

J. ROBERT BEYSTER

BIOCOM CEO ROUNDTABLE

January 31, 2008

THANK YOU ALL FOR BEING HERE THIS EVENING AND THANKS TO JOE PANETTA FOR ASKING ME TO DISCUSS MY TIME AT SAIC. JOE AND MY DAUGHTER MARY ANN HAD A MEETING TO SET UP THE PROGRAM AND THEY PICKED A COUPLE OF TOPICS THAT THEY THOUGHT WOULD BE OF PARTICULAR INTEREST TO YOU, BASED ON MY EXPERIENCES LEADING SAIC OVER 35 YEARS FROM A TWO-PERSON COMPANY TO A 45,000-PERSON COMPANY WITH \$8 BILLION IN SALES. AS YOU MAY KNOW, WE ACCOMPLISHED THAT AS A PRIVATE COMPANY, AND I'M GOING TO TALK ABOUT THE VALUES, THE CULTURE AND THE LEADERSHIP PRINCIPLES – PARTICULARLY THE CONCEPT OF MERIT-BASED EMPLOYEE OWNERSHIP – THAT I BELIEVE MADE OUR SUCCESS POSSIBLE.

I WAS THE CHAIRMAN AND CEO OF SAIC FROM 1969 TO 2004 AND DURING MY TENURE WE CREATED AN EMPLOYEE OWNERSHIP CULTURE THAT WAS UNIQUE AMONG U.S. COMPANIES. WHEN MOST MANAGERS THINK ABOUT ADOPTING EMPLOYEE OWNERSHIP FOR THEIR COMPANIES THEY INVITE IN THEIR HUMAN RESOURCE PEOPLE OR THEIR CONSULTANTS AND THEY GET A BRIEFING ABOUT EMPLOYEE STOCK OWNERSHIP PLANS, THE TRADITIONAL “ESOP.” BUT WITHIN THE DEFINITION WE CREATED AT SAIC, EMPLOYEE OWNERSHIP MEANS MUCH MORE THAN HAVING SOME STOCK PLACED INTO AN EMPLOYEE’S RETIREMENT

ACCOUNT. WE OPERATED A TRADITIONAL ESOP AS PART OF OUR OVERALL COMPENSATION SYSTEM. WE HAD AN ESOP THAT HELD 25% OF THE STOCK AND A 401(K) WITH AROUND 24% OF THE STOCK AND 51% WAS EMPLOYEE-OWNED DIRECTLY. IN AWARDING THOSE EMPLOYEE-OWNED SHARES, WE CHOSE TO AWARD ADDITIONAL OPTIONS OF COMPANY STOCK TO EMPLOYEES WHO PARTICIPATED IN THE PROCESS OF SATISFYING COMPANY BUSINESS GOALS. IN ADDITION, WE CONSIDERED PARTICIPATION IN THE OPERATING COMPANY'S MANAGEMENT TO BE ESSENTIAL AND REWARDABLE.

THIS APPROACH REQUIRES A DIFFERENT MINDSET ON THE PART OF BOTH MANAGEMENT AND THE EMPLOYEES. IN ORDER TO MOTIVATE AND THEN REWARD EMPLOYEES FOR THEIR EFFORTS, YOU NEED AN OPEN CULTURE WHERE YOU GIVE EMPLOYEES THE OPPORTUNITY TO SHOW INITIATIVE AND PROVIDE THEIR INPUT. SOMETIMES THEY SUCCEED AND SOMETIMES THEY FAIL. SENIOR MANAGEMENT MAY FEAR THAT INVOLVING EMPLOYEES COULD INTERFERE WITH THEIR DECISIONS OR CORPORATE PLANS. ON THE OTHER SIDE, SOME EMPLOYEES MAY NOT WANT TO TAKE THE RISK OF HAVING A PART OF THEIR NET WORTH INVESTED IN THEIR EMPLOYER'S STOCK. USING STOCK AS A MEANINGFUL PART OF EMPLOYEE COMPENSATION IS NOT THE USUAL APPROACH FOR BUILDING A GROWTH COMPANY. BUT I ALWAYS FELT IT WAS THE FAIR ONE.

IN AN EFFORT TO MAKE THE CASE FOR A MERITOCRACY-BASED EMPLOYEE OWNERSHIP SYSTEM A LITTLE CLEARER AND TO PROVIDE A “HOW TO” MANUAL FOR COMPANIES THAT WOULD LIKE TO ADOPT IT, AT THE URGING OF MY DAUGHTER MARY ANN I WROTE A BOOK ENTITLED “THE SAIC SOLUTION.” THE BOOK DESCRIBES IN 14 CHAPTERS HOW WE BUILT AN EMPLOYEE-OWNED COMPANY STARTING WITH JUST TWO PEOPLE, MYSELF AND ONE PROGRAMMER, INTO AN 8-BILLION-DOLLAR, EMPLOYEE-OWNED TECHNOLOGY COMPANY WITH 45,000 EMPLOYEES AND 9,000 CONTRACTS.

TO START THE DISCUSSION, I WOULD LIKE TO RUN THROUGH SOME OF THE IDEAS THAT ARE INCLUDED IN THE BOOK AND EXPLAIN WHY I FEEL IT WILL HELP ANYONE WHO IS CONSIDERING IMPLEMENTING A TRADITIONAL EMPLOYEE STOCK OWNERSHIP PLAN TO THINK BEYOND THAT TO INCLUDE DIRECT STOCK OWNERSHIP. SAIC DEMONSTRATED THAT HYBRID OWNERSHIP STRUCTURES CAN WORK.

THE BOOK IS A STORY ABOUT THE MOTIVATING POWER OF EMPLOYEE OWNERSHIP AND THE CULTURE THAT ENSUES IN A COMPANY THAT IS OWNED BY ITS EMPLOYEES. WE LEARNED THAT MEANINGFUL EMPLOYEE OWNERSHIP WILL HELP YOUR COMPANY RECRUIT SMART PEOPLE AND UNITE AND FOCUS EVERYONE’S EFFORTS ON DELIVERING VALUE FOR THE COMPANY AND ITS CUSTOMERS. THIS WAS MY EXPERIENCE AT SAIC, WHERE WE CONSISTENTLY

WERE ABLE TO ATTRACT SOME OF THE BEST AND BRIGHTEST MINDS IN THE NATION.

I LEARNED EARLY ON AFTER STARTING SAIC THAT IT IS BEST FOR START-UP COMPANIES TO AVOID OUTSIDE INVESTORS AND TO RELY ON EMPLOYEES, FAMILY MEMBERS, FRIENDS AND FRIENDLY BANKERS FOR FINANCIAL SUPPORT. AT SAIC, WE GREW FROM INTERNAL INVESTMENTS, INCLUDING MY OWN, FOR 35 YEARS. WE NEVER REALLY HAD TO BORROW MONEY. WE DID BORROW MONEY JUST TO SEE WHAT IT WAS LIKE. FORTUNATELY WE BORROWED IT FROM THE LOCAL BRANCH OF THE BANK OF AMERICA, WHICH HAD A VERY TOLERANT ATTITUDE TOWARD YOUNG ENTERPRISES AT THE TIME. THEY WERE WILLING TO COVER OUR ACCOUNTS RECEIVABLE NO MATTER HOW BIG THEY WERE OR WHAT OUR NET WORTH WAS. POSSIBLY THAT WAS BECAUSE ALMOST ALL OF OUR RECEIVABLES WERE WITH THE U.S. GOVERNMENT, WHICH IS A NOTORIOUSLY "SLOW PAY," BUT USUALLY NOT A "NO PAY" CLIENT.

SELF FINANCING MAY NOT BE POSSIBLE FOR HARDWARE-ORIENTED COMPANIES THAT HAVE LARGE CAPITAL INVESTMENT REQUIREMENTS AND ARE PRODUCING A PRODUCT THAT HAS NOT BEEN TESTED COMPLETELY. EACH CIRCUMSTANCE IS DIFFERENT. BUT I BELIEVE THAT EMPLOYEE OWNERS WANT THEIR COMPANY TO SUCCEED AND WILL TRY TO FIND A WAY TO FINANCE THEIR EFFORTS. I THINK BIOTECHNOLOGY IS AN INDUSTRY WHERE THIS APPROACH WILL WORK IN MOST CIRCUMSTANCES.

AT SAIC, WE WANTED TO FOCUS ON PROGRAMS AND TOPICS THAT WOULD BE IMPORTANT TO THE NATIONAL INTEREST. THAT IMMEDIATELY POINTED TO DOING HIGH-LEVEL CONTRACT RESEARCH FOR THE FEDERAL GOVERNMENT AND WE RECEIVED EARLY SUPPORT WITH IMPORTANT CONTRACTS COMING FROM GOVERNMENT AS WELL AS SOME COMMERCIAL SOURCES. WITH A CULTURE THAT EMPHASIZED BEING INVOLVED IN IMPORTANT, HIGH-LEVEL PROGRAMS, WE WERE ABLE TO RECRUIT THE BEST EMPLOYEES AND DO THE BEST JOB BY PUTTING OUR CUSTOMERS FIRST. I DISCOVERED EARLY IN THE GAME THAT ONE OF THE FACTORS THAT MOTIVATED PEOPLE WAS HAVING A TOP-NOTCH TECHNICAL STAFF THAT COULD REPRESENT THE COMPANY WELL, HELP RECRUIT, AND BEAR SOME OF THE LOAD OF MARKETING.

IN ORDER TO MAKE THIS MODEL WORK, EACH EMPLOYEE WAS EMPOWERED TO TAKE ACTION TO GENERATE BUSINESS, MARKET THEIR SKILLS AND PERFORM ON THAT BUSINESS. THIS BECAME A CULTURE WHERE PEOPLE REALLY MATTERED, AND WHERE THEY HAD THE FREEDOM OF ACTION TO PURSUE BUSINESS OPPORTUNITIES THEY WANTED TO WORK ON. IN RETURN, THEY WOULD BE AWARDED OPTIONS OR SHARES OF COMPANY STOCK AND BE ALLOWED TO PURCHASE ADDITIONAL STOCK FOR THEIR ACCOUNT. BEING REWARDED ON A PERFORMANCE BASIS APPEALED TO A LOT OF PEOPLE, AS IT APPEALED TO ME. THIS RESULTED IN THE EMPLOYEES BEING “GLUED” IN BY THE SYSTEM. SAIC BLENDED EMPLOYEE OWNERSHIP WITH A MERITOCRACY.

THIS SYSTEM VIRTUALLY IGNORED THE SENIORITY SYSTEM THAT IS POPULAR IN SO MANY COMPANIES TODAY. IT DIDN'T MATTER TO US WHETHER YOU HAD BEEN AT SAIC A SHORT TIME OR A LONG TIME. YOUR RAISES AND BONUSES WERE BASED ON YOUR UNIT'S PERFORMANCE AND YOUR PERSONAL CONTRIBUTION, NOT ON YOUR TENURE.

WE CREATED A COMPANY WHERE PARTICIPATION IN DECISION MAKING EXISTED THROUGHOUT THE ORGANIZATION, WITH MODEST PROFIT EXPECTATIONS SATISFYING CORPORATE GOALS, WHERE GROWING RESOURCES WERE DIRECTED TO FINANCE NEW GROWTH, WHERE A MINIMUM OF EFFORT WAS SPENT ON CORPORATE PLANNING, AND WHERE INTERNAL EXPERIMENTS WERE CONSTANTLY CONDUCTED TO MAKE SURE THE SYSTEM WAS WORKING.

OF COURSE, IT GOES WITHOUT SAYING THAT THE CORPORATE MANAGEMENT MUST BE TOP-NOTCH, PROVEN INDIVIDUALS WITH A HIGH LEVEL OF TECHNICAL OR ADMINISTRATIVE SKILL WHO SINCERELY BELIEVE IN THE POWER OF EMPLOYEE OWNERSHIP. AND WE MAINTAINED CONSTRAINTS THROUGH A STRONG FINANCIAL TRACKING AND MANAGEMENT SYSTEM TO MAKE SURE NO ONE COULD TAKE ON TOO MUCH RISK ON THE COMPANY'S BEHALF.

FROM A CORPORATE GOVERNANCE STANDPOINT, WE CREATED A BOARD OF DIRECTORS WITH A 50:50 MIX OF INSIDE DIRECTORS AND OUTSIDE DIRECTORS.

THE INSIDE DIRECTORS WERE SAIC SENIOR EXECUTIVES AND THE OUTSIDE DIRECTORS WERE INFLUENTIAL BUSINESS PEOPLE, FORMER FEDERAL GOVERNMENT EMPLOYEES, AND MILITARY LEADERS. THE INSIDE DIRECTORS HAD AN INTIMATE KNOWLEDGE OF HOW THE COMPANY WORKED, INCLUDING ITS CUSTOMERS, EMPLOYEES, STRENGTHS AND WEAKNESSES. THE OUTSIDE DIRECTORS WERE VERY HELPFUL IN PROVIDING A BIG-PICTURE PERSPECTIVE AND VALUABLE CONTACTS IN AND OUT OF GOVERNMENT. WE WANTED A BOARD THAT WOULD PROTECT THE COMPANY'S UNIQUE EMPLOYEE OWNERSHIP CULTURE AND HELP US WIN BUSINESS AND ACQUIRE TOP-NOTCH SENIOR MANAGEMENT AS WE GREW. I HAD A SIGN OVER MY DESK THAT SAID "NONE OF US IS AS SMART AS ALL OF US" AND THIS EXTENDED TO THE BOARD OF DIRECTORS AS WELL. THEY WERE A PART OF THE TEAM AND A TRUE WORKING BOARD.

I DIDN'T PAY MUCH ATTENTION TO CORPORATE GOVERNANCE FOR A LONG WHILE BECAUSE THE BOARD WAS MADE UP OF EMPLOYEES OR PEOPLE SELECTED BY THE EMPLOYEES AND I DIDN'T THINK THE EMPLOYEES WOULD LET ANYTHING BAD HAPPEN TO THEIR COMPANY. UNFORTUNATELY, AROUND 2003 SARBANES-OXLEY CAME ALONG AND MEMBERS OF OUR BOARD PANICKED. THEY DECIDED THAT SAIC SHOULD ADOPT MANY OF THE PRINCIPLES AND PRACTICES THAT WERE REQUIRED OF PUBLIC COMPANIES, EVEN THOUGH WE WEREN'T PUBLIC AND DIDN'T HAVE TO. I THOUGHT WE WERE DOING FINE STAYING PRIVATE AND OPERATING OUR OWN INTERNAL STOCK EXCHANGE TO

MAKE SURE THE EMPLOYEE OWNERSHIP SYSTEM RAN SMOOTHLY. I CERTAINLY DIDN'T BELIEVE WE HAD ANY QUESTIONABLE PRACTICES THAT SOMEHOW NEEDED TO BE "FIXED" BY CHANGING OUR GOVERNANCE PROCEDURES. BUT EVENTUALLY A MAJORITY OF THE BOARD DISAGREED WITH ME AND NOW SAIC IS A PUBLIC COMPANY.

ABOUT BEING PUBLIC  
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SO TO SUMMARIZE, I BELIEVE THERE ARE TREMENDOUS BENEFITS TO A COMPANY IF YOU CAN KEEP THE COMPANY PRIVATE AND EMPLOYEE-OWNED INCLUDING:

- THE BENEFITS OF STOCK APPRECIATION GO ONLY TO THE EMPLOYEES
- EMPLOYEES MAKE THE DECISIONS
- RESOURCES ARE SPENT WITH THE APPROVAL OF THE EMPLOYEES
- THE MAJOR COMMITTEES AND THE BOARD GOVERNING THE COMPANY HAVE A MAJORITY OF EMPLOYEE OWNERS

WITH THAT AS BACKGROUND, I WOULD BE HAPPY TO OPEN THE FLOOR FOR DISCUSSION AND QUESTIONS.