$

On April 9, 1994, the Formula Price was $14.46, and the price for the Class B Common Stock was $72.30.

The date of this Prospectus is April 22, 1994

AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission (the "SEC" or "Commission"), Washington, D.C., a Registration Statement under the Securities Act of 1933 (the "Securities Act") with respect to the securities offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits thereto. For further information, reference is made to such Registration Statement and exhibits. Statements contained in this Prospectus as to any contract, plan or other document are not necessarily complete and in each instance reference is made to the copy of such contract, plan or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. Copies of the Registration Statement and the exhibits thereto may be inspected without charge at the offices of the Commission listed below, and copies of all or any part thereof may be obtained from the Commission upon payment of prescribed fees.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In accordance with the requirements of the Exchange Act, the Company files with the Commission, reports, proxy statements and other information which can be inspected and copied at the offices of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661-2511; and 75 Park Place, New York, New York 10007. Copies of such materials can be obtained at prescribed rates from the Commission's Public Reference Section, Washington, D.C. 20549.

INFORMATION INCORPORATED BY REFERENCE

The following documents, each of which has been filed by the Company with the Commission pursuant to the Exchange Act, are incorporated herein by reference:

(i) the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1994 (the "1994 10-K");

(ii) the Annual Reports of the Company's Employee Stock Purchase Plan for the plan year ended January 31, 1994 and the Company's Cash or Deferred Arrangement for the plan year ended December 31, 1993, which are filed as exhibits to the 1994 10-K; and

(iii) The Company's Form 8-K Report dated February 18, 1994.

In addition, all documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of this offering shall be deemed to be incorporated herein by reference.

The Company undertakes to provide, without charge, to any person to whom a copy of this Prospectus is delivered, upon the written or oral request of such person, a copy of any document incorporated by reference into this Prospectus, without exhibits (unless such exhibits are incorporated by reference into such documents). Requests for such copies should be directed to: Science Applications International Corporation, 10260 Campus Point Drive, San Diego, California 92121, Attention: Corporate Secretary (telephone (619) 535-7323).

THE COMPANY

The Company provides diversified professional and technical services ("Technical Services") to and designs, develops and manufactures high-technology products ("Products") for its customers. The Company's Technical Services and Products have primarily been sold to departments and agencies of the U.S. Government, including the Department of Defense ("DOD"), Department of Energy ("DOE"), Department of Transportation ("DOT"), Department of Veterans Affairs ("VA"), Environmental Protection Agency ("EPA") and National Aeronautics and Space Administration ("NASA"). Revenues generated from the sale of Technical Services and Products to the U.S. Government as a

prime contractor or subcontractor accounted for 88% of revenues in fiscal years 1994, 1993 and 1992. The balance of the Company's revenues are attributable to the sales of Technical Services and Products to foreign governments, commercial customers and others.

The percentage of revenues attributable to Technical Services and Products has remained relatively constant at approximately 92% and 8%, respectively, for fiscal years 1994, 1993 and 1992. Within Technical Services, revenues are further classified between "National Security" "Environment," "Energy" and "Other Technical Services," the latter of which includes the Company's health, space, transportation and commercial information technology business areas. The percentage of Technical Services revenues attributable to National Security related work has declined gradually as a percentage of total revenues and was 50% of Technical Services revenues for fiscal year 1994. For fiscal year 1994, the Environment, Energy and other Technical Services business areas accounted for 15%, 9% and 17%, respectively, of total revenues.

The Company's principal executive offices are located at 10260 Campus Point Drive, San Diego, California 92121, telephone (619) 546-6000. As used in this Prospectus, all references to the Company include, unless the context indicates otherwise, Science Applications International Corporation and its predecessor and subsidiary corporations.

GOVERNMENT CONTRACTS

Many of the U.S. Government programs in which the Company participates as a contractor or subcontractor may extend for several years; however, such programs are normally funded on an annual basis. All U.S. Government contracts and subcontracts may be modified, curtailed or terminated at the convenience of the government if program requirements or budgetary constraints change. In the event that a contract is terminated for convenience, the Company would be reimbursed for its allowable costs through the date of termination and would be paid a proportionate amount of the stipulated profit or fee attributable to the work actually performed.

Termination or curtailment of major programs or contracts of the Company, particularly in research and development, could have a material adverse effect on the results of the Company's operations. Although such contract and program terminations have not had a material adverse effect on the Company in the past, no assurance can be given that curtailments or terminations of U.S. Government programs or contracts will not have a material adverse effect on the Company in the future.

The Company's business with the U.S. Government and other customers is generally performed under cost-reimbursement, time-and-materials, fixed-price level-of-effort or firm fixed-price contracts. Under cost-reimbursement contracts, the customer reimburses the Company for its direct costs and allocable indirect costs, plus a fixed fee or incentive fee. Under time-and-materials contracts, the Company is paid for labor hours at negotiated hourly rates and reimbursed for other allowable direct costs at actual costs plus allocable indirect costs. Under fixed-price level-of-effort contracts, the customer pays the Company for the actual labor hours provided to the customer, at negotiated hourly rates. Under firm fixed-price contracts, the Company is required to provide stipulated products, systems or services for a fixed price. Because the Company assumes the risk of performing a firm fixed-price contract at the stipulated price, the failure to accurately estimate ultimate costs or to control costs during performance of the work could result, and in some instances has resulted, in losses. During the fiscal years ended January 31, 1994, 1993 and 1992, approximately 65%, 62% and 62%, respectively, of Technical Services revenues were derived from cost-reimbursement type contracts and 12%, 16% and 22%, respectively, of the Technical Services revenues were from firm fixed-price type contracts with the balance from time-and-materials and fixed-price level-of-effort type contracts. In contrast, the majority of Products revenues is derived from firm fixed-price type contracts.

Any costs incurred by the Company prior to the execution of a contract or contract amendment are incurred at the Company's risk, and it is possible that such costs will not be reimbursed by the customer. Unbilled receivables in this category which were included in the Technical Services segment contract revenues at January 31, 1994 were $16,047,000. Unbilled receivables in this category which

were included in the Products segment contract revenues at January 31, 1994 were $181,000. Although no assurance can be given that the contracts or contract amendments will be received or that the related costs will be recovered, the Company expects to recover substantially all such costs.

Contract costs for services or products supplied to the U.S. Government, including allocated indirect costs, are subject to audit and adjustments by negotiations between the Company and U.S. Government representatives. Indirect contract costs have been agreed upon through the fiscal year ended January 31, 1990. Contract revenues for subsequent years have been recorded in amounts which are expected to be realized upon final settlement. However, no assurance can be given that audits and adjustments for subsequent years will not result in decreased revenues or profits for those years.

The Company is from time to time subject to certain Government inquiries and investigations of its business practices. The Company does not anticipate any action as a result of such inquiries and investigations which would have a material adverse effect on its consolidated financial position or results of operations or its ability to conduct business. On February 15, 1994, the Company was served with search warrants and a subpoena for documents and records associated with the performance by an operating unit of the Company under three contracts with the DOD. The search warrants and the subpoena state that the Government is seeking evidence regarding the making of false statements and false claims to the DOD, as well as conspiracy to commit such offenses. The Company has not been apprised of the details that the Government is investigating nor has it been charged with any wrongdoing. Accordingly, the Company is unable to assess the impact, if any, of this investigation on its consolidated financial position, results of operations or ability to conduct business. For additional information concerning the investigation, reference is made to the Form 8-K Report filed by the Company on February 18, 1994 with the SEC, which Form 8-K Report is incorporated herein by reference.

SECURITIES OFFERED BY THE PROSPECTUS

Class A Common Stock Offered by the Company

The shares of Class A Common Stock offered by the Company may be offered directly or contingently to present and future employees, consultants and directors of the Company or pursuant to the employee benefit plans of the Company or its subsidiaries as described below. The Company believes that its success is principally dependent upon the abilities of its employees, consultants and directors. Therefore, since its inception, the Company has pursued a policy of offering such persons an opportunity to make an equity investment in the Company as an inducement to such persons to become or remain employed by or affiliated with the Company.

Direct and Contingent Sales to Employees, Consultants, Directors and Certain Subsidiary Retirement Plans

At the discretion of the Board of Directors or the Operating Committee of the Board of Directors (the "Operating Committee"), employees, directors and consultants may be offered an opportunity to purchase in the Limited Market a specified number of the shares of Class A Common Stock offered hereby. All such direct and contingent sales to employees, directors and consultants are effected through the Limited Market and may be attributed to the Company. Pursuant to the Certificate of Incorporation, all shares of Class A Common Stock offered by the Company, directly or contingently, to its employees, consultants or directors are subject to a right of first refusal and a right of repurchase upon termination of employment or affiliation. See "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock." In addition, the trustees of certain retirement plans of subsidiaries of the Company may purchase shares in the Limited Market on behalf of plan participants, which sales may be attributable to the Company.

Profit Sharing Retirement Plan II

The Company maintains a profit sharing retirement plan (the "Profit Sharing Retirement Plan II") which is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as

amended (the "Code"). Generally, employees of eligible groups within the Company who have attained the age of 21, completed 12 months of employment and completed 850 hours of service with the Company during one of the applicable 12-month computational periods are eligible to participate as of the next semi-annual entry date. Interests of participants in the Profit Sharing Retirement Plan II vest in accordance with a vesting schedule and other vesting rules set forth in the Plan. Benefits are payable to a participant in cash within certain specified time periods following such participant's retirement, permanent disability, death or other termination of employment. The amount of the Company's annual contribution to the Profit Sharing Retirement Plan II is determined by, and within the discretion of, the Board of Directors and may be in the form of cash or Class A Common Stock. To the extent permitted under the rules of the committee administering the Plan, each participant may designate that up to 20% of the Company's contributions allocated to his or her account be invested in securities of the Company. See "Employee Benefit Plans — Profit Sharing Retirement Plan II."

Employee Stock Ownership Plan

The Company maintains an employee stock ownership plan (the "Employee Stock Ownership Plan") which is a stock bonus retirement plan intended to be qualified under Section 401(a) of the Code. Generally, employees who have attained the age of 21, completed 12 months of employment and completed 850 hours of service with the Company during one of the applicable 12-month computational periods are eligible to participate as of the next semi-annual entry date, except employees of groups or units designated as ineligible. Interests of participants in the Employee Stock Ownership Plan vest in accordance with a vesting schedule and other vesting rules set forth in the Plan. Each participant, however, is at all times 100% vested in any amounts transferred from the Cash or Deferred Arrangement. Benefits are generally payable to a participant in cash, unless the participant elects, subject to requirements and limitations set forth in the Employee Stock Ownership Plan, to receive a distribution in shares of stock, and are payable within certain specified time periods following such participant's retirement, permanent disability, death or other termination of employment. The amount of the Company's annual contribution to the Employee Stock Ownership Plan is determined by, and within the discretion of, the Board of Directors and may be in the form of cash or Class A Common Stock. Pursuant to the Employee Stock Ownership Plan and the Certificate of Incorporation, any shares of Class A Common Stock distributed out of the Employee Stock Ownership Plan will be subject to a right of first refusal on behalf of the Company and the Employee Stock Ownership Plan, but will not be subject to the Company's right of repurchase upon termination of employment or affiliation. See "Employee Benefit Plans — Employee Stock Ownership Plan" and "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock."

Cash or Deferred Arrangement

The Company maintains a Cash or Deferred Arrangement (the "CODA") which is intended to be qualified under Sections 401(a) and (k) of the Code. Generally, all employees are eligible to participate, except for employees of groups or units designated as ineligible. The CODA permits a participant to elect to defer, for federal income tax purposes, a portion of his or her annual compensation and to have such amount contributed directly by the Company to the CODA for his or her benefit. The Company may, but is not obligated to, make a matching contribution for the benefit of those participants who have elected to defer a portion of their compensation. The amount of the matching contribution currently is equal to 30% of the first $2,000 and 15% of amounts above $2,000 which participants have elected to defer in that year. No matching contribution is provided on amounts deferred in excess of 10% of a participant's compensation. Further, employees of certain participating groups or units have been designated as ineligible to receive a matching contribution. The Company may also make additional contributions in order to comply with Section 401(k) of the Code. The Company's contributions to the CODA are made in cash unless the Board of Directors determines to make the contributions in shares of Class A Common Stock or some other form. Each participant is at all times 100% vested in his or her CODA account. Benefits are payable to a participant in cash within certain specified time periods following such participant's retirement, permanent disability, death or other termination of employment. See "Employee Benefit Plans — CODA."

Bonus Compensation Plan

The Company maintains a bonus compensation plan (the "Bonus Compensation Plan") which provides for the payment of bonuses in cash and/or shares of Class A Common Stock to officers, directors and employees. Awards of shares of Class A Common Stock are distributed during each fiscal year and may be subject to forfeiture, in whole or in part, in the event of the termination of the recipient's employment or affiliation with the Company prior to the expiration of certain vesting periods as determined by the committee administering the Plan. Pursuant to the Certificate of Incorporation, all shares of Class A Common Stock awarded pursuant to the Bonus Compensation Plan will be subject to the Company's right of first refusal and the Company's right of repurchase upon termination of employment or affiliation. See "Employee Benefit Plans — Bonus Compensation Plan" and "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock."

Stock Compensation Plans

On April 9, 1994, the Company adopted the Stock Compensation Plan ("Stock Compensation Plan") and the Management Stock Compensation Plan ("Management Stock Compensation Plan"), together referred to as the "Stock Compensation Plans." The Stock Compensation Plans provide for awards of Share Units to eligible employees of the Company, which Share Units generally correspond to shares of Class A Common Stock which are held in a trust for the benefit of participants in the Stock Compensation Plans, but which are subject to claims of creditors of the Company in the event of the bankruptcy or insolvency of the Company. Awards under the Stock Compensation Plans are subject to forfeiture, in whole or in part, in the event of termination of the recipient's employment with the Company, commencement of a leave of absence from the Company (other than for disability, qualified military leave or qualified family medical leave) or conversion to consulting employee status prior to the expiration of applicable vesting periods as determined by the committee administering the Stock Compensation Plans. Pursuant to the Certificate of Incorporation, all shares of Class A Common Stock distributed from the trust associated with the Stock Compensation Plans will be subject to the Company's right of first refusal and the Company's right of repurchase upon termination of employment. See "Employee Benefit Plans — Stock Compensation Plans" and "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock."

Employee Stock Purchase Plan

The Company maintains the 1993 Employee Stock Purchase Plan (the "Stock Purchase Plan") for the benefit of substantially all of its employees. The Stock Purchase Plan provides for the purchase of Class A Common Stock through payroll deductions by participating employees and is intended to qualify under Section 423(b) of the Code. Participants contribute 95% of the purchase price of the Class A Common Stock and the Company contributes the remaining five percent. All shares purchased pursuant to the Stock Purchase Plan will be distributed within 90 days after the end of the plan year in which they were purchased and, pursuant to the Certificate of Incorporation, will be subject to the Company's right of first refusal and the Company's right of repurchase upon termination of employment or affiliation. The Stock Purchase Plan will expire on July 31, 1995. See "Employee Benefit Plans — 1993 Employee Stock Purchase Plan" and "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock."

Stock Option Plans

Pursuant to the Company's 1992 Stock Option Plan, the Company grants stock options to certain of its employees, consultants and directors. Although the Company's 1982 Stock Option Plan terminated on June 10, 1992 and no additional stock options can be granted under that Plan, certain stock options remain outstanding. Stock options under the 1992 Stock Option Plan may be granted contingent upon an employee or consultant obtaining a certain level of contract awards for the Company within a specified period or upon other performance criteria and, in many cases, a requirement that such individual also purchase a specified number of shares of Class A Common Stock in the Limited Market at the prevailing Formula Price. Pursuant to the Certificate of Incorporation, all shares of Class A Common Stock issuable upon the exercise of such stock options will be subject to the

Company's right of first refusal and the Company's right of repurchase upon termination of employment or affiliation. See "Employee Benefit Plans — Stock Option Plans" and "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock."

Class A Common Stock Offered by the Selling Stockholders

The Selling Stockholders may sell up to an aggregate of 209,000 shares of the Class A Common Stock being offered hereby in the Limited Market or otherwise. The Selling Stockholders will not be treated more favorably than other stockholders participating in the Limited Market and, like all stockholders selling shares in the Limited Market (other than the Company), will pay the Company's wholly-owned subsidiary, Bull, Inc., a commission equal to two percent of the proceeds from their sales. See "Market Information — The Limited Market." Pursuant to the Certificate of Incorporation, all of the shares of Class A Common Stock purchased in the Limited Market from the Selling Stockholders will be subject to the Company's right of first refusal and the Company's right of repurchase upon termination of employment or affiliation. See "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock."

The following table sets forth information as of March 14, 1994 with respect to the number of shares of Class A Common Stock owned by each Selling Stockholder (including shares issuable upon the exercise of outstanding stock options which are exercisable within 60 days of such date and shares allocated to such person's accounts as of such date under the Company's employee benefit plans) and as adjusted to reflect the sale of all shares of Class A Common Stock being offered hereby by such Selling Stockholder. The table does not give effect to the sale of any shares of Class A Common Stock being offered by the Company. Each of the Selling Stockholders has been a director and/or officer of the Company for the past three years. Except as indicated below, all the shares are owned of record and beneficially.

Name	Position	Ownership Prior to Offering	Number of Shares Offered	Ownership After Offering	
		Number of Shares		Number of Shares	Percent(1)
J.R. Beyster	Chairman of the Board and Chief Executive Officer	874,115(2)	40,000	834,115(2)	1.9%
V.N. Cook	Vice Chairman of the Board	46,190	20,000	26,190	*
S.J. Dalich	Director and Executive Vice President	95,653	15,000	80,653	*
E.A. Frieman	Director	36,706	10,000	26,706	*
D.A. Hicks	Director	12,814	5,000	7,814	*
L.A. Kull	Director, President and Chief Operating Officer	259,754(2)	4,000	255,754(2)	*
M.R. Laird	Director	38,659	10,000	28,659	*
W.M. Layson	Director and Senior Vice President	114,871(2)	10,000	104,871(2)	*
J.W. McRary	Vice Chairman of the Board and Executive Vice President	225,855	35,000	190,855	*
B.J. Shillito	Director	66,048(3)	5,000	61,048(3)	*
E.A. Straker	Director and Sector Vice President	111,561(2)	20,000	91,561(2)	*
J.H. Warner, Jr.	Director and Executive Vice President	138,153	25,000	113,153	*
J.A. Welch	Director and part-time employee	25,472	10,000	15,472	*
		2,045,851	209,000	1,836,851	4.2%

(1) Based upon the total number of outstanding shares of Class A Common Stock at March 14, 1994. Assuming that each outstanding share of Class B Common Stock is converted into five shares of Class A Common Stock, Dr. Beyster and all Selling Stockholders as a group would own 1.8% and 4.0%, respectively, after the offering.

(2) Includes shares owned of record by family members and/or trusts.

(3) Excludes 85,810 shares owned of record by family members and/or trusts that are not beneficially owned by Mr. Shillito.

* Represents less than one percent of the outstanding shares of Class A Common Stock at March 14, 1994.

The 209,000 shares of Class A Common Stock registered for sale by the Selling Stockholders listed above represent only the maximum number of shares that may be sold by such persons pursuant to this Prospectus. Of the 295,428 shares of Class A Common Stock offered by certain of the directors of the Company pursuant to the Company's previous Prospectus dated April 26, 1993, only 34,890 shares were actually sold by such persons.

MARKET INFORMATION

The Limited Market

Since its inception, the Company has followed a policy of remaining essentially employee owned. As a result, there has never been a general public market for any of the Company's securities. In order to provide liquidity for its stockholders, however, the Company has maintained a limited secondary market (the "Limited Market") through its wholly-owned subsidiary, Bull, Inc., which was organized in 1973 for the purpose of maintaining the Limited Market.

The Limited Market generally permits existing stockholders to sell shares of Class A Common Stock on four predetermined days each year (each a "Trade Date"). All shares of Class B Common

Stock to be sold in the Limited Market must first be converted into five times as many shares of Class A Common Stock. All sales are made at the prevailing Formula Price to employees, consultants and directors of the Company who have been approved by the Board of Directors or the Operating Committee as being entitled to purchase up to a specified number of shares of Class A Common Stock. In addition, the trustees of the Company's Profit Sharing Retirement Plan II, Employee Stock Ownership Plan, CODA, 1993 Employee Stock Purchase Plan, Stock Compensation Plans and certain retirement plans of the Company's subsidiaries may also purchase shares of Class A Common Stock for their respective trusts in the Limited Market. All sellers in the Limited Market (other than the Company) pay Bull, Inc. a commission equal to two percent of the proceeds from such sales. No commission is paid by purchasers in the Limited Market.

In the event that the aggregate number of shares offered for sale is greater than the aggregate number of shares sought to be purchased by authorized buyers and the Company, offers to sell 500 shares or less of Class A Common Stock or up to the first 500 shares if more than 500 shares of Class A Common Stock are offered by any seller will be accepted first. Offers to sell shares in excess of 500 shares of Class A Common Stock will be accepted on a pro-rata basis determined by dividing the total number of shares remaining under purchase orders by the total number of shares remaining under sell orders. If, however, there are insufficient purchase orders to support the primary allocation of 500 shares of Class A Common Stock for each proposed seller, then the purchase orders will be allocated equally among all of the proposed sellers up to the total number of shares offered for sale. To the extent that the aggregate number of shares sought to be purchased exceeds the aggregate number of shares offered for sale, the Company may, but is not obligated to, sell authorized but unissued shares of Class A Common Stock in the Limited Market.

The Company is currently authorized, but not obligated, to purchase up to 1,250,000 shares of Class A Common Stock in the Limited Market on any Trade Date, but only if and to the extent that the number of shares offered for sale by stockholders exceeds the number of shares sought to be purchased by authorized buyers and the Company, in its discretion, determines to make such purchases. The Company did not purchase shares in the Limited Market in fiscal year 1994. In fiscal year 1993, the Company purchased 54,559 shares in the Limited Market. The Company's purchases in fiscal year 1993 accounted for 2% of the total shares purchased by all buyers in the Limited Market during that year.

During the 1994 and 1993 fiscal years, the trustees of the Company's Profit Sharing Retirement Plan II, Employee Stock Ownership Plan, CODA and 1993 Employee Stock Purchase Plan purchased an aggregate of 1,824,077 shares and 1,808,961 shares, respectively, in the Limited Market. These purchases accounted for approximately 81% and 79% of the total shares purchased by all buyers in the Limited Market during fiscal years 1994 and 1993, respectively. Such purchases may change in the future, depending on the levels of participation in and contributions to such plans and the extent to which such contributions are invested in Class A Common Stock. To the extent that purchases by the trustees of the Company's employee benefit plans decrease and purchases by the Company do not increase, the ability of stockholders to resell their shares in the Limited Market will likely be adversely affected.

The Company received a no-action letter from the SEC (the "SEC Letter") that authorizes the Company and the Employee Stock Ownership Plan to commence on an annual basis, at the Company's discretion, a joint tender offer (a "Tender Offer") to purchase all shares of the Company's Class A Common Stock held by persons who are not directors, employees or consultants of the Company (or family members of, or trustees for, such employees, directors or consultants of the Company) as of the date the Tender Offer is commenced (the "Outside Stockholders"). Under current federal income tax laws, the Tender Offer, as structured, would allow Outside Stockholders who tender certain shares purchased by the Employee Stock Ownership Plan to defer the payment of federal income tax under Section 1042 of the Code on any capital gain derived from the sale, provided certain conditions are met.

The Company and the Employee Stock Ownership Plan have completed one Tender Offer pursuant to which the Employee Stock Ownership Plan purchased on November 20, 1992 an aggregate of 700,444 shares of Class A Common Stock from 186 Outside Stockholders. The Company has not yet determined whether it will commence a Tender Offer during calendar year 1994. There can be no assurance that a Tender Offer will be commenced in the future or, if commenced, that it will be completed. If a Tender Offer is undertaken in the future, the Company will be required to take certain actions to ensure that such Tender Offer does not negatively affect the liquidity of the Limited Market on the Trade Date upon which such Tender Offer is completed.

Price Range of Class A Common Stock and Class B Common Stock

The Formula set forth on the cover page of this Prospectus is used to determine the Formula Price at which the Class A Common Stock trades in the Limited Market. The Formula Price is reviewed at least four times each year, generally in conjunction with Board of Directors meetings which are currently scheduled for April, July, October and January, and is subject to the limitation that the price may not be less than 90% of the net book value per share of the Class A Common Stock at the end of the quarter immediately preceding the date on which the price revision is to occur. Pursuant to the Certificate of Incorporation, the price applicable to shares of Class B Common Stock is equal to five times the Formula Price.

The Formula Price is determined according to the following formula: the price per share is equal to the sum of (i) a fraction, the numerator of which is the stockholders' equity of the Company at the end of the fiscal quarter immediately preceding the date on which a price revision is to occur ("E") and the denominator of which is the number of outstanding common shares and common share equivalents at the end of such fiscal quarter ("W_1") and (ii) a fraction, the numerator of which is 5.66 multiplied by the market factor ("M" or "Market Factor"), multiplied by the earnings of the Company for the four fiscal quarters immediately preceding the price revision ("P"), and the denominator of which is the weighted average number of outstanding common shares and common share equivalents for those four fiscal quarters, as used by the Company in computing primary earnings per share ("W"). The number of outstanding common shares and common share equivalents described above assumes the conversion of each share of Class B Common Stock into five shares of Class A Common Stock. The 5.66 multiplier is a constant which was first included in the Formula in March 1976. The Market Factor is a numerical factor which is intended to reflect existing securities market conditions relevant to the valuation of the Class A Common Stock and the Class B Common Stock. The Market Factor is generally reviewed quarterly by the Board of Directors in conjunction with an appraisal which is prepared by an independent appraisal firm for the committee administering the Company's qualified retirement plans (the "Committee") and which is relied upon by the Committee and the Board of Directors. Subject to the limitation set forth above, the Formula Price of the Class A Common Stock, expressed as an equation, is as follows:

$$\textit{Formula Price} = \frac{E}{W_1} + \frac{5.66MP}{W}$$

The Formula was adopted in its present form by the Board of Directors on March 23, 1984 and became effective with the March 30, 1984 price revision. The Board of Directors has reviewed the Market Factor on a quarterly basis since that time. The Market Factor, as determined by the Board of Directors, remains in effect until subsequently changed by the Board of Directors.

The following table sets forth information concerning the Formula Price for the Class A Common Stock, the applicable price for the Class B Common Stock and the Market Factor in effect for the periods beginning on the dates indicated. There can be no assurance that the Class A Common Stock or the Class B Common Stock will in the future provide returns comparable to historical rates.

Date	Market Factor	Price Per Share of Class A Common Stock	Price Per Share of Class B Common Stock
April 10, 1992	1.4	$11.17	$55.85
July 10, 1992	1.4	$11.66	$58.30
October 9, 1992	1.4	$11.83	$59.15
January 8, 1993	1.4	$12.01	$60.05
April 9, 1993	1.4	$12.63	$63.15
July 9, 1993	1.4	$12.85	$64.25
October 8, 1993	1.4	$13.12	$65.60
January 14, 1994	1.5	$14.19	$70.95
April 9, 1994	1.5	$14.46	$72.30

The Board of Directors believes that the Formula results in a fair market value for the Class A Common Stock within a broad range of financial criteria. Other than the quarterly review and possible modification of the Market Factor, the Board of Directors will not change the Formula unless (i) in the good faith exercise of its fiduciary duties and after consultation with the Company's independent accountants as to whether the change would result in a charge to earnings upon the sale of Class A Common Stock or Class B Common Stock, the Board of Directors, including a majority of the directors who are not employees of the Company, determines that the Formula no longer results in a fair market value for the Class A Common Stock or (ii) a change in the Formula or the method of valuing the Class A Common Stock is required under applicable laws.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its capital stock and no cash dividends on the Class A Common Stock or Class B Common Stock are contemplated in the foreseeable future. The Company's present intention is to retain any future earnings for use in its business.

USE OF PROCEEDS

The shares of Class A Common Stock which may be offered by the Company are principally being offered to permit the continued acquisition of shares by the Company's employee benefit plans as described herein and to permit the Company to offer shares of Class A Common Stock to present and future employees, consultants and directors. The net proceeds to be received by the Company from the sale of shares of Class A Common Stock offered by the Company, after deducting expenses payable by the Company, which are estimated to be $126,151, will be added to the general funds of the Company for working capital and general corporate purposes. Currently, the Company has no specific plans for the use of such proceeds. Approximately 2,000,000 of the shares registered hereby are offered by stockholders (other than the Selling Stockholders) pursuant to the Limited Market and such sales may be attributed to the Company for federal securities law purposes. The Company will not receive any portion of the net proceeds from the sale of such shares or from the sale of shares by the Selling Stockholders.

EMPLOYEE BENEFIT PLANS

The Company maintains several employee benefit plans pursuant to which certain of the shares of Class A Common Stock being offered hereby may be sold. The primary purpose of these plans is to motivate the Company's employees, consultants and directors to contribute to the growth and development of the Company by encouraging them to achieve and surpass annual goals of the Company and

of the operations for which they are responsible. The following is a summary description of each of these plans. All capitalized terms, unless otherwise defined herein, have the meanings ascribed to them in the employee benefit plan to which they relate.

Profit Sharing Retirement Plan II

The Profit Sharing Retirement Plan II represents a consolidation, effective as of January 1, 1992, of the former TSC Profit Sharing Retirement Plan and the SAIC COMSYSTEMS Profit Sharing Retirement Plan (together referred to as the "Consolidated Plans" or Profit Sharing Retirement Plan II). The TSC Profit Sharing Retirement Plan first became effective July 1, 1988 and the SAIC COMSYSTEMS Profit Sharing Retirement Plan first became effective February 1, 1977. The following discussion includes, where applicable, a description of the Consolidated Plans relating to periods prior to January 1, 1992.

Eligibility and Participation

Generally, all employees of eligible groups within the Company who have attained the age of 21, completed 12 months of employment and completed 850 Hours of Service with the Company during one of the 12-month computational periods are eligible to participate as of the next semi-annual entry date. As of December 31, 1993, there were approximately 2,200 participants in the Profit Sharing Retirement Plan II.

Contributions, Allocations and Forfeitures

For the Plan Year ended December 31, 1993, the Company contributed approximately $1,990,000 to the accounts of participants in the Profit Sharing Retirement Plan II. The amount of the Company's annual contribution to participants' accounts in the Profit Sharing Retirement Plan II is determined by, and within the discretion of, the Company's Board of Directors, subject to certain limitations. See "General Provisions of the Profit Sharing Retirement Plan II, Employee Stock Ownership Plan and CODA." The Company's contribution may be paid in cash or such other property as the Board of Directors may determine. The Company's contributions are made by the due date (including extensions) of the Company's federal income tax return for the applicable year. The Company's current practice has been to make pro-rata contributions quarterly.

Company contributions to the Profit Sharing Retirement Plan II for each Plan Year are allocated to the accounts of participants who complete 850 Hours of Service during the Plan Year. The amount of Company contributions allocated to a participant's account for the Plan Year is determined in two steps. The first allocation is based on the ratio which a participant's Eligible Excess Compensation (i.e., compensation in excess of the Social Security Wage Base, $60,600 for 1994) for the Plan Year bears to the total Eligible Excess Compensation for such Plan Year of all participants in the Profit Sharing Retirement Plan II. The amount to be allocated in the first allocation, expressed as a percentage of Eligible Excess Compensation, shall not exceed the lesser of (i) 5.7% or, if greater, the rate of tax applicable as of the beginning of that Plan Year under Section 3111(a) of the Code attributable to old age insurance or (ii) the percentage allocated in the second allocation (described below) of the portion of compensation of participants which does not exceed the Social Security Wage Base for such Plan Year. The second allocation allocates contributions remaining after the first allocation to each participant based on the ratio which each participant's total compensation for such Plan Year bears to the total compensation paid to all participants for such year.

Forfeitures, if any, of the nonvested portion of participants' accounts are allocated to the accounts of remaining participants who are entitled to receive an allocation of the Company contribution for the year in the same manner as Company contributions for the year.

Participants in the Profit Sharing Retirement Plan II are not permitted to make voluntary contributions. Voluntary contributions made prior to January 1987 will continue to be held in the Profit Sharing Retirement Plan II until withdrawn or distributed.

Investment of Funds

The Committee is authorized to establish a choice of investment alternatives within the Trust Fund maintained for the Profit Sharing Retirement Plan II in which Company contributions may be invested, provided that not more than 20% of each Company contribution allocated to a participant's account may be invested in securities of the Company. Participants may elect at such time, in such manner and subject to such restrictions as the Committee may specify, to have contributions allocated or apportioned among the different investment alternatives. Separate accounts are established for each investment alternative selected by a participant and each account is valued separately.

The Committee, in its sole discretion, may permit participants to transfer amounts from one investment alternative to one or more other investment alternatives at such time, in such manner and subject to such restrictions as the Committee may specify. Investments in the Company Stock Fund may be exchanged into other investment choices only on a Trade Date. However, balances from the Vanguard Group of Investment Companies ("Vanguard") investments may not be exchanged into the Company Stock Fund at any time. It is the current policy of the Committee to keep all amounts related to the Company's Stock Fund invested in Class A Common Stock, except for estimated cash reserves which are primarily used to provide future benefit distributions, future investment exchanges and other cash needs as determined by the Committee. Residual cash remaining after accounting for estimated cash reserves generally will be used to purchase Class A Common Stock. If at any given time cash reserves in the Company Stock Fund are insufficient to provide benefit distributions and/or investment exchanges, shares held by the Company Stock Fund will be offered to the Company for purchase. If the Company declines to purchase the shares, the Committee intends to offer the shares for sale in the Limited Market. Exchanges out of the Company Stock Fund may be deferred until such time, if ever, that sufficient cash is available to make required benefit distributions and provide for investment exchanges. Accordingly, investment exchanges of participant's investments held in the Company Stock Fund may be restricted. See "Market Information — The Limited Market."

The Committee has established a choice of investment alternatives for participants. The alternatives consist of the Company Stock Fund and seven Vanguard Mutual Funds managed by Vanguard, located in Valley Forge, Pennsylvania, which are subject to the limitations described above.

The following table summarizes, as of the dates indicated, the investment performance of the Company Stock Fund and of each of Vanguard's seven nationally traded mutual funds for the last five years. The summary is based on an initial investment of $100 in each investment alternative.

Company Stock Fund

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	113.80	13.8
December 31, 1990	117.44	3.2
December 31, 1991	132.36	12.7
December 31, 1992	144.53	9.2
December 31, 1993	160.29	10.9

GNMA Portfolio

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	114.80	14.8
December 31, 1990	126.62	10.3
December 31, 1991	147.90	16.8
December 31, 1992	158.10	6.9
December 31, 1993	167.43	5.9

Index Trust — 500 Portfolio

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	131.40	31.4
December 31, 1990	127.06	−3.3
December 31, 1991	165.44	30.2
December 31, 1992	177.68	7.4
December 31, 1993	195.27	9.9

Prime Portfolio

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	109.40	9.4
December 31, 1990	118.48	8.3
December 31, 1991	125.71	6.1
December 31, 1992	130.36	3.7
December 31, 1993	134.27	3.0

Short-Term Federal Portfolio

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	111.30	11.3
December 31, 1990	121.65	9.3
December 31, 1991	136.49	12.2
December 31, 1992	144.95	6.2
December 31, 1993	155.10	7.0

Wellesley Income Fund

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	120.90	20.9
December 31, 1990	125.49	3.8
December 31, 1991	152.60	21.6
December 31, 1992	165.88	8.7
December 31, 1993	190.26	14.7

Windsor Fund

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	115.00	15.0
December 31, 1990	97.18	−15.5
December 31, 1991	124.97	28.6
December 31, 1992	145.59	16.5
December 31, 1993	173.83	19.4

International Growth Portfolio

Valuation as of	Unit Value	Percent Increase For Year
December 31, 1988	$100.00	
December 31, 1989	124.80	24.8
December 31, 1990	109.70	−12.1
December 31, 1991	114.86	4.7
December 31, 1992	108.19	−5.8
December 31, 1993	156.56	44.7

No commissions are payable with respect to acquisitions or dispositions of Vanguard fund shares.

Vesting

The Profit Sharing Retirement Plan II vesting schedule currently provides that a participant's interest does not vest at all prior to the time such participant is credited with three Years of Service, and thereafter vests at the rate of 25% per Year of Service for years three through six, so that each participant's interest becomes fully vested after the participant is credited with six Years of Service. Any accounts as of August 1, 1987 in the former SAIC COMSYSTEMS Money Accumulation Pension Plan ("MAPP Subaccounts") which remain in the Profit Sharing Retirement Plan II are 100% vested.

A participant's interest also becomes fully vested, notwithstanding the fact that he or she has not yet been credited with six Years of Service, at the time of such participant's attainment of the age of 59½, permanent disability, judicial declaration of mental incompetence or death, while employed by the Company.

Loans

Loans are available from the Profit Sharing Retirement Plan II to all participants. Loans under all of the Company's and its subsidiaries' qualified retirement plans have a combined maximum limit of $50,000 per participant reduced by the excess of the participant's highest aggregate outstanding loan balance(s) during the preceding 12-month period over the aggregate loan balance(s) outstanding on the date of a new loan. Loans are further limited to 50% of a participant's vested interest in his or her accounts which are eligible to receive a loan, in all of the Company's qualified retirement plans (loans from the Profit Sharing Retirement Plan II may not exceed the vested value of the assets in the Profit Sharing Retirement Plan II less vested amounts invested in the Company Stock Fund). Loans must (i) bear a reasonable rate of interest, (ii) be adequately secured, (iii) state the date upon which the loan must be repaid, which in any event may not exceed five years from the date on which the loan is made, unless the proceeds are used for the purchase of a principal residence, in which case repayment may not exceed 25 years and (iv) be amortized with level payments, made not less frequently than quarterly, over the term of the loan. The Committee currently requires that loans be repaid through payroll deductions. The loan documents provide that 50% of the participant's vested account balances in all of the Company's qualified retirement plans are security for the loan, and the Profit Sharing Retirement Plan II (as well as the other Company retirement plans in which the participant has a loan) therefore has a lien against such balances. A loan will result in the withdrawal of the borrowed amounts from the participant's interest in the Funds against which the loan is made (other than the Company Stock Fund). Principal and interest payments on the loan are allocated to the account(s) of the borrowing participant in accordance with the current investment choices of the participant.

Distributions and Withdrawals

If a participant's employment with the Company terminates on or after the date on which the participant attains the age of 59½, the participant is entitled to receive a single distribution of his or her entire interest in his or her Profit Sharing Retirement Plan II account as soon as practicable following the date of such termination. In the event a participant dies while employed by the Company, the Committee will direct the Trustee to make a single distribution of the participant's entire interest in his or her Profit Sharing Retirement Plan II account to the participant's spouse, or if such spouse has given proper consent or if the participant has no spouse, to the Beneficiary designated by the participant. In the event the Committee determines that the participant has suffered a permanent disability while employed by the Company, the Committee will direct the Trustee to make a single distribution of the participant's entire interest in his or her Profit Sharing Retirement Plan II account to the disabled participant.

If a participant's employment with the Company terminates other than by reason of permanent disability or death prior to the date on which the participant attains the age of 59½, the participant's vested interest in his or her Profit Sharing Retirement Plan II account generally will be paid in a single distribution. If the participant's vested interest in his or her account is $3,500 or less, benefits are paid as soon as practicable after termination of employment. If his or her vested interest in such account is more than $3,500, the participant may elect to receive distribution of his or her account (i) approximately 120 days after the end of the year in which his or her fifth consecutive Break in Service occurs, (ii) any time following his or her termination of employment and before five consecutive Breaks in Service or (iii) at age 62.

If a participant who was only partially vested in his or her account is reemployed before having five consecutive Breaks in Service, he or she may reinstate his or her account, including the nonvested portion which was previously forfeited, by repaying the amount distributed to him or her before the earlier of (i) the date he or she incurs five consecutive Breaks in Service following the date of distribution or (ii) five years following reemployment.

Distribution of MAPP Subaccounts are subject to certain requirements regarding joint and survivor annuities set forth in the Profit Sharing Retirement Plan II.

All distributions, including withdrawals, from the Profit Sharing Retirement Plan II will be made in cash, subject to certain requirements regarding joint and survivor annuities applicable to MAPP Subaccounts.

A participant in the Profit Sharing Retirement Plan II is entitled to withdraw amounts from his or her voluntary contribution account, subject to reasonable Committee restrictions regarding frequency and amounts of such withdrawals. All such withdrawals will be paid in a single distribution as soon as administratively feasible.

In the absence of a qualified domestic relations order to the contrary, a participant's interest in the Profit Sharing Retirement Plan II may not be voluntarily or involuntarily assigned or hypothecated, except for the purpose of qualified SAIC Retirement Program loans.

Employee Stock Ownership Plan

The Company's stock bonus retirement plan became effective on February 1, 1973 and was approved by the stockholders of the Company at the 1982 Annual Meeting of Stockholders. Effective January 1, 1985, the plan was amended to change its name to the Employee Stock Ownership Plan and to enable it to purchase shares of Class A Common Stock with the proceeds of qualifying loans made either to the Company or to the Employee Stock Ownership Plan. To date, this loan feature has not been utilized. In February 1990, the Company Stock Funds within the Company's Profit Sharing Retirement Plan and the CODA (including the TRASOP Fund maintained within the CODA) were transferred to the Employee Stock Ownership Plan to enable it to qualify as a "30% ESOP" and further the Company's goal of employee stock ownership by increasing the percentage of the Company's Common Stock beneficially owned by current employees. In November 1992, the non-exchangeable Company Stock Fund within the CODA was transferred to the Employee Stock Ownership Plan to enable it to qualify as a "30% ESOP" in connection with an Offer to Purchase for Cash, pursuant to which the Employee Stock Ownership Plan acquired 700,444 shares of Class A Common Stock from stockholders who are not employees, directors, consultants or members of their families in a transaction designed to increase the beneficial ownership of current employees, directors and consultants. See "Market Information—The Limited Market."

Eligibility and Participation

Generally, all employees who have attained the age of 21, completed 12 months of employment and completed 850 Hours of Service with the Company during one of the applicable 12-month computational periods are eligible to participate as of the next semi-annual entry date, except employees who are eligible for the SAIC Profit Sharing Retirement Plan II and other groups or units designated as ineligible. As of December 31, 1993, there were approximately 15,000 participants in the Employee Stock Ownership Plan.

Contributions, Allocations and Forfeitures

For the Plan Year ended December 31, 1993, the Company contributed approximately $15,096,000 to the accounts of participants in the Employee Stock Ownership Plan. The amount of the Company's annual contribution to participants' accounts in the Employee Stock Ownership Plan is determined by, and within the discretion of, the Board of Directors, subject to certain limitations. See "General Provisions of the Profit Sharing Retirement Plan II, Employee Stock Ownership Plan and CODA." Participants may not make voluntary contributions to the Employee Stock Ownership Plan. The Company's contributions are made by the due date (including extensions) of the Company's federal income tax return for the applicable year. The Company's current practice has been to make pro-rata contributions quarterly.

Company contributions to the Employee Stock Ownership Plan for each Plan Year are allocated to the accounts of participants who complete 850 Hours of Service during the Plan Year in the ratio which each such participant's eligible compensation bears to the total eligible compensation of all such participants. Forfeitures, if any, of the nonvested portion of terminated participants' accounts are

...remaining participants who are entitled to receive an allocation of th Company contribution. Forfeitures are allocated in the ratio which each such remaining participant eligible compensation bears to the total eligible compensation of all such remaining participants.

Investment of Funds

Although it is generally intended that the assets of the Employee Stock Ownership Plan will b held in a Company Stock Fund consisting primarily of securities of the Company, the Employee Stoc Ownership Plan and/or such Company Stock Fund may hold other assets which may consist of cash qualifying employer real property or qualifying employer securities within the meaning of Section 407(d)(4) and (5) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), o other property. The exact number of shares of Class A Common Stock, if any, which may be purchased by the Trustee of the Employee Stock Ownership Plan in the future will depend on various factors including any modifications to the Employee Stock Ownership Plan adopted either in response to changes or modifications in the laws and regulations governing the Employee Stock Ownership Plan or at the discretion of the Company's management.

With respect to those Company Stock Funds transferred to the Employee Stock Ownership Plan in February 1990 as to which participants had the right to exchange into other investment choices under the Company's Profit Sharing Retirement Plan or CODA, as applicable, the investment choices available under the latter plans (see "Employee Benefit Plans—Profit Sharing Retirement Plan II—Investment of Funds") are made available within the Employee Stock Ownership Plan. In addition, participants who have attained the age of 55 and have ten or more years of participation are entitled, pursuant to the terms of the Employee Stock Ownership Plan and Committee procedures, to exchange a percentage of their balances in the Company Stock Fund into the same Vanguard investment alternatives as are available under the Profit Sharing Retirement Plan II.

The Committee, in its sole discretion, may permit participants to transfer amounts from one investment alternative to one or more other investment alternatives at such time, in such manner and subject to such restrictions as the Committee may specify. Investments in the Company Stock Fund may be exchanged into other investment choices only on a Trade Date. However, balances from other Vanguard investments may not be exchanged into the Company Stock Fund. Company contributions directed to the Company Stock Fund are initially utilized as cash reserves to provide benefit distributions and/or investment exchanges. It is the current policy of the Committee to keep all amounts related to the Company's Stock Fund invested in Class A Common Stock, except for estimated cash reserves which are primarily used to provide future benefit distributions, future investment exchanges and other cash needs as determined by the Committee. Residual cash remaining after accounting for estimated cash reserves will generally be used to purchase Class A Common Stock. If at any given time cash reserves in the Company Stock Fund are insufficient to provide benefit distributions and/or investment exchanges, shares held by the Company Stock Fund will be offered to the Company for purchase. If the Company declines to purchase the shares, the Committee intends to offer the shares for sale in the Limited Market. Exchanges out of the Company Stock Fund may be deferred until such time, if ever, that sufficient cash is available to make required benefit distributions and provide for investment exchanges. Accordingly, investment exchanges of participant's investments held in the Company Stock Fund may be restricted. See "Market Information—The Limited Market."

Vesting

The Employee Stock Ownership Plan vesting schedule currently provides that a participant's interest does not vest at all prior to the time such participant is credited with three Years of Service, and thereafter vests at the rate of 25% per Year of Service for years three through six, so that each participant's interest becomes fully vested after the participant is credited with six Years of Service. A participant's interest also becomes fully vested, notwithstanding the fact that the participant has not yet been credited with six Years of Service, at the time of such participant's attainment of the age of

59½, permanent disability, judicial declaration of mental incompetence or death, while employed by the Company. A participant's interest in the TRASOP Fund or in funds transferred from the CODA are 100% vested at all times.

Loans

Loans are available from the Employee Stock Ownership Plan to all participants. Loans under all of the Company's and its subsidiaries' qualified retirement plans have a combined maximum limit of $50,000 per participant reduced by the excess of the participant's highest aggregate outstanding loan balance(s) during the preceding 12-month period over the aggregate loan balance(s) outstanding on the date of a new loan. Loans are further limited to 50% of a participant's vested interest in his or her accounts in all the Company's qualified retirement plans (those loans from the Employee Stock Ownership Plan may not exceed the vested value of the amounts in the Employee Stock Ownership Plan less vested amounts invested in the Company Stock Fund within the Plan). Loans must (i) bear a reasonable rate of interest, (ii) be adequately secured, (iii) state the date upon which the loan must be repaid, which in any event may not exceed five years, unless the proceeds are used for the purchase of a principal residence, in which case repayment may not exceed 25 years and (iv) be amortized with level payments, made not less frequently than quarterly, over the term of the loan. The Committee currently requires that loans be repaid through payroll deductions. The loan documents provide that 50% of the participant's vested account balances in all the Company's retirement plans are security for the loan, and the Employee Stock Ownership Plan (as well as the other Company retirement plans in which the participant has a loan), therefore, has a lien against such balances. A loan will result in a withdrawal of the borrowed amounts from the participant's interest in the Funds against which the loan is made (other than the Company Stock Fund). Principal and interest payments on the loan are allocated to the account(s) of the borrowing participant in accordance with the current investment choices of the participant.

Distributions and Withdrawals

If a participant's employment with the Company terminates on or after the date on which the participant attains the age of 59½, the participant is entitled to receive a single distribution of his or her entire interest in his or her Employee Stock Ownership Plan account as soon as practicable following the date of such termination. In the event a participant dies while employed by the Company, the Committee will direct the Trustee to make a single distribution of the participant's entire interest in his or her Employee Stock Ownership Plan account to the participant's spouse or if such spouse has given proper consent or if the participant has no spouse to the Beneficiary designated by the participant. In the event the Committee determines that the participant has suffered a permanent disability while employed by the Company, the Committee will direct the Trustee to make a single distribution of the participant's entire interest in his or her Employee Stock Ownership Plan account to the disabled participant.

If a participant's employment with the Company terminates, other than by reason of permanent disability or death, prior to the date on which the participant attains the age of 59½, the participant's vested interest in his or her Employee Stock Ownership Plan account generally will be paid in cash in a single distribution. If the participant's vested interest in his or her account is $3,500 or less, benefits are paid as soon as practicable after termination of employment. If his or her vested interest in the account is more than $3,500, the participant may elect to receive a distribution of his or her account in cash (i) approximately 120 days after the end of the year in which his or her fifth consecutive Break in Service occurs, (ii) any time following his or her termination of employment and before five consecutive Breaks in Service or (iii) at age 62.

A participant may elect to receive a distribution in the form of Class A Common Stock (and Class B Common Stock, where applicable) in lieu of the cash distribution alternatives described above. Such distribution will be made within 120 days of the participant's normal retirement age (age 59½) or date of actual retirement, if later. However, for employees whose employment is terminated after

February 9, 1990, with respect to any Class A Common Stock purchased after December 31, 1986, a participant electing to receive Common Stock shall receive the payments in five annual installments commencing within one year after the fifth Plan Year following termination of employment.

If a participant who was only partially vested in his or her account is reemployed before having five consecutive Breaks in Service, he or she may reinstate his or her account, including the nonvested portion which was previously forfeited, by repaying the amount distributed to him or her before the earlier of (i) the date he or she incurs five consecutive Breaks in Service following the date of distribution or (ii) five years following reemployment.

All distributions from the Employee Stock Ownership Plan will be made in cash, except as noted above. In those instances in which Class A Common Stock or Class B Common Stock is distributed to participants in lieu of cash, participants cannot be assured that they will be able to sell their shares in any one quarterly Trade Date or over any specific period of time or at the Formula Price at the time of such sale. Accordingly, a participant's ability to sell shares of Class A Common Stock or Class B Common Stock distributed out of the Employee Stock Ownership Plan could be adversely affected by any lack of liquidity in the Limited Market. See "Market Information—The Limited Market."

All distributions of shares of Class A Common Stock (and Class B Common Stock where applicable) out of the Employee Stock Ownership Plan will be subject to the following conditions imposed by the Employee Stock Ownership Plan and/or the Company's Certificate of Incorporation:

(a) Such shares will be subject to a right of first refusal by the Company and the Employee Stock Ownership Plan, but will not be subject to the Company's right of repurchase upon termination of employment or affiliation. See "Description of Capital Stock—Common Stock—Restrictions on Class A Common Stock."

(b) In the event that such shares, at the time they are distributed out of the Employee Stock Ownership Plan, are not "Readily Tradeable Stock" (as that term is defined under Treasury Regulation Section 54.4975-7(b)(1)(iv)) or are subject to a "Trading Limitation" (as that term is defined under Treasury Regulation Section 54.4975-7(b)(10)), then they will be subject to a "put option" which gives the holder of such shares the right to require the Company to purchase all or a portion of such shares at their fair market value during two limited time periods. The first of these periods is the 60-day period following the date on which the shares are distributed out of the Employee Stock Ownership Plan and the second of these periods is the 60-day period following notification by the Company of the valuation of the Class A Common Stock and Class B Common Stock as soon as practicable after the beginning of the Plan Year commencing after such distribution.

Accounts transferred from the CODA or Profit Sharing Retirement Plan retain the distribution options available under the terms of the plan from which they were transferred.

Participants are not permitted to make withdrawals under the Employee Stock Ownership Plan prior to termination of employment except for hardship withdrawals from the account transferred to the Employee Stock Ownership Plan from the CODA. See "Employee Benefit Plans—CODA—Distributions and Withdrawals." In the absence of a qualified domestic relations order to the contrary, a participant's interest in the Employee Stock Ownership Plan may not be voluntarily or involuntarily assigned or hypothecated, except for the purpose of qualified SAIC retirement program loans.

CODA

The CODA became effective on January 1, 1983 and was approved by the stockholders of the Company at the 1983 Annual Meeting of Stockholders.

Eligibility and Participation

Generally, all employees (as defined in the CODA) are eligible to participate in the CODA upon commencing employment, except for employees in groups or units designated as ineligible. As of December 31, 1993, there were approximately 17,400 participants in the CODA.

Contributions and Allocations

The CODA permits a participant to elect to defer a portion of such participant's compensation for the Plan Year and to have such deferred amount contributed directly by the Company to the participant's CODA account. Amounts deferred by participants, including rollovers from qualified plans, totalled approximately $39,462,000 for the Plan Year ended December 31, 1993. Under the terms of the CODA, deferred amounts are treated as contributions made by the Company. The maximum amount of compensation that a participant may elect to defer is determined by the Committee, but in no event may the deferral exceed $7,000 per year (adjusted for cost-of-living under rules prescribed by the Secretary of the Treasury). For 1994, the limitation is $9,240. In addition to amounts deferred by participants, the Company may, but is not obligated to, make a matching contribution to the CODA accounts of those participants who have elected to defer a portion of their compensation equal to a percentage or percentages of the amounts which such participants have elected to defer. This Company matching contribution is allocated to the CODA accounts of those participants who are not employees of a group or unit designated as ineligible to receive a matching contribution and who have elected to defer a portion of their compensation. For the Plan Year ended December 31, 1993, the Company contributed 30% of the first $2,000 of a participant's compensation deferred under the CODA and 15% of such deferred compensation above $2,000. The Company provides no matching contribution on amounts deferred in excess of 10% of compensation. The aggregate amount of matching contributions contributed to the CODA on behalf of all participants for the Plan Year ended December 31, 1993 was approximately $7,674,000. The Company may also make additional contributions to the CODA in order to comply with Section 401(k) of the Code. For the Plan Year ended December 31, 1993, the Company was not required to make any additional Company contributions to the Deferred Fund to enable the plan to meet the Section 401(k) discrimination test. The Company's contribution to the CODA is paid in cash unless the Board of Directors determines to make the contribution in shares of Class A Common Stock or another form.

Company contributions to the CODA are made by the due date (including extensions) for the Company's federal income tax return for the applicable year except contributions resulting from amounts deferred by participants, which must be made within 30 days of deferral. The Company's practice has been to make matching contributions quarterly based on current participant bi-weekly deferrals. Any additional Company contribution, if required, is made after the end of the Plan Year.

A participant's elective deferrals to CODA will reduce his or her compensation, on a dollar-for-dollar basis, for purposes of receiving allocations under the Company's Profit Sharing Retirement Plan, the Profit Sharing Retirement Plan II and the Employee Stock Ownership Plan, as applicable.

An Eligible Employee may transfer to the trust fund maintained for the CODA a rollover contribution from another qualified retirement plan pursuant to applicable regulations and Committee procedures. A participant in the CODA who has made a deferral election may terminate or alter the rate of his or her deferrals at any time under the terms of the CODA.

Investment of Funds

The Committee is authorized to establish a choice of investment alternatives including securities of the Company, in which Company contributions to the CODA (including that portion of compensation which participants elect to defer) may be invested. The investment alternatives currently available to participants in the CODA are the same as those available to participants in the Profit Sharing Retirement Plan II, except that under the terms of the CODA a participant's entire interest in his or her CODA account may be invested in the Company Stock Fund. See "Employee Benefit Plans—Profit Sharing Retirement Plan II—Investment of Funds." The Company's matching contributions for the Plan Year ended December 31, 1993 were (and the matching contributions for the Plan Year ending December 31, 1994 are currently intended to be) invested in the Company's Stock Fund, which contributions may not be exchanged for another investment alternative. Participants may elect at such time, in such manner and subject to such restrictions as the Committee may specify, to have contributions allocated or apportioned among the different investment alternatives. Separate CODA

accounts are established for each investment alternative selected by a participant and each such account is valued separately. The Committee, in its sole discretion, may permit participants to transfer amounts from one investment alternative to one or more other investment alternatives at such time, in such manner and subject to such restrictions as the Committee may specify.

Investments in the Company Stock Fund (other than the non-exchangeable contribution described in the preceding paragraph) may be exchanged into other investment choices only on a Trade Date. Balances from Vanguard investments may not be exchanged into the Company Stock Fund. It is the current policy of the Committee to keep all amounts related to the Company's Stock Fund invested in Class A Common Stock, except for estimated cash reserves which are primarily used to provide future benefit distributions, future investment exchanges and other cash needs as determined by the Committee. Residual cash remaining after accounting for estimated cash reserves generally will be used to purchase Class A Common Stock. If cash reserves in the Company Stock Fund are insufficient at any given time to provide benefit distributions and/or investment exchanges, shares held by the Company Stock Fund will be offered to the Company for purchase. If the Company declines to purchase the shares, the Committee intends to offer the shares for sale in the Limited Market. Exchanges out of the Company Stock Fund may be deferred until such time, if ever, that sufficient cash is available to make required benefit distributions and provide for investment exchanges. Accordingly, investment exchanges of participants' investments held in the Company Stock Fund may be restricted. See "Market Information—The Limited Market."

Vesting

Under the CODA as currently in effect, each participant is, at all times, 100% vested in his or her CODA account.

Loans

Loans are available from the CODA account to all participants. Loans under all of the Company's and its subsidiaries' qualified retirement plans have a combined maximum limit of $50,000 per participant reduced by the excess of the participant's highest aggregate outstanding loan balance(s) during the preceding 12-month period over the aggregate loan balance(s) outstanding on the date of a new loan. Loans are further limited to 50% of a participant's vested interest in his or her accounts which are eligible to receive a loan in all of the Company's qualified retirement plans (these loans from CODA may not exceed the vested value in the CODA less vested amounts invested in the Company Stock Fund). Loans must (i) bear a reasonable rate of interest, (ii) be adequately secured, (iii) state the date upon which the loan must be repaid, which in any event may not exceed five years from the date on which the loan is made, unless the proceeds are used for the purchase of a principal residence, in which case repayment may not exceed 25 years and (iv) be amortized with level payments, made not less frequently than quarterly, over the term of the loan. The Committee currently requires that loans be repaid through payroll deductions. The loan documents provide that 50% of the participant's vested account balances in all of the Company's qualified retirement plans are security for the loan and the CODA (as well as the other Company retirement plans in which the participant has a loan), therefore, has a lien against such balances. A loan will result in a withdrawal of the borrowed amounts from the participant's interest in the Funds against which the loan is made. Principal and interest payments on the loan are allocated to the account(s) of the borrowing participant in accordance with the current investment choices of the participant.

Distributions and Withdrawals

If a participant's employment with the Company terminates on or after the date on which the participant attains the age of 59½, the participant is entitled to receive a single distribution of his or her entire interest in his or her CODA account as soon as practicable following the date of such termination. In the event a participant dies while employed by the Company, the Committee will direct the Trustee to make a single distribution of the participant's entire interest in his or her CODA account to the participant's spouse. Alternatively, if such spouse has given proper consent or if the participant has no spouse, the Committee will direct the Trustee to make a single distribution of the

deceased participant's entire interest to the Beneficiary designated by the participant. In the event the Committee determines that the participant has suffered a permanent disability while employed by the Company, the Committee will direct the Trustee to make a single distribution of the participant's entire interest in his or her CODA account to the disabled participant.

If a participant's employment with the Company terminates, other than by reason of permanent disability or death, prior to the date on which the participant attains the age of 59½, the participant's vested interest in his or her CODA account generally will be paid in a single distribution as soon as practicable following the date of such termination. If his or her vested interest is more than $3,500, the participant may elect to receive distribution of his or her account (i) approximately 120 days after the end of the year in which his or her fifth consecutive Break in Service occurs, (ii) any time following his or her termination of employment and before five consecutive Breaks in Service or (iii) at age 62.

Except in the case of qualifying hardship, no withdrawals may be made from a participant's CODA account prior to his or her termination of employment unless and until he or she attains the age of 59½. Any withdrawals made thereafter may be made only once in each Plan Year. In the absence of a qualified domestic relations order to the contrary, a participant's interest in the CODA may not be voluntarily or involuntarily assigned or hypothecated, except for the purpose of qualified SAIC retirement program loans. The Committee has established procedures for hardship withdrawals including (i) definition of qualifying hardships, (ii) requirements for having first withdrawn all voluntary after-tax contributions from any other Company retirement plans and having received the maximum loans available under such plans and (iii) requirement for a 12-month suspension from making elective deferrals into CODA following the hardship withdrawal.

All distributions, including withdrawals, from the CODA are paid in cash.

General Provisions of the Profit Sharing Retirement Plan II, Employee Stock Ownership Plan and CODA

The Profit Sharing Retirement Plan II, Employee Stock Ownership Plan and CODA (collectively, the "Plans") each contain the following provisions:

Contribution Limitations

The maximum contribution for any Plan Year which the Company may make to all Plans for the benefit of a participant (including contributions to the CODA as a result of salary deferral elections by participants), plus forfeitures, may not exceed the lesser of (i) $30,000 or (ii) 25% of the participant's compensation.

Administration

The Plans are administered by the Committee, whose members are appointed by and serve at the discretion of the Company's Board of Directors. The members of the Committee receive no compensation from the Plans for services rendered in connection therewith. The current members of the Committee are R.E. Bernstein, S.J. Dalich (Ex-Officio), J. Collymore, W.M. Layson, L.O. Louden, A.H. Park, J.M. Preimesberger, W. Reed, W.A. Roper, Jr., M.W. Tobriner (Chairman) and J.P. Walkush. The address of each such person is Science Applications International Corporation, 10260 Campus Point Drive, San Diego, CA 92121, except for Messrs. Layson and Tobriner each of whom's address is Science Applications International Corporation, 1710 Goodridge Drive, McLean, VA 22102 and Ms. Collymore whose address is Science Applications International Corporation, 10770 Wateridge Circle, San Diego, CA 92121.

The Committee has the power to supervise administration and control of each Plan's operations, including the power and authority to (i) allocate fiduciary responsibilities, other than trustee responsibilities, among the Named Fiduciaries, (ii) designate agents to carry out responsibilities relating to the Plan, other than fiduciary responsibilities, (iii) employ legal, actuarial, medical, accounting, programming and other assistance as the Committee may deem appropriate in carrying out the Plan, (iv) establish rules and regulations for the conduct of the Committee's business and the administration of the Plan, (v) administer, interpret, construe and apply the Plan and determine questions

relating to eligibility, the amount of any participant's service and the amount of benefits to which any participant or beneficiary is entitled, (vi) determine the manner in which Plan assets are disbursed and (vii) direct the Trustee regarding investment of Plan assets, subject to the directions of participants when provided in the Plans.

Pass-Through Voting and Tendering of Class A Common Stock and Class B Common Stock

Each participant in the Plans has the right to instruct the Trustee on a confidential basis as to how to vote his or her proportionate interest in all shares of Class A Common Stock and/or Class B Common Stock held in the various Plans. The Plan documents provide that the Trustee will vote all allocated shares held in the Plans as to which no voting instructions are received (except for shares held in the TRASOP Fund accounts of participants in the Employee Stock Ownership Plan), together with all unallocated shares held in the Plans, in the same proportion, on a Plan-by-Plan basis, as the allocated shares for which voting instructions have been received are voted. Shares held in the TRASOP Fund accounts, as to which no voting instructions from participants are received, will not be voted by the Trustee. The Committee is required to notify participants of their pass through voting rights prior to each meeting of stockholders.

In the event of a tender or exchange offer for the Company's securities, each participant in the Plans has the right, under current Plan procedures, to instruct the Trustee on a confidential basis as to whether or not to tender or exchange his or her proportionate interest in all shares of Class A Common Stock and/or Class B Common Stock held in the various Plans. The Plan documents provide that the Trustee will not tender or exchange any allocated shares with respect to which no instructions are received from participants. Shares held in the Plans which have not yet been allocated to the accounts of participants will be tendered or exchanged by the Trustee, on a Plan-by-Plan basis, in the same proportion as the allocated shares held in each Plan are tendered or exchanged.

The Trustee's duties with respect to voting and tendering of Class A and Class B Common Stock are governed by the fiduciary provisions of ERISA. These fiduciary provisions of ERISA may require, in certain limited circumstances, that the Trustee override the votes, or decisions whether or not to tender, of participants with respect to Class A or Class B Common Stock and to determine, in the Trustee's best judgment, how to vote the shares or whether or not to tender the shares.

Trustee

State Street Bank and Trust Company of North Quincy, Massachusetts is the Trustee under each of the Plans.

Generally, the Trustee has all the rights afforded a trustee under applicable law, although the Trustee generally may exercise those rights only at the direction of the Committee. Subject to this limitation and those set forth in the Plans and master trust agreement, the Trustee's rights include, but are not limited to, the right to (i) invest and reinvest the funds held in the Plans' trust in any investment of any kind, including qualifying employer securities and qualifying employer real property as such investments are defined in Section 407(d) of ERISA, and contracts issued by insurance companies, including contracts under which the insurance company holds Plan assets in a separate account or commingles separate accounts managed by the insurance company, (ii) retain or sell the securities and other property held in the Plans' trust, (iii) consent or participate in any reorganization or merger in regard to any corporation whose securities are held in the Plans' trust (subject in the case of the Company's securities, generally, to the participants' pass-through voting rights and right to instruct the Trustee in the event of a tender or exchange offer) and to pay calls or assessments imposed on the holder thereof and to consent to any contract, lease, mortgage or purchase or sale of any property between such corporation and any other parties, (iv) exercise all the rights of the holder of any security held in the Plans' trust, including the right to vote such securities (subject, in the case of the Company's securities, generally, to the participants' pass-through voting rights), convert such securities into other securities, acquire additional securities and exchange such securities, (v) vote

proxies and exercise any other similar rights of ownership, subject to the Committee's right to instruct the Trustee as to how (or the method of determining how) the proxies should be voted or such rights should be exercised and (vi) lend to participants in the Plans such amounts as the Committee directs.

The Trustee's compensation and all other expenses incurred in the establishment, administration and operation of the Plans are borne by the respective Plans unless the Company elects to pay such expenses. Costs or expenses which are particular to a specific asset or group of assets (such as interest and normal brokerage and other similar charges incurred in connection with the purchase of securities by the Plans' trust) are chargeable and allocable to the participants' accounts to which such securities are allocated in a manner determined by the Committee.

Administrative and Custodial Services

The Company has entered into an administrative services agreement with Vanguard, pursuant to which Vanguard performs specified administrative services for the Plans, principally related to accounting and recordkeeping. Vanguard's fees for these administrative services are borne by the respective Plans.

Account Statements

Each participant is furnished with a statement of his or her accounts in the respective Plans, as of the end of each calendar quarter.

Amendment and Termination

The Company has reserved the right to amend each of the Plans at any time and for any reason, except that no such amendment may have the effect of (i) generally causing any assets of the Plans' trusts to be used for or diverted to any purpose other than providing benefits to participants and their beneficiaries and defraying expenses of the Plans, except as permitted by applicable law, (ii) depriving any participant or beneficiary, on a retroactive basis, of any benefit to which they would otherwise be entitled had the participant's employment with the Company terminated immediately prior to the amendment or (iii) increasing the liabilities or responsibilities of a Trustee or an Investment Manager without its written consent.

The Company has also retained the right to terminate any of the Plans at any time and for any reason and, specifically, in the event the Company merges into or with any other corporation and, as the result of which, the Company ceases to exist as an entity. In addition, the Company may discontinue contributions to the Plans; provided, however, that any such discontinuation of contributions shall not automatically terminate the Plans as to funds and assets then held by the Trustee.

ERISA

Each of the Plans is subject to the provisions of ERISA, including reporting and disclosure obligations, fiduciary standards, and the prohibited transaction rules of Title I thereof. Since each of the Plans is an individual account plan under ERISA, none of the Plans are subject to the jurisdiction of the Pension Benefit Guaranty Corporation ("PBGC") under Title IV of ERISA and none of the Plans' benefits are guaranteed by the PBGC.

Federal Income Tax Consequences

Each of the Plans is qualified under Section 401(a) of the Code. Qualification of the Plans under Section 401(a) of the Code has the following federal income tax consequences:

(a) A participant will not be subject to federal income tax on Company contributions to the Plans at the time such contributions are made.

(b) A participant will not be subject to federal income tax on any income or appreciation with respect to such participant's accounts under the Plans until distributions are made (or deemed to be made) to such participant.

(c) A participant and the Company will not be subject to federal employment taxes on Company contributions to the Plans, except as set forth below with respect to certain Company contributions to the CODA.

(d) The Plans will not be subject to federal income tax on the contributions to them by the Company and will not be subject to federal income tax on any of their income or realized gains, assuming that the Plans do not realize any unrelated business taxable income.

(e) Participation in the Plans will preclude or restrict an employee from making deductible contributions to an Individual Retirement Account ("IRA"), depending on the employee's marital status and adjusted gross income ("AGI") for the year. If an employee or his or her spouse is covered by an employer-maintained retirement plan (such as any of the Plans), an IRA deduction is available only if the participant's AGI does not exceed a phase-out level. For married couples, the phase-out of the IRA deduction begins at $40,000 of AGI and there is no deduction if the participant's AGI exceeds $50,000. The phase-out for single employees is $25,000/$35,000 of AGI. For AGI in the phase-out range, the IRA deduction limit is reduced by the ratio of AGI in excess of $40,000 or $25,000, whichever is applicable, to $10,000. AGI is determined before any IRA deduction, but after any elective deferrals to the CODA. To the extent that the IRA deduction is limited under these provisions, a non-deductible IRA contribution is permitted (in an amount equivalent to the reduction in the deductible IRA amount).

(f) Subject to the contribution limitations contained in the Plans, the Company will be able to deduct the amounts that it contributes under the Plans, with the amount of such deduction generally equaling the amount of the contributions.

(g) Distributions from the Plans will be subject to federal income tax under special, complex rules that apply generally to distributions from tax-qualified retirement plans. In general, a single distribution from any of the Plans will be taxable in the year of receipt at regular ordinary income rates (on the full amount of the distribution, exclusive of the amount of the participant's voluntary, non-deductible contributions made to those Plans which previously permitted such contributions) unless the distributee is eligible for and elects (i) to make a qualifying "rollover" of the amount distributed to an IRA or another qualified plan or (ii) to utilize 10-year averaging, 5-year averaging or partial capital gains taxation of the distribution. However, the tax on any portion of a qualifying lump sum distribution represented by "net unrealized appreciation" in Class A or Class B Common Stock distributed shall be deferred until a subsequent sale or taxable disposition of the shares, unless the distributee elects not to have this deferral apply.

A "lump sum distribution," for purposes of eligibility for deferral of tax on net unrealized appreciation, is defined as a distribution of the employee's entire vested interest under the Plan within one taxable year (i) on account of the participant's death or other separation from service or (ii) after the participant has attained age 59½. For purposes of this definition, distributions from the CODA, the Profit Sharing Retirement Plan and the Profit Sharing Retirement Plan II must be aggregated. For a lump sum distribution to be eligible for 5-year averaging, the participant also must have been a participant in the Plan from which the distribution is made for at least five years prior to the year of distribution and must have attained age 59½when the distribution is received. Under a special transition rule, an individual who had attained age 50 on January 1, 1986 and who would otherwise be entitled to elect 5-year averaging (without regard to the age 59½ requirement) may instead make a one-time election of 10-year averaging (at 1986 rates) and may elect to have the pre-1974 portion of the distribution taxed at 1986 capital gains rates. The special 5-year or 10-year averaging treatment, as well as partial capital gains treatment, of lump sum distributions is applicable to a lump sum distribution from a Plan only if all other lump sum distributions (whether or not from the same Plan or Plans of a similar type) received during the same taxable year by the participant are treated in the same manner. Hence, for example, if a participant receives a lump sum distribution from the CODA, the Profit Sharing Retirement Plan

and the Employee Stock Ownership Plan in the same taxable year, he or she could not elect to use 5-year or 10-year averaging on the CODA and Profit Sharing Retirement Plan distributions while electing a rollover to an IRA of the distribution from the Employee Stock Ownership Plan.

"Early" distributions from the Plans will result in an additional 10% tax on the taxable portion of the distribution, except to the extent the distribution (i) is rolled over to an IRA or other qualified plan or (ii) is used for deductible medical expenses. "Early" distributions are in-service distributions (i.e., prior to termination of employment) prior to the date the participant attains age 59½ unless due to the permanent disability of the participant, and distributions made following termination of service unless due to the death of the participant or made to a participant who terminated employment during or after the calendar year the participant attained the age of 55.

(h) A participant (or his or her spouse in the event of the participant's death) who (i) receives a distribution from the Plans (other than certain mandatory distributions after age 70½) and (ii) wishes to defer immediate tax upon receipt of such distribution, may transfer (i.e., "rollover") all or a portion thereof, exclusive of the amount of the participant's voluntary nondeductible contributions (made to those Plans which previously permitted the participant to make voluntary nondeductible contributions) received in the distribution, to either an IRA or, in the case of a participant, another qualified retirement plan. To be effective, the "rollover" must be completed within 60 days of receipt of the distribution. Alternatively, the participant or spouse may request a direct rollover from the Plans to an IRA or, in the case of a participant, to another qualified retirement plan.

A participant (or his or her spouse) who does not arrange a direct rollover to an IRA or another qualified plan will be subject to mandatory federal income tax withholding at a rate of 20% of the taxable distribution, even if the participant or spouse later makes a rollover within the 60-day period.

A participant (or his or her spouse) who makes a valid "rollover" to an IRA will defer payment of federal income tax until such time as such participant (or his or her spouse) actually begins to receive distributions from the IRA. IRA earnings accumulate on a tax-deferred basis until actually distributed; however, IRA funds may not be withdrawn without penalty until a participant (or his or her spouse) (i) attains the age of 59½, (ii) becomes disabled or (iii) dies. The Code requires that distributions from an IRA or a qualified retirement plan begin not later than April 1 of the taxable year following the year in which an individual attains the age of 70½, at which time periodic distributions may continue for the participant's lifetime or for the lifetime of the participant and the participant's spouse.

(i) The Code imposes a 15% excise tax on "excess distributions" to an individual from all qualified retirement plans and IRAs (whether or not plans of the same employer). In general, an "excess distribution" is a distribution or distributions in excess of $112,500 in any calendar year (adjusted for cost-of-living increases). For 1994, the limit is $148,500. This limit is increased to $562,500 (also adjusted for cost-of-living) in the case of a lump sum distribution as to which a qualified recipient elects 5-year or 10-year averaging treatment. For 1994, the limit is $742,500. Also, an individual was entitled to elect on his or her 1988 federal income tax return to exclude benefits accrued as of August 1, 1986, but these benefits are considered in determining whether additional accrued benefits are subject to the tax. For those individuals who did not elect this special rule, the $112,500/$562,500 limit is increased to $150,000/$750,000.

In addition to the federal income tax consequences applicable to all of the Plans, the Deferred Fund of the CODA is intended to be a qualified "cash or deferred arrangement" under Section 401(k) of the Code. A participant in the CODA who elects to defer a portion of his or her compensation and have the Company contribute it to the CODA will not be subject to federal income tax on the amounts contributed at the time the contributions are made. However, these contributions will be subject to social security taxes and certain federal unemployment taxes. Elective deferrals by a participant to his

or her CODA account is limited to $7,000 annually (adjusted for cost-of-living). This annual limit applies on an employee-by-employee basis to all 401(k) plans (including plans of other employers) in which the employee participates. For calendar year 1994, the adjusted limit is $9,240.

Generally, the Company will be able to deduct the amounts that it contributes to the CODA pursuant to employee elections to defer a portion of their compensation, as well as any matching or additional Company contributions it makes to the Deferred Fund. The deduction will be equal to the amount of contributions made.

With respect to loans from the CODA commencing after December 31, 1986, any interest paid by the participant will not be deductible, regardless of the purpose of the loan or use of the loan proceeds. Moreover, interest paid on any loan from any of the Plans by a "key employee," as defined in Section 416(i) of the Code, will not be deductible.

The foregoing discussion is intended only as a summary of certain relevant federal income tax consequences and does not purport to be a complete discussion of all of the tax consequences of participation in the Plans. Accordingly, participants should consult their own tax advisors with respect to all federal, state and local tax effects of participation in the Plans. Moreover, the Company does not represent that the foregoing tax consequences will apply to any particular participant's specific circumstances or will continue to apply in the future and makes no undertaking to maintain the tax-qualified status of the Plans.

Bonus Compensation Plan

General

The Company's Bonus Compensation Plan became effective on February 1, 1984 and was approved by the stockholders of the Company at the 1984 Annual Meeting of Stockholders. The Plan provides for the distribution of bonuses in cash or shares of Class A Common Stock or both. The Bonus Compensation Plan was originally adopted in 1974 by the Board of Directors of the Company and then provided only for the payment of cash bonuses. The Bonus Compensation Plan was amended in 1976 to provide, among other things, for the payment of bonuses in securities of the Company or cash or a combination of securities and cash and was amended and restated in its current form on April 2, 1991. The Bonus Compensation Plan is not subject to ERISA and is not intended to be qualified under Section 401(a) of the Code.

Eligibility and Participation

All officers, directors and employees of the Company are eligible to participate in and receive bonuses under the Bonus Compensation Plan.

Awards

Each year the Company establishes a bonus pool which is currently limited to seven percent of aggregate compensation paid or accrued by the Company for all persons eligible to receive bonuses under the Bonus Compensation Plan. Awards under the Bonus Compensation Plan are generally made based upon the employee obtaining or achieving performance criteria and, in some cases, contingent upon a requirement that the employee purchase a specified number of shares of Class A Common Stock in the Limited Market at the prevailing Formula Price. Awards of bonuses may be made in cash or shares of Class A Common Stock or a combination of cash and shares and are made upon the recommendation of group managers or the Chief Executive Officer of the Company, at the discretion of the committee administering the Bonus Compensation Plan (the "Bonus Compensation Committee"). Awards of bonuses pursuant to the Bonus Compensation Plan are generally distributed after the end of the fiscal year to which the bonus relates. Pursuant to the Certificate of Incorporation, all shares of Class A Common Stock awarded under the Bonus Compensation Plan are subject to the Company's right of first refusal and the Company's right of repurchase upon termination of employment or affiliation. See "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock." Awards of shares of Class A Common Stock may also be subject to forfeiture, in

whole or in part, in the event of the termination of the recipient's employment or affiliation with the Company prior to the expiration of certain vesting periods, as determined by the Bonus Compensation Committee.

The Bonus Compensation Plan also provides for the award of special bonuses ("Spot Bonuses") to reward extraordinary effort or special achievement. Spot Bonuses may be awarded and distributed to eligible persons at any time, in cash, up to a maximum of $1,000, by a group manager or by the President of the Company. Individual awards, other than Spot Bonuses, generally range in an amount from one week's salary to 25% of a recipient's annual salary, based upon the recipient's position with the Company; however, the Bonus Compensation Plan does not provide for a maximum or minimum number of shares of Class A Common Stock or an amount of cash which may be awarded to any recipient.

Pursuant to the Bonus Compensation Plan, bonuses to members of the Bonus Compensation Committee (other than the Chief Executive Officer of the Company) must be approved by the Chief Executive Officer and bonuses to the Chief Executive Officer must be approved by the Board of Directors. Members of the Bonus Compensation Committee are ineligible to receive awards of Class A Common Stock while serving on the Bonus Compensation Committee. For services rendered during the fiscal year ended January 31, 1993, a total of 7,776 individuals received an aggregate of approximately $11,760,000 in cash bonuses and 681,500 shares of Class A Common Stock.

Federal Income Tax Consequences

Awards under the Bonus Compensation Plan of cash bonuses and shares of Class A Common Stock that are not subject to forfeiture are taxable as ordinary income to the recipient in the year received. Awards of shares of Class A Common Stock that are subject to forfeiture will not be recognized for federal income tax purposes by recipients at the time such awards are made, unless the recipient makes an election, as discussed below, to recognize the award as income at the time received.

The recipient of shares of Class A Common Stock that are subject to forfeiture will recognize income at the time all or a portion of the award becomes nonforfeitable to the extent of the value of such nonforfeitable shares at such time. Such recipient may, however, elect to recognize, for federal income tax purposes, the value of an award of shares of Class A Common Stock on the date such shares are received, even though the shares remain subject to forfeiture at that time. The election must be made within 30 days after the award of shares.

If such an election is made, future appreciation in the value of the shares of Class A Common Stock will not be treated as taxable compensation. However, if the shares are forfeited after the taxable year in which such election is made, no deduction will be allowed to the recipient. The Company is entitled to a deduction at the time the recipient recognizes the award (or a portion thereof) as taxable income in an amount equal to the amount recognized by the recipient as taxable income.

The foregoing discussion is intended only as a summary of certain federal income tax consequences and does not purport to be a complete discussion of all of the tax consequences of participation in the Bonus Compensation Plan. Accordingly, recipients of awards under the Bonus Compensation Plan should consult their own tax advisors with respect to all federal, state and local tax effects of participation in the Bonus Compensation Plan. Moreover, the Company does not represent that the foregoing tax consequences will apply to any particular participant's specific circumstances.

Amendment and Termination

The Bonus Compensation Plan may at any time be amended or terminated, either by the Company's stockholders or by the Board of Directors, except that no amendment or termination of the Bonus Compensation Plan may, without a participant's consent, affect any bonus award previously made to such participant.

Administration

The Bonus Compensation Plan is administered by the Bonus Compensation Committee, whose members consist of three or more directors. The members of the Bonus Compensation Committee are appointed by and serve at the discretion of the Company's Board of Directors. Members of the Bonus Compensation Committee receive no compensation from the Bonus Compensation Plan for services rendered in connection therewith. The current members of the Bonus Compensation Committee are J.R. Beyster (Chairman), J.B. Wiesler and W.E. Zisch. The address of each such person is Science Applications International Corporation, 10260 Campus Point Drive, San Diego, CA 92121.

Stock Compensation Plans

General

On April 9, 1994, the Company adopted the Stock Compensation Plan and the Management Stock Compensation Plan. In connection with the Stock Compensation Plans, the Company will enter into a trust agreement ("Trust Agreement") with State Street Bank and Trust Company, as Trustee, establishing a trust ("Trust") which will hold the accounts of participants under the Stock Compensation Plans.

Eligibility, Participation and Awards

All officers and employees of the Company (including directors who are employees of the Company) are eligible to receive awards under the Stock Compensation Plans. However, only a select group of management and highly compensated senior employees are eligible to receive awards under the Management Stock Compensation Plan. It is intended that the participants of the Management Stock Compensation Plan be limited to individuals that would permit the plan to be treated as a "top hat" plan under applicable Internal Revenue Service and Department of Labor regulations.

Each year the Company will establish a discretionary stock compensation award pool. Awards under the Stock Compensation Plans will generally be made upon the employee attaining or achieving performance criteria. Awards under the Stock Compensation Plans will be determined by the Awarding Authority, which is an individual or individuals to be appointed by the Board of Directors of the Company. J.R. Beyster is the current Awarding Authority. The address of J.R. Beyster is Science Applications International Corporation, 10260 Campus Point Drive, San Diego, CA 92121.

Awards will be made in Share Units, as defined in the Stock Compensation Plans. Each Share Unit generally corresponds to one share of Class A Common Stock of the Company, but the employee receiving an award of Share Units will not have a direct ownership interest in the shares of Class A Common Stock represented by the Share Units. The Company will contribute to the Trust either shares of Class A Common Stock, or cash with which the Trustee will purchase Class A Common Stock, corresponding to the Share Units awarded under the Plan. Each employee receiving an award of Share Units will have an account established on his or her behalf in the Trust credited with the shares of Class A Common Stock allocated to the account based on the award of Share Units.

Each account established in the Trust under the Stock Compensation Plans will be subject to a vesting schedule not to exceed seven (7) years, established by the Awarding Authority. It is contemplated that the vesting schedule will generally provide for vesting at the rate of one-third at the end of each of the fifth, sixth and seventh years following the date of the award. Unvested portions of the account will be forfeited in the event of termination of employment for whatever reason (other than death) prior to full vesting of the account. Any forfeited account balances may be returned to the Company or reallocated to other participants as determined by the Company.

Distribution of vested account balances will occur at the end of the seven (7)-year vesting period (or upon termination of employment, if earlier). However, employees may elect, within 90 days of the date of the award, to receive distribution of the account as it becomes vested or, alternatively, in the case of the Management Stock Compensation Plan, to defer distribution until termination of employment.

Provisions Relating to the Trust

Although administered under a single Trust Agreement, each of the Stock Compensation Plans is a separate plan, and the accounts of each of the Stock Compensation Plans are maintained under a separate sub-trust with the Trustee. The assets of the sub-trust established for each of the Stock Compensation Plans are not available to pay benefits or satisfy liabilities of the other Plan.

The Trust is a so-called "grantor" trust or "rabbi" trust. The assets of the Trust are available to satisfy the creditors of the Company in the event of the bankruptcy or insolvency of the Company. Accordingly, participants in the Stock Compensation Plans have no direct right to obtain shares of Class A Common Stock or other assets held in the Trust in the event of such insolvency or bankruptcy and also have no direct rights against the Company for their benefits. Rather, participants have the limited rights of a general creditor whose only recourse is against the assets of the Trust (along with other general creditors of the Company). The assets of the Trust are not guaranteed or insured by any party, including the Company.

Federal Income Tax Consequences

Because awards under the Stock Compensation Plans are represented only by an interest in the Trust, and because the Trust is intended to be a so-called "grantor" trust within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Code (by virtue of the fact that the assets of the Trust are available to satisfy the creditors of the Company in the event of the Company's bankruptcy or insolvency), the participants in the Stock Compensation Plans should not be considered to have taxable income until their accounts are distributed or made available to them under the terms of the Stock Compensation Plans. This tax treatment is consistent with a series of private letter rulings issued by the Internal Revenue Service with respect to so-called "rabbi" trusts, including a private letter ruling issued in 1992 with respect to a rabbi trust designed to invest primarily or exclusively in employer stock. Although the Company believes that the analysis contained in these private letter rulings applies to the Stock Compensation Plans, the Stock Compensation Plans are not identical to the plans considered in the rulings, and, moreover, private letter rulings apply only to the taxpayer who requests and receives the ruling. Because the Company is not applying for a ruling on behalf of the Stock Compensation Plans, there can be no definite assurance that the above-described tax treatment will apply. The foregoing discussion is intended only as a summary of certain relevant federal income tax consequences and does not purport to be a complete discussion of all of the tax consequences of participation in the Stock Compensation Plans. Accordingly, participants should consult their own tax advisors with respect to all federal, state and local tax effects of participation in the Stock Compensation Plans. Moreover, the Company does not represent that the foregoing tax consequences will apply to any particular participant's specific circumstances or will continue to apply in the future.

ERISA

It is intended that the Management Stock Compensation Plan be exempt from the reporting and disclosure, participation and vesting, funding and fiduciary responsibility provisions of ERISA as a plan "which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" (a so-called "top hat" plan). The Department of Labor issued an opinion letter in 1992 indicating that a rabbi trust established to be invested primarily in stock of the employer would not cause the related plan to be "funded." Hence, the related plan was entitled to rely on the top-hat exemption.

It is intended that the Stock Compensation Plan be exempt from ERISA because it is not a plan which is designed to provide retirement income to employees or which results in the deferral of income by employees for periods extending to the termination of employment or beyond. Although the Company believes these ERISA exemptions are available to the Stock Compensation Plans, no Department of Labor opinion is being sought and no assurances can be made that the ERISA exemptions will definitely apply.

Amendments and Termination

The Board of Directors may amend or terminate the Stock Compensation Plans for any reason, including, but not limited to, adverse changes in accounting rules or tax laws or the bankruptcy, receivership or dissolution of the Company. In the event of amendment or termination, benefits will either be paid out when due under the terms of the Stock Compensation Plans or paid out as soon as practicable as determined by the Stock Compensation Plans Committee in its sole discretion.

Administration

The day-to-day administration of the Stock Compensation Plans is provided by the Stock Compensation Plans Committee appointed by the Board of Directors of the Company. D.W. Baldwin, S.P. Fisher, H.T. Hicks and W. Reed are the current members of the Stock Compensation Plans Committee. The address of each such person is Science Applications International Corporation, 10260 Campus Point Drive, San Diego, CA 92121. Members of the Committee are eligible to receive awards under the Stock Compensation Plans.

1993 Employee Stock Purchase Plan

General

The 1993 Employee Stock Purchase Plan (the "Stock Purchase Plan") was approved by the stockholders of the Company at the 1993 Annual Meeting of Stockholders and became effective on July 9, 1993. The Stock Purchase Plan is intended to qualify under Section 423(b) of the Code. The Stock Purchase Plan provides for the purchase of Class A Common Stock by participating employees through voluntary payroll deductions. At each Trade Date, the Trustee purchases for the account of each participant that whole number of shares of Class A Common Stock which may be acquired from the funds available in the participant's stock purchase account, together with the Company's five percent contribution described below. The Stock Purchase Plan is not subject to ERISA.

Eligibility

Generally, all of the Company's employees are eligible to participate in the Stock Purchase Plan except for employees in non-participating subsidiaries. No employee, however, who owns capital stock of the Company having more than five percent of the voting power or value of such capital stock will be able to participate. An employee's eligibility to participate in the Stock Purchase Plan will terminate immediately upon termination of employment with the Company.

Employees may participate in the Stock Purchase Plan by completing a payroll deduction authorization form and providing it to the designated officials of the Company. The minimum payroll deduction allowed is three percent of compensation and the maximum allowable deduction is 10% of compensation. Further, no employee is entitled to purchase an amount of Class A Common Stock having a fair market value (measured as of its purchase date) in excess of $25,000 in any calendar year pursuant to the Stock Purchase Plan and any other employee stock purchase plan that may be adopted by the Company.

Purchase of Shares

Shares of Class A Common Stock purchased under the Stock Purchase Plan may be acquired in the Limited Market or purchased from the Company out of its authorized but unissued shares. See "Market Information — The Limited Market." A maximum of 650,000 shares of Class A Common Stock (subject to adjustment in the event of a change in the capitalization of the Company effected without receipt of consideration by the Company) have been authorized for issuance by the Company as newly issued shares under the Stock Purchase Plan. For the fiscal year ended January 31, 1994, 248,077 shares of Class A Common Stock were purchased for the accounts of 1,341 participants in the Company's Stock Purchase Plan.

The purchase price to be paid for the shares of Class A Common Stock acquired for the accounts of participants will be the prevailing Formula Price. Of this amount, 95% will be paid out of the funds contributed by the participant and five percent will be paid by the Company.

Distribution and Withdrawals

Shares of Class A Common Stock acquired under the Stock Purchase Plan will be distributed to each participant no later than 90 days after the end of the Plan Year in which the acquisition occurred and in the interim will be held by the Trustee for the account of such participant.

Pursuant to the Certificate of Incorporation, all shares of Class A Common Stock purchased pursuant to the Stock Purchase Plan will be subject to the Company's right of repurchase upon the participant's termination of employment or affiliation with the Company at the then prevailing Formula Price in the case of shares held by the participant directly, and at the Formula Price in effect at the time of the annual distribution of shares out of the Stock Purchase Plan in the case of shares held by the Trustee for the benefit of the participant. All such shares will also be subject to the Company's right of first refusal in the event that the participant desires to sell such shares other than in the Limited Market. See "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock."

Participants may withdraw the money held in their stock purchase accounts at any time prior to the acquisition of shares of Class A Common Stock therewith, although upon doing so the participant will not be eligible to participate in the Stock Purchase Plan until the following Plan Year after such withdrawal. No interest will be paid on the money held in the stock purchase accounts of the participants.

Amendment and Termination

The Board of Directors of the Company may suspend or amend the Stock Purchase Plan in any respect, except that no amendment may (i) increase the maximum number of shares authorized to be issued by the Company under the Plan, (ii) increase the Company's contribution for each share purchased above five percent of the applicable purchase price for such share, (iii) cause the Stock Purchase Plan to fail to qualify under Section 423(b) of the Code or (iv) deny to participating employees the right at any time to withdraw from the Stock Purchase Plan and thereupon obtain all amounts then due to their credit in their Stock Purchase Accounts. The Stock Purchase Plan will terminate on July 31, 1995.

Administration

The Stock Purchase Plan is administered by the Company's Stock Purchase Plan Committee (the "Stock Purchase Committee"), whose members are appointed by and serve at the discretion of the Company's Board of Directors. Members of the Stock Purchase Committee receive no compensation from the Stock Purchase Plan for services rendered in connection therewith. The current members of the Stock Purchase Committee are A. Maharry, W. Reed and W.A. Roper, Jr. The address of each such person is Science Applications International Corporation, 10260 Campus Point Drive, San Diego, CA 92121.

Trustee

The Trustee of the Stock Purchase Plan is the Company.

Federal Income Tax Consequences

For federal income tax purposes, no taxable income will be recognized by a participant in the Stock Purchase Plan until the taxable year of sale or other disposition of the shares of Class A Common Stock acquired under the Plan. When the shares are disposed of by a participant two years or more from the date such shares were purchased for the participant's account by the Trustee, the participant must recognize ordinary income for the taxable year of disposition to the extent of the lesser of (i) the excess of the fair market value of the shares on the purchase date over the amount of the purchase price paid by the participant (the "Discount") or (ii) the amount by which the fair market value of the shares at disposition or death exceeds the purchase price, with any gain in excess of such ordinary income amount being treated as a long-term capital gain, assuming that the shares are a capital asset in the hands of the participant. In the event of a participant's death while owning shares acquired under the Stock Purchase Plan, ordinary income must be recognized in the year of

death in the amount specified in the foregoing sentence. When the shares are disposed of prior to the expiration of the two-year holding period (a "disqualifying disposition"), the participant must recognize ordinary income in the amount of the Discount, even if the disposition is by gift or is at a loss.

In the cases discussed above (other than death), the amount of ordinary income recognized by a participant is added to the purchase price paid by the participant and this amount becomes the tax basis for determining the amount of the capital gain or loss from the disposition of the shares.

Net capital gains are presently taxed at a maximum federal income tax rate of 28%, compared to a maximum rate of 39.6% for ordinary income. However, limitations on itemized deductions and the phaseout of personal exemptions may result in effective marginal tax rates higher than 28% for net capital gains and 39.6% for ordinary income.

The Company will not be entitled to a deduction at any time for the shares issued pursuant to the Stock Purchase Plan if a participant holding such shares continues to hold his or her shares or disposes of his or her shares after the required two-year holding period or dies while holding such shares. If, however, a participant disposes of such shares prior to the expiration of the two-year holding period, the Company is allowed a deduction to the extent of the amount of ordinary income includable in gross income by such participant for the taxable year as a result of the premature disposition of the shares.

The foregoing discussion is intended only as a summary of certain relevant federal income tax consequences and does not purport to be a complete discussion of all of the tax consequences of participation in the Stock Purchase Plan. Accordingly, participants should consult their own tax advisors with respect to all federal, state and local tax effects of participation in the Stock Purchase Plan. Moreover, the Company does not represent that the foregoing tax consequences will apply to any participant's specific circumstances or will continue to apply in the future and makes no undertaking to maintain the tax-qualified status of the Stock Purchase Plan.

Stock Option Plans

1982 Stock Option Plan

General

The 1982 Stock Option Plan was approved by the Company's Board of Directors in March 1982 and by the stockholders of the Company at the 1982 Annual Meeting of Stockholders, and was amended by the Board of Directors in April 1987, which amendments were approved by the stockholders in June 1987 (as so amended, the "1982 Option Plan"). The 1982 Option Plan authorized the granting of both incentive stock options ("ISO's") and non-qualified stock options with respect to an aggregate of 22,500,000 shares of capital stock. Commencing in September 1987, it has been the practice of the Company to grant only non-qualified options due primarily to the favorable tax benefits received by the Company upon the exercise of such options. See "General Provisions of the Option Plans — Federal Income Tax Consequences." As of March 14, 1994, the Company had 7,313,629 shares of Class A Common Stock reserved for issuance upon exercise of non-qualified options previously granted under the 1982 Option Plan; no ISO's are outstanding. The 1982 Option Plan terminated on, and no option may be granted after, June 10, 1992. The 1982 Option Plan is not subject to ERISA and is not intended to be qualified under Section 401(a) of the Code.

The exercise price of options granted under the 1982 Option Plan is determined by the Stock Option Committee and may not be less than 100% of the fair market value of the capital stock on the date of grant. Upon the exercise of an option, the exercise price is fully payable, in whole or in part, in cash or in shares of capital stock valued at the Formula Price on the date of exercise. Any withholding required as a result of the exercise of a non-qualified option may, at the discretion of the Stock Option Committee, be satisfied by withholding in shares of capital stock of the Company valued at the Formula Price on the date of exercise. All options granted pursuant to the 1982 Option Plan are non-transferable except by will or the laws of intestate succession.

Options granted under the 1982 Option Plan may be exercised over a period specified in the stock option agreement (which period may not exceed 10 years), except for options granted to persons owning shares possessing more than 10% of the total combined voting power of all classes of capital stock of the Company or any of its subsidiaries, which may not be exercisable for more than five years from the date of grant. If an optionee's employment terminates as a result of retirement or permanent disability, all options may be exercised, to the extent exercisable at the date of termination, for three additional months, but in no event beyond their respective expiration dates. If an optionee dies while employed by the Company, all options, to the extent exercisable at the date of death, may, for up to one additional year (but in no event later than their respective expiration dates), be exercised by the optionee's estate or by the person to whom the optionee's rights pass. Upon termination of employment for any other reason, all options will terminate as of the date of such termination of employment, unless otherwise provided by the Stock Option Committee at the date of grant (but in no event shall the option be exercisable for a period extending beyond 90 days following such termination). Currently, the practice of the Stock Option Committee is to provide in the grant that the optionee may exercise the option within 30 days following termination of employment, but only to the extent that the option was exercisable as of the date of such termination.

Eligibility and Participation

The 1982 Option Plan terminated on, and no options may be granted after, June 10, 1992. As of March 14, 1994, there were 11,178 separate option agreements with optionees outstanding under the 1982 Option Plan.

1992 Stock Option Plan

General

The 1992 Stock Option Plan (the "1992 Option Plan") was approved by the Board of Directors on April 10, 1992 and by the stockholders of the Company at the 1992 Annual Meeting of Stockholders. The 1992 Option Plan provides for the granting of non-qualified options to purchase a maximum of 12,000,000 shares of Class A Common Stock to key employees, consultants, directors and others expected to contribute to the success of the Company. As of March 14, 1994, the Company had 11,996,371 shares of Class A Common Stock reserved for issuance upon the exercise of options granted or to be granted under the 1992 Option Plan. The 1992 Option Plan is not subject to ERISA and is not intended to be qualified under Section 401(a) of the Code.

The exercise price of options granted under the 1992 Option Plan is 100% of the fair market value of the Class A Common Stock on the date of grant. Upon the exercise of an option, the exercise price must be paid in full in cash or in shares of Class A Common Stock valued at the Formula Price on the date of exercise. Any withholding required as a result of the exercise of an option may, at the discretion of the Stock Option Committee, be satisfied by withholding in shares of Class A Common Stock valued at the Formula Price on the date of exercise. All options granted under the 1992 Option Plan are non-transferable except by will or the laws of intestate succession.

Options granted under the 1992 Option Plan may be exercised over a period specified in the Option Agreement (which period may not exceed 10 years). If an optionee's employment terminates as a result of retirement or permanent total disability, all options may be exercised, to the extent exercisable at the date of termination, for 90 additional days, but in no event beyond their respective expiration dates. If an optionee dies while employed by or affiliated with the Company, all unexercised options, to the extent exercisable at the date of death, may, for up to one additional year, or such shorter period as may be specified in the Option Agreement (but not beyond their respective expiration dates), be exercised by the optionee's estate or the person to whom the optionee's rights pass by will or the laws of descent and distribution. Upon termination of employment for any other reason, all options will terminate as of the date of termination of employment or affiliation, unless such date is

extended by the Stock Option Committee (but not beyond their respective expiration dates). Currently, the practice of the Stock Option Committee is to provide in the grant that the optionee may exercise the option within 30 days following termination of employment or affiliation, but only to the extent that the option was exercisable as of the date of such termination.

Eligibility and Participation

The persons eligible to receive options under the 1992 Option Plan are key employees, directors and consultants. No option may be granted to any individual who, at the time the option is granted, owns more than 10% of the total combined voting power of all classes of capital stock of the Company. As of March 14, 1994, there were 7,187 separate option agreements with optionees outstanding under the 1992 Option Plan. Other than the foregoing, the 1992 Option Plan does not provide any limit as to the number of shares that may be subject to options granted to any one individual.

Amendment and Termination

The 1992 Option Plan may be amended, suspended or terminated by the Board of Directors, except that no such amendment may, without the approval of the holders of outstanding shares of the Company having a majority of the general voting power, (i) increase the maximum number of shares for which options may be granted (other than by reason of changes in capitalization and similar adjustments), (ii) change the provisions of the 1992 Option Plan relating to the establishment of the exercise price (other than the provisions relating to the manner of determination of fair market value of the Company's capital stock to conform to any applicable requirements of the Code or regulations issued thereunder) or (iii) permit the granting of options to members of the Stock Option Committee. The 1992 Option Plan by its terms will terminate on, and no option may be granted after, July 31, 1995.

General Provisions of the Option Plans

General

All shares issued upon exercise of options granted under the 1982 Option Plan or the 1992 Option Plan (collectively, the "Option Plans") are subject to (i) the Company's right of first refusal in the event that the optionee desires to sell his or her shares other than in the Limited Market and (ii) the Company's right of repurchase upon termination of the optionee's employment or affiliation. See "Description of Capital Stock — Common Stock — Restrictions on Class A Common Stock." Only shares of Class A Common Stock will be issued upon exercise of options. See "Description of Capital Stock — Common Stock — General."

The Company follows the practice of granting stock options to employees, contingent upon the employee attaining a certain level of contract awards for the Company during a specified period or satisfying other performance criteria and, in some cases, also contingent upon a requirement that such individuals purchase a specified number of shares of Class A Common Stock in the Limited Market at the prevailing Formula Price. Options generally become exercisable on a cumulative basis over a four-year period.

If the outstanding shares of the capital stock of the Company are changed into, or exchanged for a different number or kind of shares or securities of the Company through reorganization, merger, recapitalization, reclassification or similar transaction, or if the number of outstanding shares is changed through a stock split, stock dividend, stock consolidation or similar transaction, an appropriate adjustment (determined by the Board of Directors in its sole discretion) will be made in the number and kind of shares and the exercise price per share of options which are outstanding or which may be granted thereafter. No adjustment to the number of shares reserved for issuance by the Company under the 1982 Option Plan was made as a result of the reorganization of the Company in 1984. As of March 14, 1994, there were 7,313,629 shares of Class A Common Stock reserved for issuance under the 1982 Option Plan and 11,996,371 shares of Class A Common Stock reserved for issuance under the 1992 Option Plan.

Under the 1982 Option Plan, the Stock Option Committee may accelerate the exercisability of options in the case of an optionee whose employment is terminated by reason of a sale or other disposition by the Company of assets in respect of which the optionee was employed; and options will become fully exercisable in the case of (i) approval of the Board of Directors of (a) a consolidation or merger in which the Company is not the surviving corporation or pursuant to which shares of capital stock would be converted into cash, securities or other property, other than a merger in which stockholders of the Company immediately prior thereto will have the same proportionate ownership of capital stock of the surviving corporation immediately thereafter, or (b) a sale, lease, exchange or other transfer of all or substantially all of the assets of the Company or (ii) any person (other than the Company or any subsidiary or employee benefit plan thereof) becoming the beneficial owner of more than 25% of the outstanding Common Stock without the prior approval of the Board of Directors.

Under the 1992 Option Plan, the options will become fully exercisable upon any person (other than the Company or any subsidiary or employee benefit plan thereof) becoming the beneficial owner of more than 25% of the outstanding capital stock without the prior approval of the Board of Directors. The Stock Option Committee is also given the discretion to accelerate or defer the exercise of options in other circumstances, at the Committee's discretion.

Administration

The Option Plans are administered by the Stock Option Committee whose members consist of three or more directors or other individuals appointed by and serve at the discretion of the Company's Board of Directors. The members of the Stock Option Committee are not eligible to receive options while serving on the Stock Option Committee. The Stock Option Committee is appointed annually by the Board of Directors, which may also fill vacancies or replace members of the Stock Option Committee. Subject to the express provisions of the Option Plans, the Stock Option Committee has the authority to (i) interpret the Option Plans, (ii) prescribe, amend and rescind rules and regulations relating to the Option Plans, (iii) determine the individuals to whom and the time or times at which options may be granted and the number of shares to be subject to each option granted under the Option Plans, (iv) determine the terms and conditions of the option agreements under the Option Plans (which need not be identical) and (v) make all other determinations necessary or advisable for the administration of the Option Plans. In addition, the Stock Option Committee may, with the consent of the affected optionees and subject to the general limitations of the Option Plans, make any adjustment in the exercise price, the number of shares subject to, or the term of, any outstanding option by cancellation of such option and a subsequent regranting of such option, or by amendment or substitution of such option. Options which have been so amended, regranted or substituted may have higher or lower exercise prices, cover a greater or lesser number of shares of capital stock, or have longer or shorter terms, than the prior options. The members of the Stock Option Committee receive no compensation from the Option Plans for services rendered in connection therewith. The current members of the Stock Option Committee are J.R. Beyster (Chairman), J.B. Wiesler and W.E. Zisch. The address of each such person is Science Applications International Corporation, 10260 Campus Point Drive, San Diego, CA 92121.

Federal Income Tax Consequences

Non-Qualified Options. All outstanding options under the 1982 Option Plan and all options granted or to be granted under the 1992 Option Plan are non-qualified options. Generally, the optionee will not be taxed upon grant of any non-qualified option but rather, at the time of exercise of such option, the optionee will recognize ordinary income for federal income tax purposes in an amount equal to the excess of the fair market value at the time of exercise of the capital stock purchased over the exercise price. The Company will generally be entitled to a tax deduction at such time and in the same amount that the optionee realizes ordinary income.

If capital stock acquired upon the exercise of a non-qualified option is later sold or exchanged, then the difference between the sale price and the fair market value of such capital stock on the date which governs the determination of ordinary income is generally taxable (provided the stock is a

capital asset in the holder's hands) as long-term or short-term capital gain or loss depending upon whether the holding period for such capital stock at the time of disposition is more or less than one year.

Exercise with Shares of Capital Stock

If payment of the exercise price of a non-qualified option is made by surrendering previously owned shares of capital stock, the following rules apply:

(a) No gain or loss will be recognized as a result of the surrender of shares in exchange for an equal number of shares subject to the non-qualified option, and the surrender of shares will not be treated as a disqualifying disposition of any stock acquired through exercise of an ISO.

(b) The number of shares received equal to the shares surrendered will have a basis equal to the shares surrendered and a holding period that includes the holding period of the shares surrendered.

(c) Any additional shares received (i) will be taxed as ordinary income in an amount equal to the fair market value of the shares at the time of exercise, (ii) will have a basis equal to the amount included in taxable income by the optionee and (iii) will have a holding period that begins on the date of the exercise.

The foregoing discussion is intended only as a summary of certain federal income tax consequences and does not purport to be a complete discussion of all of the tax consequences of participation in the Option Plans. Accordingly, holders of options granted under the Option Plans should consult their own tax advisors for specific advice with respect to all federal, state or local tax effects before exercising any options and before disposing of any shares of capital stock acquired upon the exercise of an option. Moreover, the Company does not represent that the foregoing tax consequences apply to any particular option holder's specific circumstances or will continue to apply in the future.

Outstanding Options

The following table presents information as of March 14, 1994 with respect to shares of Class A Common Stock subject to outstanding stock options granted under each of the Option Plans. There are 11,178 and 7,187 separate option agreements which evidence the options outstanding under the 1982 Option Plan and 1992 Option Plan, respectively.

1982 Option Plan

Shares of Class A Common Stock	Average Exercise Price	Expiration Dates
1,255,909	$ 8.79	March 1994 through February 1995
1,294,396	$ 9.60	March 1995 through February 1996
3,081,968	$10.38	March 1996 through February 1997
1,681,356	$11.16	March 1997 through June 1997

1992 Option Plan

Shares of Class A Common Shares	Average Exercise Price	Expiration Dates
975,490	$11.79	August 1997 through February 1998
2,615,154	$12.96	March 1998 through March 1999

On April 9, 1994, the Formula Price of the Class A Common Stock was $14.46.

DESCRIPTION OF CAPITAL STOCK

General

The Company is authorized to issue 100,000,000 shares of Class A Common Stock, par value $.01 per share, 5,000,000 shares of Class B Common Stock, par value $.05 per share, and 3,000,000 shares of Preferred Stock, par value $.05 per share (the "Preferred Stock"). As of March 14, 1994, there were 44,125,061 shares of Class A Common Stock, 360,880 shares of Class B Common Stock and no shares of Preferred Stock issued and outstanding. The Class A Common Stock and Class B Common Stock are sometimes collectively or individually referred to as the "Common Stock."

Common Stock

General

Except as otherwise provided by law, the holders of shares of Class A Common Stock and Class B Common Stock vote together as a single class in all matters, with each holder of Class A Common Stock having one vote per share and each holder of Class B Common Stock having five votes per share. The holders of shares of Class A Common Stock and Class B Common Stock are entitled to cumulate their votes for the election of directors. Cumulative voting entitles each stockholder to cast the number of votes that equals the number of shares of Class A Common Stock or five times the number of shares of Class B Common Stock held by such stockholder multiplied by the number of directors to be elected. Each stockholder may cast all of such votes for a single nominee or may distribute them among any two or more nominees as such stockholder sees fit. The Certificate of Incorporation provides for a classified Board of Directors consisting of three classes of directors, as nearly as equal in number as practicable. The number of authorized directors is currently fixed at 22 directors of which 8 are Class I and the remaining positions are evenly divided between Class II and Class III directors. Each year the stockholders elect a different class of directors to serve a three-year term. As a result of the classification of the Board of Directors, the votes of a greater number of shares would be required to ensure the election of a director than would be required without such classification.

Subject to the prior rights of the holders of any Preferred Stock then outstanding, the holders of Class A Common Stock and Class B Common Stock are entitled to receive dividends, out of funds legally available therefor, when and as declared by the Board of Directors and to participate equally and ratably in the net assets of the Company available for distribution in the event of liquidation, dissolution or winding up, after payment of any amounts due to creditors; provided, however, that any dividend or distribution with respect to a share of Class B Common Stock must be five times the dividend or distribution, as the case may be, with respect to a share of Class A Common Stock.

Holders of Class A Common Stock have no conversion rights and holders of Class A Common Stock and Class B Common Stock have no preemptive or subscription rights. Neither class of Common Stock may be subdivided, consolidated, reclassified or otherwise changed unless the relative powers, preferences, rights, qualifications, limitations and restrictions applicable to the other class of Common Stock are maintained. In any merger, consolidation or business combination to which the Company is a party (other than a merger, consolidation or business combination in which the Company is the surviving corporation and which does not result in any reclassification of or change in the outstanding shares of Common Stock), the consideration to be received with respect to each share of Class B Common Stock must be equal to five times the consideration to be received with respect to each share of Class A Common Stock, except that if capital stock is distributed in any such transaction, such shares may differ as to the rights of the holders thereof only to the extent that such rights differ pursuant to Article FOURTH of the Certificate of Incorporation. All shares of Class A Common Stock and Class B Common Stock presently outstanding are, and the shares offered hereby upon full payment therefor will be, fully paid and nonassessable.

Pursuant to the terms of the Certificate of Incorporation, the Company is prohibited from issuing any additional shares of Class B Common Stock. Each share of Class B Common Stock is convertible at

any time, at the option of the holder thereof, into five shares of Class A Common Stock, and all shares of Class B Common Stock reacquired by the Company will be retired and will not be available for reissuance.

Article FOURTEENTH of the Certificate of Incorporation generally requires that mergers and certain other business combinations ("Business Combinations") between the Company and any holder of five percent or more of the Company's outstanding voting power (a "Related Person") must be approved by the holders of securities having 80% of the Company's outstanding voting power, as well as by the holders of a majority of such securities that are not owned by the Related Person. Under Delaware law, unless the Certificate of Incorporation provides otherwise, only a majority of the Company's outstanding voting power is required to approve certain of these transactions, such as mergers and consolidations, while certain other of these transactions would not require stockholder approval.

The 80% and majority of independent voting power requirements of Article FOURTEENTH (the "Supermajority Vote Requirements") will not apply, however, to a Business Combination with a Related Person, if (i) the transaction is approved by the Board of Directors prior to the time the Related Person becomes a Related Person (i.e., prior to the time the Related Person acquired beneficial ownership of five percent or more of the Company's outstanding voting power), (ii) the transaction is approved by at least a majority of the members of the Board of Directors who are unaffiliated with the Related Person and who were directors before the Related Person became a Related Person or (iii) the Business Combination involves only the Company and one or more of its subsidiaries and certain other conditions are satisfied.

Article FOURTEENTH also provides that in the event a Business Combination with a Related Person subject to the Supermajority Vote Requirements is consummated, stockholders of the Company who voted against the Business Combination, at their option, will have the right to receive a price which is equal to (i) the price offered by the Related Person in the Business Combination or (ii) the greater of (a) the highest price per share paid by the Related Person in acquiring shares of capital stock of the Company or (b) a price which bears the same percentage relationship to the market price of the Company's capital stock immediately preceding the announcement of the Business Combination as the highest price paid by the Related Person for any of the Company's capital stock bears to the market price of the Company's capital stock immediately before the Related Person initially acquired any shares of the Company's capital stock.

Article FOURTEENTH was adopted by the stockholders of the Company at the 1983 Annual Meeting of Stockholders and the full text of such Article appeared as Exhibit B to the Company's Proxy Statement for that meeting. Additional copies of Article FOURTEENTH may be obtained, upon request, by writing the Company at 10260 Campus Point Drive, San Diego, California 92121, Attention: Corporate Secretary.

The Company acts as its own transfer agent for the Class A Common Stock and Class B Common Stock.

As of March 14, 1994, there were 10,038 record holders of Class A Common Stock and 135 record holders of Class B Common Stock.

Restrictions on Class A Common Stock

All the shares of Class A Common Stock presently outstanding are, and all shares of Class A Common Stock offered hereby will be, subject to certain restrictions (including restrictions on their transferability) set forth in Article FOURTH of the Certificate of Incorporation, which restrictions provide substantially as follows:

Right of Repurchase upon Termination of Employment or Affiliation

All shares of Class A Common Stock owned by a person who is an employee or director of, or a consultant to, the Company (except for shares of Class A Common Stock that are held by a stockholder

who received such shares (i) in connection with the reorganization of the Company in 1984 in exchange for shares of the Company which immediately prior thereto were not subject to a right of repurchase upon termination of employment or affiliation on the part of the Company, (ii) upon exercise of a non-qualified stock option granted prior to October 1, 1981 under the Company's 1979 Stock Option Plan which were not converted into ISO's, (iii) in exchange for shares of Class B Common Stock that were not subject to a right of repurchase upon termination of employment or affiliation on the part of the Company or (iv) pursuant to a stock dividend or a stock split on the outstanding shares of Class A Common Stock which have been theretofore issued under any of the circumstances described in clauses (i), (ii), (iii) or this clause (iv)) will be subject to the Company's right of repurchase upon the termination of such holder's employment or affiliation with the Company. Such right of repurchase will also be applicable to all shares of Class A Common Stock which such person has the right to acquire after his or her termination of employment or affiliation pursuant to any of the Company's employee benefit plans (other than the Company's Profit Sharing Retirement Plan, Profit Sharing Retirement Plan II, Employee Stock Ownership Plan or CODA, or any other retirement or pension plan adopted by the Company or any of its subsidiaries which by its terms does not provide for the Company's right to repurchase shares issued thereunder upon termination of employment or affiliation) or pursuant to any option or other contractual right to acquire shares of Class A Common Stock which was outstanding at the date of such termination of employment or affiliation.

The Company's right of repurchase is exercised by mailing a written notice to such holder within 60 days following termination of employment or affiliation. If the Company repurchases the shares, the price will be the Formula Price per share (i) on the date of such termination of employment or affiliation, in the case of shares owned by the holder at that date and shares issuable to the holder after that date pursuant to any option or other contractual right to acquire shares of Class A Common Stock which were outstanding at that date or (ii) on the date such shares are distributed to the holder, in the case of shares distributable to the holder after his or her termination of employment or affiliation pursuant to any of the Company's employee benefit plans. The Company will, in the event it exercises its right of repurchase upon termination of employment or affiliation, pay for such shares in cash within 90 days after the date referred to in (i) or (ii) above, as the case may be.

Right of First Refusal

In the event that a holder of Class A Common Stock desires to sell any of his or her shares to a third party other than in the Limited Market, such person must first give notice to the Corporate Secretary of the Company consisting of: (i) a signed statement setting forth such holder's desire to sell his or her shares of Class A Common Stock and that he or she has received a bona fide offer to purchase such shares; (ii) a statement signed by the intended purchaser containing (a) the intended purchaser's full name, address and taxpayer identification number, (b) the number of shares to be purchased, (c) the price per share to be paid, (d) the other terms under which the purchase is intended to be made and (e) a representation that the offer, under the terms specified, is bona fide and (iii) if the purchase price is payable in cash, in whole or in part, a copy of a certified check, cashier's check or money order payable to such holder from the purchaser in the amount of the purchase price to be paid in cash.

Upon receiving such notice, the Company will have the right, exercisable within 14 days, to purchase all of the shares specified in the notice at the offer price and upon the same terms as set forth in the notice. In the event the Company does not exercise such right, the holder may sell the shares specified in the notice within 30 days thereafter to the person specified in the notice at the price and upon the terms and conditions set forth therein. The holder may not sell such shares to any other person or at any different price or on any different terms without first re-offering the shares to the Company.

Transfers Other than by Sale

Except for sales in the Limited Market and as described above, no holder of Class A Common Stock may sell, assign, pledge, transfer or otherwise dispose of or encumber any shares of Class A

Common Stock without the prior written approval of the Company, and any attempt to do so without such prior approval will be null and void. The Company may condition its approval of a transfer of any shares of Class A Common Stock, other than by sale by an employee or director of, or a consultant to the Company or by a person who acquired such shares other than by purchase, directly or indirectly, from an employee or director of, or a consultant to the Company, upon the transferee's agreement to hold such shares subject to the Company's right to repurchase such shares upon the termination of employment or affiliation of the employee, director or consultant.

Lapse or Waiver of Restrictions

All restrictions upon the shares of Class A Common Stock will automatically terminate (i) if the Company makes an underwritten offering of either class of its Common Stock, or securities convertible into any class of its Common Stock, to the general public or (ii) if the Company applies to have any class of its Common Stock, or securities convertible into any class of its Common Stock, listed on a national securities exchange. In addition, the Board of Directors may waive any or all of the restrictions on shares of Class A Common Stock in such other circumstances as the Board deems appropriate.

Restrictions on Class B Common Stock

Substantially all of the presently outstanding shares of Class B Common Stock are subject to a right of first refusal on the part of the Company in the event a stockholder desires to sell his or her shares of Class B Common Stock other than in the Limited Market. Such right is exercisable by the Company at the third-party offer price. In addition, all of the presently outstanding shares of Class B Common Stock that were issued subsequent to October 1, 1981 (other than shares issued subsequent to that date which were distributed out of, or are presently held in, the Profit Sharing Retirement Plan, Profit Sharing Retirement Plan II, Employee Stock Ownership Plan and CODA or that were issued upon the exercise of stock options granted prior to that date) are subject to a right of repurchase on the part of the Company upon termination of the stockholder's employment or affiliation with the Company. This right is generally exercisable by the Company at a price equal to five times the Formula Price for Class A Common Stock prevailing at the time of such termination. By their terms, all such restrictions will terminate in the event that either class of the Common Stock is listed on any national securities exchange or is traded on a regular basis, as determined by the Company, in the over-the-counter market.

Preferred Stock

Pursuant to the Certificate of Incorporation, the Board of Directors may, from time to time, authorize the issuance of one or more series of Preferred Stock and fix by resolution or resolutions adopted at the time of issuance the designations, preferences and relative rights, qualifications and limitations of each series. Each series of Preferred Stock could, as determined by the Board of Directors at the time of issuance, rank senior to the Class A Common Stock and Class B Common Stock with respect to dividends and redemption and liquidation rights.

The Certificate of Incorporation authorizes the Board of Directors to determine, among other things, with respect to each series of Preferred Stock which may be issued: (i) the dividend rates, conditions and preferences, if any, in respect of the Class A Common Stock and Class B Common Stock and among the series of Preferred Stock, (ii) whether dividends would be cumulative and, if so, the date from which dividends on the series would accumulate, (iii) whether, and to what extent, the holders of the series would have voting rights in addition to those prescribed by law, (iv) whether, and upon what terms, the series would be convertible into or exchangeable for other securities, (v) whether, and upon what terms, the series would be redeemable, (vi) the preference, if any, to which the series would be entitled in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company and (vii) whether or not a sinking fund would be provided for the redemption of the series and, if so, the terms and conditions thereof. With regard to dividends and redemption and liquidation rights, the Board of Directors may determine that any particular series of Preferred Stock may rank junior to, on a parity with or senior to any other series of Preferred Stock.

Holders of shares of Preferred Stock will have no preferential right to purchase any shares of the Company's capital stock. The Company has no present intention or plan to issue any shares of Preferred Stock.

LEGAL OPINION

The legality of the Class A Common Stock offered hereby has been passed upon for the Company and the Selling Stockholders by Douglas E. Scott, Esquire, Corporate Vice President and General Counsel of the Company. As of April 11, 1994, Mr. Scott owned of record 10,168 shares of Class A Common Stock, had the right to acquire an additional 20,700 shares pursuant to previously granted stock options and beneficially owned a total of 3,537 shares through the Company's retirement plans.

EXPERTS

The consolidated financial statements incorporated into this Prospectus by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1994 have been so incorporated in reliance on the report of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.