

SRA INTERNATIONAL INC  
Form 10-K  
August 28, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-31334

**SRA International, Inc.**

(Exact name of Registrant as Specified in its Charter)

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<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>54-1360804</b> (I.R.S. Employer Identification No.)
<b>4300 Fair Lakes Court, Fairfax, Virginia</b> (Address of Principal Executive Offices)	<b>22033</b> (Zip Code)
<b>Registrant's telephone number, including area code: (703) 803-1500</b>	

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Class</b> <b>Class A common stock, \$0.004 par value per share</b>	<b>Name of Exchange on Which Registered</b> <b>New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant as of December 31, 2007, based upon the closing price of SRA International, Inc. class A common stock on the New York Stock Exchange on December 31, 2007, was \$1,284 million.

As of August 22, 2008, there were 42,668,778 shares outstanding of the registrant's class A common stock and 14,050,736 shares outstanding of class B common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the definitive proxy statement to be used in connection with the SRA International, Inc. annual meeting of stockholders, to be held on October 30, 2008, and to be mailed to stockholders of record as of September 1, 2008, are incorporated by reference into Part III of this Form 10-K.



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**FORM 10-K**

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**PART I**

**Forward-Looking Statements**

Some of the statements under Business, Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Form 10-K constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, will, and would or similar words. You should read statements that contain carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict or control accurately. The factors listed in the section captioned Risk Factors, as well as any cautionary language in this Form 10-K, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-K. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

**Item 1. BUSINESS OVERVIEW**

SRA International is a leading provider of technology and strategic consulting services and solutions to clients in national security, civil government, and global health. Headquartered in Fairfax, Virginia, SRA helps governments, agencies and companies to improve performance, reduce costs and risks, introduce enterprise efficiencies, and enhance human health.

As of June 30, 2008, we had almost 6,500 employees in countries around the world. For our fiscal year ended June 30, 2008, U.S. government clients accounted for 95% of our revenue, and the remaining 5% was attributable to international government, state and local government, and commercial clients. We currently support 14 of the 15 federal departments in the executive branch, all branches of the military services, and the judicial and legislative branches of the U.S. federal government. We were the prime contractor on engagements representing 87% of our total revenue for the fiscal year ended June 30, 2008 and 86% for the fiscal years ended June 30, 2007 and 2006.

According to the *Federal Information Technology Market Forecast, FY 2008-FY 2013* report published by INPUT, an independent federal government market research firm, the contracted portion of U.S. federal government spending on information technology is forecasted to grow at an annual rate of 4.1% from \$71.9 billion in federal fiscal year 2008 to \$87.8 billion in federal fiscal year 2013. We estimate that our addressable market, which also includes management consulting, engineering and other professional services for local, state, and federal governments, is currently over \$150 billion in size.

Diversification of customers and capabilities is a core element of our market strategy. By providing solutions to a variety of customers in the U.S. government and related markets, we are able to focus our new business investments on market segments that we believe are particularly fast-growing and underserved.

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### **SOLUTIONS**

Our business incorporates a combination of services and products focused on delivering results that create tangible value for our clients. We maintain the comprehensive information technology, or IT, skills required to support the entire life-cycle of our clients' systems, from strategic planning to operational support. We employ interdisciplinary teams to staff our engagements, which enables us to deliver solutions that combine our comprehensive knowledge of our clients' business processes with the necessary technical expertise. Depending on client needs, we may integrate commercially available products with existing systems or develop a comprehensive solution for the design, integration, maintenance, and enhancement of a custom-built system.

#### ***Services***

We offer a broad range of technology and strategic consulting services spanning the information technology life cycle, including: strategic consulting; systems design, development, and integration; and outsourcing and managed services.

*Strategic Consulting.* We help clients formulate business and execution plans to improve performance, cost effectiveness, and quality of service. We assess current operations, develop targeted strategies and plans for improvement, define key priorities and accountabilities, and design enterprise architectures that capitalize on client investments in legacy systems while enabling them to make a seamless transition to modern technology environments. We work with leaders and their management teams to develop specific implementation plans that achieve the established strategies, effectively track and manage implementation efforts, and measure and validate results.

*Systems Design, Development, and Integration.* Our services include project management, systems design, network and systems integration, data analysis and integration, security engineering, software development, database design and development, and independent test and evaluation. We analyze system concepts and assess data and information needs, define requirements, develop operational prototypes, and integrate complex mission-critical systems and solutions that comply with a client's enterprise architecture. Based on client requirements, we may design custom-built systems; integrate and implement commercial off-the-shelf solutions, such as those for supply chain management, enterprise resource planning, and case management; or combine both approaches using service-oriented architecture principles and other industry best practices.

A portion of our business is International Organization for Standardization, or ISO, 9001:2000 certified and we maintain a company-wide Capability Maturity Model Integrated, or CMMI, level 3 rating under the standards established by the Software Engineering Institute. These qualifications, which reflect that we have mature and repeatable processes, are often required to bid on complex software development and systems integration projects for the U.S. government.

*Outsourcing and Managed Services.* We partner with clients to consolidate and modernize existing infrastructures, improve customer service, and reduce the total cost of operations through effective use of industry best practices and performance-based contracting methods. We also support clients with operations management services, sometimes referred to as co-sourcing. Based on client needs, we may oversee their technical infrastructure, manage their applications and networks, or operate their business processes in accordance with service-level agreements. Through infrastructure support contracts, we also purchase third-party hardware and/or software commonly referred to as direct materials or rebillables for integration into the network or application systems we provide.

*Business Solutions.* We have developed tailored solutions that focus on specific business requirements that are common to many of our clients. These business solutions generally apply to clients within each of our target markets. Our core business solutions include text and data mining; information assurance, cyber security and privacy protection; enterprise resource planning; business intelligence; contingency and disaster planning; enterprise architecture and portfolio management; identity management; information sharing and knowledge

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management; outsourcing, managed services, and infrastructure modernization; service-oriented architecture; training, modeling, and simulation; global health policy and program management; clinical research outsourcing, regulatory consulting and data management; and wireless integration services. These business solutions consist of repeatable tools, techniques, and methods that reflect the specific competencies we have gained from significant experience in these areas.

### ***Products***

In connection with our service offerings, we also develop and sell proprietary software and hardware products to customers in each of our markets. Products and technologies are a natural extension of our services business and we have recently increased our focus and investment in this area. We believe intellectual property represents a differentiating factor in new business opportunities, and we have found that packaging proprietary products with SRA labor services may be the optimal solution for our clients' needs. Over time, we intend to augment our organic product capabilities with acquisitions of software and hardware firms.

*Software.* Several of our products provide data and text mining solutions. We combine the capabilities of our NetOwl® text mining software and our ORIONMagic® knowledge management software to offer our clients enhanced means of managing, exploiting, and analyzing large amounts of enterprise data. ORIONMagic® helps clients cull through gigabytes of information, store the most relevant pieces, and analytically search each piece. Our text mining tools collect, search, organize, analyze, and turn large amounts of unstructured text data into structured data for greater utilization. NetOwl® software applies advanced natural language understanding technologies to English, Arabic, Chinese, Farsi, French, Korean, and Spanish text to extract content.

Our GangNet® database system is a browser-based investigative, analysis, and statistical resource used by law enforcement officials to record and track gang members and their activities. Violent gang-related crimes are a growing trend across the country, and solving them is complicated by gang members' mobility and growing realm of influence. The system includes the individuals' photos, street names, addresses and known associates, along with gang hand signals and tattoo images. GangNet® is used by law enforcement officers in 14 states, the Department of Homeland Security and the Federal Bureau of Investigation. Investigators can use the solution's collaboration and information sharing capabilities across jurisdictions.

Other SRA software solutions include peer review management, mobile message extraction, link analysis and visualization.

*Hardware.* As we heighten our focus on proprietary technology products, we intend to develop more hardware capabilities to augment our services and software business. Hardware technologies in the command, control, communications, computers, intelligence, surveillance and reconnaissance, or C4ISR, realm are of particular interest. Mobile networking, information security and data archival, retrieval and analysis capabilities are in strong demand in today's national security market.

Although SRA proprietary products represent a small percentage of our revenue today, we are interested in making acquisitions in these areas to broaden our offerings and bolster our research and development infrastructure.

*Recent acquisitions.* In July 2008, we completed our acquisitions of Era Systems Corporation, or Era, and Interface & Control Systems, Inc., or ICS. A leading provider of advanced surveillance and flight tracking solutions, Era has served more than 100 customers in over 30 countries around the world, with a substantial portion of its operations located in the Czech Republic. Era develops hardware and software for the air traffic management, airport operations, military and security markets. ICS's software products and engineering services offer real-time, embedded and autonomous command and control software systems for space applications. These acquisitions furthered SRA's strategy to provide a combination of products and services to customers in each of our core markets.

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We are dedicated to giving our clients the innovative solutions they need to meet their most difficult technology challenges, both now and in the future. Our research and development, or R&D, team works with professionals across the company to assess client needs and to focus our investments on meeting them.

For years we have pursued internally- and government-funded R&D in such areas as data mining, natural language understanding, knowledge management, information assurance, and wireless applications. The Era and ICS acquisitions add approximately 20 patents to our intellectual property base. We continue to use our domain expertise and advanced technical knowledge to anticipate, identify, and develop forward-looking technologies to enable clients to meet their mission objectives.

**MARKETS**

We deliver our technology and strategic consulting solutions to clients in three target markets: national security, civil government, and global health. Each of these markets includes a combination of U.S. federal government agencies, state and local governments, commercial, and international customers. Revenue by market for fiscal years 2006 through 2008 is summarized in the table below.

Market	Total Revenue		
	Fiscal year ended June 30, 2008	Fiscal year ended June 30, 2007 (in millions)	Fiscal year ended June 30, 2006
National security	\$ 806.3	\$ 749.7	\$ 702.6
Civil government	437.4	403.7	376.7
Health care and public health	263.2	115.5	100.0
Total	\$ 1,506.9	\$ 1,268.9	\$ 1,179.3

***National Security***

In the area of national security, SRA designs, develops, integrates, and implements large and complex systems for defense and military service organizations. We provide strategic and tactical command, control and communications systems for law enforcement, public safety, and intelligence agencies. We also offer analytical support to the government and private industries.

The terrorist attacks of September 11, 2001, the war in Iraq, and other recent international events have intensified the federal government's commitment to strengthen our country's military, intelligence, and homeland security capabilities and increased the need for technologies capable of supporting these functions. For the Defense Department, we design, develop, integrate, and implement complex systems in accordance with network-centric and service-oriented enterprise architectures. We also have subject matter expertise in C4ISR, logistics, transportation, acquisition, personnel, finance, and installation management. These capabilities represent a full-service solution for Defense customers looking to improve mission effectiveness and organizational efficiency.

In the intelligence community, our customers have shown an expanding need for data and text mining solutions to enable them to extract, analyze, and present data gathered from the massive volumes of information available through open sources such as the Internet. Our qualifications in cyber security and information operations are also important given the escalating threats to classified government information and assets.

Along with the intelligence agencies, the Department of Homeland Security is interested in enterprise systems that enable better coordination and communication within and among agencies and departments. Our experts work with customers in these areas to improve interoperability among information technology systems



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while maintaining data privacy and access control. At the state and local level, and in some cases through federal homeland security funding, we deliver software and analytical consulting solutions for counter-terrorism, gang reconnaissance, and other intelligence analysis.

Our largest customer in the national security market is the U.S. Army, for which we perform systems integration, software development, logistics and transportation management, and other technology and professional services.

In fiscal year 2008, SRA was awarded several new contracts for the national security community. We won a five-year, \$108 million contract under the Defense Department's Joint Program Executive Office Joint Tactical Radio System Network Enterprise Domain for which we will provide a full range of program management, acquisition support, information assurance, logistics, and technical management. We were also awarded a task order to provide program and acquisition management support to the U.S. Navy's Networks, Information Assurance and Enterprise Services Program Office. The task order, awarded under the Seaport-e contract, has an estimated value of \$79.6 million over five years if all options are exercised. In April 2008, the National Geospatial-Intelligence Agency awarded SRA a \$34 million contract to manage its relocation from all Washington, DC area sites to its New Campus East property on Ft. Belvoir near Springfield, VA. Under this contract, we will provide a comprehensive approach to research, analyze, communicate, and execute the Agency's move of people and property to its new home.

In May 2008, we were informed that we were not successful in our recompetitively bid for the Advanced Information Technology Services contract with the National Guard, which accounted for approximately 6% of our revenue in fiscal 2008. The contract will end during the first quarter of fiscal 2009.

### ***Civil Government***

We support federal civil agencies with comprehensive professional and technology consulting services and enterprise-wide infrastructure support. Outsourcing of IT operations is an attractive alternative for federal agencies that are striving to maintain their core functions with limited technical resources and a shrinking IT workforce. We expect reductions in the federal IT workforce to continue due to, among other factors, a projected increase in the number of retiring government employees.

Budget-constrained federal government agencies are under increasing pressure to cut costs, while at the same time continuing to improve and upgrade their technological capabilities. We partner with civil agencies to determine their most efficient business processes and systems. Our enterprise resource planning, or ERP, software expertise enables us to compare custom-built and commercial-off-the-shelf solutions and implement the system that best suits our customers' specific needs. Our enterprise architecture services, as well as web and wireless solutions, are particularly valuable as government agencies respond to the necessity for interoperability among the IT systems and the demand for comprehensive electronic services to the public.

Our largest customers in civil government include the Federal Deposit Insurance Corporation, the Environmental Protection Agency, the Government Accountability Office, or GAO, and the Department of the Treasury.

In fiscal year 2008, we won a \$67 million contract to perform cyber security services for the Department of State Office of Computer Security. The contract's scope includes policy planning, threat analysis, and incident response solutions. We were also awarded a \$36 million contract to automate and secure dissemination of web-based information for GAO. This contract represents an extension of our existing work for GAO, for which we have provided network support services since 1998. The Environmental Protection Agency awarded SRA more than \$100 million of new business during fiscal year 2008, including technical and advisory services for the Office of Emergency Management and software engineering and scientific support for the Office of Research and Development.

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### ***Global Health***

The healthcare and public health market is a strategic priority for SRA. Given its massive information archival, retrieval, communication, and privacy challenges, the health industry has significant needs for improvement in technology and systems efficiency. Demographic trends have begun to accelerate the priority of health IT improvements, and we believe the aging U.S. population is likely to cause these investments to be a governmental priority.

With these factors in mind, we acquired Constella Group, LLC in August 2007. Through its work in health sciences, international development, and clinical research, Constella collaborates with experts in local and national governments, academia, non-governmental organizations, and pharmaceutical and biotechnology companies to support a broad range of health missions. While SRA's legacy health business had primarily served as an IT functional expert for the Department of Health and Human Services, or HHS, Constella specialized in domain understanding of the global health market.

Our health business now serves three primary markets. First, we provide IT and professional services to HHS agencies including the National Institutes of Health, or NIH, the Centers for Disease Control and Prevention, and the Food and Drug Administration, or FDA, as well as the Department of Veterans Affairs. Second, our international health development business helps emerging nations around the world to create and implement health policy, primarily through contracts with the governments of the U.S. and the United Kingdom. Third, our global drug development business provides pharmaceutical, biotechnology, and medical device firms with strategic insight and services as they take a drug, biologic or device through the development process from concept to market.

We believe our combination of technology expertise, domain knowledge, and geographic reach enable us to offer differentiated solutions to address some of the world's most complex health issues. We aim to leverage our work for customers in the government, commercial, and international markets to provide a comprehensive enterprise perspective.

Our health business won several significant contracts during fiscal year 2008. We were awarded several contracts to continue supporting the NIH with technical solutions for the Office of Research Services, network support for the Center for Information Technology, or CIT, and web and application development for the CIT Division of Enterprise and Custom Applications. The potential value of these three contracts totaled over \$110 million. The National Institute of Environmental Health Sciences awarded SRA a \$26 million task order to provide enterprise-wide IT support. The FDA also chose SRA for a \$27 million contract to help implement a new system for collecting and monitoring reports of adverse events related to its regulated products.

### **EMPLOYEES**

Our success as a technology and strategic consulting solutions company is highly dependent on our employees. We believe we have been successful in developing a culture based on an ethic of Honesty and Service that nurtures our employees and enables them to succeed. Our core values of Respect, Accountability, Integrity, Service and Excellence create the foundation for who we are and what we do. We reinforce these principles regularly in our recruiting process, training programs, proposals, company meetings, and internal communications.

Our active recruiting effort is aligned with our business units and relies heavily on employee referrals in addition to a variety of other recruiting methods. Our primary source of our new recruits is employee referrals, which accounted for approximately 42% of our new hires in fiscal 2008. We have found these referrals to be an efficient source of excellent employees. As a result of our continued focus on our employees, in 2008 we were named by *FORTUNE* magazine, for the ninth consecutive year, as one of the 100 Best Companies to Work for.

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As of June 30, 2008, we had almost 6,500 employees. Approximately 79% of our employees are professionals or managers with technology or domain expertise. Our professional staff is highly educated, with approximately 27% holding advanced degrees. Over 56% of our employees have federal government security clearances.

The labor market for technology workers remains tight, particularly in the Washington, DC area and for those with high-level security clearances. To compete effectively for the best available employees, we offer a combination of rewarding job responsibilities, competitive compensation and benefits, and opportunities for merit-based advancement. We have no employees represented by collective bargaining agreements, other than international employees who may benefit from certain collective bargaining rights based on local country law, and we consider our relations with our employees generally to be good.

**GROWTH MODEL**

Organic and acquisitive growth are both integral to our long-term strategic plan. Expanding our business enhances career opportunities for our employees, produces additional resources for investment, and improves our competitiveness for larger new contracts.

We intend to grow organically by positioning SRA in fast-growing areas of our addressable market, cultivating existing customer relationships, and bidding and winning contracts for new customers. We believe our diversified U.S. federal and global customer base enables us to address changes in governmental priorities or initiatives. Long-standing customer relationships and a broad suite of products and services facilitate cross-selling and expansion among existing accounts. To identify and win business for new customers, we focus on areas of particularly strong functional expertise such as information assurance, critical infrastructure protection and ERP or seek opportunities to leverage our product portfolio. We also make strategic hires to improve our domain understanding and customer recognition in new markets.

Our growth plans include strategic acquisitions to complement and accelerate internal expansion by adding new capabilities, customers or intellectual property. Since July 2005, we have acquired seven companies:

Acquisition	Strategic Value	Closing Date	Purchase Price (in millions)
Galaxy Scientific Corporation	Command and Control, Communications, Computers, Intelligence (C4I)	July 1, 2005	98.7
Spectrum Solutions Group, Inc.	Enterprise Resource Planning	November 2, 2005	17.7
Mercomms Unlimited, Inc.	Maritime and Defense Communications	April 10, 2006	0.6
RABA Technologies, LLC	Intelligence	October 26, 2006	95.0
Constella Group, LLC	Health Sciences and International Health and Drug Development	August 9, 2007	190.6
Interface & Control Systems, Inc.	Product Development and Engineering Services	July 2, 2008	8.1
Era Systems Corporation	Advanced Surveillance Technologies	July 30, 2008	122.6

Cultural fit, entrepreneurialism, access to new markets and technologies, growth, and profitability are among our priorities in acquisition qualification. We expect that these acquisitions will enable us to sell a more comprehensive set of products and services to a larger client base and to jointly pursue potential new opportunities.

**CONTRACTS**

For our fiscal year ended June 30, 2008, approximately 95% of our revenue was generated from contracts with the U.S. government, which has a highly structured and regulated competitive procurement process. Our

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federal government clients typically exercise independent contracting authority. We consider each office or division within an agency or department, which engages us directly or through a prime contractor, to be a separate client.

The National Guard, as a client group, accounted for approximately 10% of our revenue in fiscal year 2006. The United States Agency for International Development accounted for approximately 10% of our revenue in fiscal year 2006. No client or client group accounted for more than 10% of our revenue in either fiscal year 2008 or 2007.

### ***Prime contracts and subcontracts***

In the fiscal year ended June 30, 2008, we served as a prime contractor on engagements representing 87% of our revenue. Operating as a prime contractor positions us to achieve better client relationships, to exert more control and influence over quality results, to have clearer visibility into future opportunities, and to earn enhanced profit margins.

When we act as a prime contractor, we derive revenue primarily through our own direct labor services and proprietary products, but also through the efforts of our subcontractors. As part of the contract bidding process, we may enter into teaming agreements with subcontractors to enhance our ability to bid on large, complex engagements or to more completely address a particular client's requirements. When we are a prime contractor on an engagement, we are ultimately responsible for the overall engagement as well as the performance of our subcontractors. Revenue derived from work performed by subcontractors represented approximately 25%, 29%, and 30% of our revenue for fiscal year 2008, 2007, and 2006, respectively. No single subcontractor performed work that accounted for more than 3% of our revenue during any of the last three fiscal years.

### ***Single award contracts***

Under single award contracts with defined statements of work, an agency solicits, qualifies, and then requests proposals from interested contractors. The agency then evaluates the bids and typically awards the contract to a single contractor for a specified service. Historically, single award contracts were the most prevalent type of contract award used by federal government clients, but the use of this type of contract has been declining for the past several years. Single award contracts accounted for 19%, 23%, and 24% of our revenue for fiscal years ended June 30, 2008, 2007, and 2006, respectively.

### ***Multiple award contracts***

Under indefinite delivery/indefinite quantity, or ID/IQ, contracts, a federal government agency can form preferred provider relationships with one or more contractors. This category includes agency-specific ID/IQ contracts; blanket purchase agreements, or BPAs; government-wide acquisition contracts, or GWACs; and General Services Administration, or GSA, schedule contracts. These umbrella contracts, often referred to as vehicles, outline the basic terms and conditions under which federal government agencies may order services. ID/IQ contracts are typically managed by one agency, the sponsoring agency, and may be either for the use of a specific agency or available for use by any agency of the federal government. ID/IQ contracts available for use by any agency of the federal government are commonly referred to as GWACs.

Contractors within the industry compete to be pre-selected to perform work under an ID/IQ contract. An ordering agency then issues delivery orders, commonly known as task orders, for services to be performed under the contract. If the ID/IQ contract has a single prime contractor, only that contractor may be awarded delivery orders. If the contract has multiple prime contractors, the award of each delivery order typically will be competitively determined among the pre-selected contractors.

GSA schedules are listings of services and products, along with their respective prices, offered by federal government contractors. The schedules are maintained by the GSA for use by any federal agency or other authorized entity, including state and local governments. When an agency selects services under a GSA schedule contract, the competitive process is limited to qualified GSA schedule contractors.

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Due to the lower contract procurement costs, reduced procurement time, and increased flexibility associated with multiple award contracts, these vehicles have been utilized frequently in the last decade. Agency-specific ID/IQs have become increasingly prevalent, particularly in the Defense Department. Access to the relevant vehicles is critical for contractors intending to do business with a specific agency. Task orders under ID/IQ contracts, including GSA schedules, accounted for 81%, 77%, and 76% of our revenue for fiscal years ended June 30, 2008, 2007, and 2006, respectively.

**Contract types**

As of June 30, 2008, we had over 900 active contract engagements, each employing one of three types of price structures: cost-plus-fee, time-and-materials, and fixed-price.

*Cost-plus-fee contracts.* Cost-plus-fee contracts provide for reimbursement of allowable costs and the payment of a fee, which is our profit. Cost-plus-fixed-fee contracts specify the contract fee in dollars. Cost-plus-award-fee contracts may provide for a base fee amount plus an award fee that varies, within specified limits, based upon the client's assessment of our performance as compared to contractual targets for factors such as cost, quality, schedule, and performance. Cost-plus-fee contracts are well-suited for initiatives that have less comprehensive scope specifications and requirements.

*Time-and-materials contracts.* Under a time-and-materials contract, we are paid a fixed hourly rate for each direct labor hour expended and we are reimbursed for allowable material costs and out-of-pocket expenses. To the extent our actual direct labor and associated costs vary in relation to the fixed hourly billing rates among various labor categories provided in the contract, we will generate more or less profit or could incur a loss.

*Fixed-price contracts.* Under a fixed-price contract, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less than the anticipated amount of profit or could incur a loss. Some fixed-price contracts have a performance-based component, pursuant to which we can earn incentive payments or incur financial penalties based on our performance.

Our historical contract mix, measured as a percentage of total revenue for the periods indicated, is summarized in the table below.

	Year Ended June 30,		
	2008	2007	2006
Cost-plus-fee	41%	43%	45%
Time-and-materials	42	42	40
Fixed-price	17	15	15

**MARKETING AND SALES**

Our business development process relies upon the business units addressing each of our target markets to further penetrate and build-out their existing accounts and our centralized federal sales and marketing organization to win new competitive procurements. Primary responsibility for selling additional services to existing clients, including client account build-out and capture of follow-on work, rests with our business units. Recognizing the importance of client account management, we assign entrepreneurial managers and executives to oversee our major accounts.

Primary responsibility for identifying, qualifying, bidding, and winning new competitive procurements, either for new clients or for large strategic new programs for existing clients, rests with our centralized federal sales and marketing organization. We have approximately 90 experienced marketing and sales professionals who perform business development, capture management, strategic pricing, marketing communications, and proposal development. Members of our sales and marketing organization work closely with their counterparts in our business units as we compete to win new business.

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Over the past several years, SRA has invested significant resources in expanding and improving the marketing and sales organization. We have launched a number of new initiatives, to include hiring more strategic business developers; implementing a competitive intelligence and price-to-win capability; increasing our bid and proposal budgets for capture activities; and developing a more geographically dispersed business base and regional sales capability. We have also created a new corporate development function focused on developing strategic marketing and campaign plans for new initiatives. The result is a much larger qualified pipeline of opportunities focused on high growth areas within the global technology and professional services environment.

### **COMPETITION**

We compete to win single award contracts and multiple award contracts, such as agency-specific ID/IQs, GWACs, and GSA schedule contracts. After we have won a multiple award contract, we then compete for individual delivery orders under the contract. An individual agency that desires to obtain a product or service typically invites approved providers to compete based on technological expertise, resources, price, or some other basis.

We encounter many of the same competitors in our three target markets. These competitors include:

Federal systems integrators such as Booz Allen Hamilton Inc., CACI International Inc., Computer Sciences Corporation, Electronic Data Systems Corporation, ManTech International Corporation, Science Applications International Corporation, and Unisys Corporation;

Divisions of large defense contractors such as BAE Systems, General Dynamics Corporation, L-3 Communications, Lockheed Martin Corporation, Northrop Grumman Corporation, and Raytheon Company;

Consulting firms such as Accenture Ltd., BearingPoint, Inc., and International Business Machines Corporation; and

Other smaller and specialized government information technology contractors.

### **BACKLOG**

As of June 30, 2008, our contract backlog was \$3.9 billion, of which \$676.5 million was funded. As of June 30, 2007, our backlog was \$3.4 billion, of which \$600.4 million was funded. We define backlog to include funded and unfunded orders for services under existing signed contracts, assuming the exercise of all options relating to those contracts, less the amount of revenue we have previously recognized under those contracts. Backlog includes all contract options that have been priced but not yet funded. Backlog also includes the contract value under single award ID/IQ contracts against which we expect future task orders to be issued without competition. Backlog does not take contract ceiling value into consideration under multiple award contracts, nor does it include any estimate of future potential delivery orders that might be awarded under multiple award ID/IQ vehicles, GWACs, or GSA schedule contracts.

We define funded backlog to be the portion of backlog for which funding currently is appropriated and obligated to us under a contract or other authorization for payment signed by an authorized purchasing authority.

We currently expect to recognize revenue during fiscal year 2009 from approximately 24% of our total backlog as of June 30, 2008. This estimate is likely to be inaccurate because the receipt and timing of any revenue is subject to various contingencies, many of which are beyond our control. Our backlog includes orders under contracts that in some cases extend for several years, with the latest expiring at the end of calendar year 2016.

We cannot guarantee that we will recognize any revenue from our backlog. The federal government has the prerogative to deobligate funding from or cancel any contract or delivery order at any time. Most of our contracts

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and delivery orders have cancellation terms that would permit us to recover all or a portion of our incurred costs and potential fees in such cases. Backlog varies considerably from time to time as current contracts or delivery orders are executed and new contracts or delivery orders under existing contacts are won.

## **SEASONALITY**

Our business operates on a fiscal year ending June 30. Quarterly revenue and operating margins can be affected by, among other things, seasonality in our business model. In the quarter ending September 30, we may experience a sequential decline in operating margins from our quarter ending June 30. In the quarter ending September 30, we generally experience lower staff utilization rates because of summer vacations and increased proposal activity in connection with the end of the federal fiscal year. We typically transition a significant number of professional staff temporarily off of billable engagements to support this increased proposal activity. The revenue mix can also change in the September quarter as the volume of lower-margin direct material purchases on behalf of government customers can increase near the end of the federal fiscal year.

In the quarter ending December 31, lower staff utilization rates may continue because of holiday vacations, and lower-margin direct materials volume may remain high because some of our customers have a December fiscal year end and tend to make more purchases in that quarter. In the March and June quarters, staff utilization may increase, and lower-margin direct material purchase volume may decline. This can have the effect of increasing operating margins in the last two quarters of our fiscal year.

## **REGULATORY MATTERS**

### ***U.S. Government Contracts***

Our business is tightly regulated in most of the markets in which we operate. When working with U.S. government agencies and entities, we must comply with laws and regulations relating to the formation, administration, and performance of contracts. The Federal Acquisition Regulation, or FAR, which mandates uniform policies and procedures for U.S. government acquisitions and purchased services, governs the majority of our contracts. Individual agencies can have acquisition regulations that provide implementing language for the FAR or that supplement the FAR.

Other federal regulations require certification and disclosure of cost or pricing data in connection with contract negotiations, define allowable and unallowable costs, govern reimbursement rights under cost-based contracts, and restrict the use, dissemination and exportation of products and information classified for national security purposes.

### ***International Operations***

Our international contracts are subject to the applicable foreign government regulations and procurement policies and practices, many of which differ substantially from those applicable in the U.S., as well as U.S. policies and regulations, including the Foreign Corrupt Practices Act, or FCPA. Our international operations are also subject to regulations governing investments, exchange controls, repatriation of earnings, brokering of defense articles and services, and import-export control, including the International Traffic in Arms Regulations, or ITAR, which our foreign competitors may not be subject to. Other factors that can affect our international business include currency exchange fluctuations, political and economic risks, and legal and business risks associated with using foreign representatives and consultants and relying upon international suppliers and subcontractors.

### ***Environmental Matters***

Our business is subject to various federal, foreign, state, and local environmental protection laws and regulations. Failure to comply with these laws could result in civil or criminal sanctions, including fines,

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penalties or suspension or debarment from contracting with the U.S. government. Some environmental laws hold current or previous owners or operators of businesses and real property liable for contamination, even if they did not know of and were not responsible for the contamination.

Environmental laws may also impose liability on any person who disposes, transports, or arranges for the disposal or transportation of hazardous substances to any site. We do not currently anticipate that the costs of complying with, or the liabilities associated with, environmental laws will materially adversely affect us, but we cannot ensure that we will not incur material costs or liabilities in the future.

**CORPORATE INFORMATION**

We were incorporated as Systems Research and Applications Corporation in Virginia in 1976 and began operations in 1978. We reincorporated in Delaware as SRA International, Inc. in 1984. We generally contract with the federal government through our wholly owned subsidiary, Systems Research and Applications Corporation, but we do business as SRA International, Inc.

**WEBSITES & FILINGS**

Our Internet website can be found at <http://www.sra.com>. Information contained on our website is not part of this report. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the Section 16 filings of our officers, directors, and shareholders beneficially owning 10% or more of our common stock are available on our website, free of charge, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Alternatively, you may access these reports at the SEC's Internet website: <http://www.sec.gov>.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

Our executive officers and their ages as of July 31, 2008, are as follows:

Name	Age	Title
Stanton D. Sloane	57	President and chief executive officer
Stephen C. Hughes	51	Chief financial officer and executive vice president, operations
Barry S. Landew	49	Executive vice president for strategic development
Ernst Volgenau	74	Chairman of Board of Directors

**Stanton D. Sloane** joined us in April 2007 as our president and chief executive officer. He became a member of the Board of Directors in August 2007. Previously, Dr. Sloane served as executive vice president for Integrated Systems and Solutions at Lockheed Martin Corporation from 2004 to 2007 and as president for Lockheed Martin Management/Data Systems from 2003 to 2004. He began his career with General Electric Aerospace in 1984 and progressed through engineering, program management, and business development assignments in a variety of General Electric Aerospace and subsequently Lockheed Martin businesses. Dr. Sloane also served as an officer in the United States Navy.

**Stephen C. Hughes** is our chief financial officer and executive vice president of operations. He has served as our chief financial officer since March 1996 and became executive vice president in August 2005. From May 1993 to August 2005, he served as senior vice president of finance and accounting. From March 1989 to May 1993, he was our vice president of finance; from April 1986 to March 1989, he served as our comptroller; and from 1984 to 1986, he served as our manager of accounting. Mr. Hughes practiced in the computer audit and tax groups of Coopers and Lybrand, which is now a part of PricewaterhouseCoopers LLP, from 1983 to 1984.

**Barry S. Landew** is our executive vice president for strategic development. He served as our vice president for corporate development from 1989 through April 1993 and senior vice president for corporate development



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from May 1993 to July 2005. He became executive vice president in August 2005. From 1980 to 1989, he served in various positions with us, including software engineer, program manager, and the head of marketing and sales and proposal development.

**Ernst Volgenau** is our founder and has served as our chairman of the Board of Directors since October 2003. He served as our chief executive officer from October 2003 until December 2004. From 1978 to October 2003, he served as our president and as a director. From 1976 to 1978, he served as the director of inspection and enforcement for the U.S. Nuclear Regulatory Commission. Dr. Volgenau retired from active duty with the U.S. Air Force with the rank of Colonel in 1976. His military service included positions in the Office of the Secretary of Defense and as director of data automation for the Air Force Logistics Command.

**Item 1A. RISK FACTORS**  
**Risks Related To Our Industry**

*A reduction in the U.S. defense budget or the diversion of funding from IT services and solutions to support the war against terrorism or the reconstruction of Iraq could result in a substantial decrease in our revenue.*

Revenue from contracts with clients in the Department of Defense and the National Guard accounted for approximately half of our revenue for the fiscal years ended June 30, 2008, 2007, and 2006. A decline in overall U.S. military expenditures, or in the portion of those expenditures allocated to information technology services and solutions, could cause a decrease in our revenue and profitability. Defense spending levels may not continue at present levels, and future levels of expenditures and authorizations for existing programs may decline, remain constant, or shift to agencies or programs in areas where we do not currently have contracts. Such changes in spending authorizations and budgeting priorities could occur due to changes in the number and intensity of political conflicts, including the current conflicts in Iraq and Afghanistan, the significant relief and recovery costs associated with natural disasters, the rapid growth of the federal budget deficit, increasing political pressure to reduce overall levels of government spending, or other factors. In addition, the U.S. Government conducts periodic reviews of U.S. defense strategies and priorities, the results of which may shift Department of Defense budgetary priorities or reduce overall U.S. Government spending for defense-related programs. A significant decline in defense expenditures, or a shift in expenditures away from agencies or programs that we support, could cause a material decline in our revenue.

*A reduction in U.S. civil government agency budgets, including a reduction caused by the diversion of funding to support the war against terrorism, the reconstruction of Iraq, or natural disaster recovery could result in a substantial decrease in our revenue.*

Revenue from contracts with civil agency clients accounted for approximately half of our revenue for the fiscal years ended June 30, 2008, 2007, and 2006. We expect civil agency clients will continue to represent a substantial portion of our future revenue. A decline in expenditures by civil agencies, or in the portion of those expenditures allocated to information technology services and solutions, could cause a material decrease in our revenue and profitability. In particular, a shift of funds away from civil agencies to pay for programs within other agencies, for example the Department of Defense, to reduce federal budget deficits, or to fund tax reductions, could cause a material decline in our revenue. In particular, it is possible that funding for civil agencies may be diverted to support the ongoing war against terrorism, the reconstruction of Iraq, natural disaster recovery, or other international conflicts.

*Changes in the spending policies or budget priorities of the federal government could cause us to lose revenue.*

Revenue from contracts with federal government agencies was 95% of our total revenue for the fiscal year ended June 30, 2008 and 99% for the fiscal years ended June 30, 2007 and 2006. Accordingly, changes in federal government fiscal or spending policies could directly affect our financial performance. Among the factors that could harm our federal government contracting business are:

the curtailment of the federal government's use of technology services firms;

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a significant decline in spending by the federal government in general, or by specific departments or agencies in particular;

a reduction in spending or shift of expenditures from existing programs to pay for an international conflict or related reconstruction efforts;

a failure of Congress to pass adequate supplemental appropriations to pay for an international conflict, or to pay for the cost of related reconstruction efforts;

reductions in federal government programs or requirements;

the adoption of new laws or regulations that affect companies that provide services to the federal government;

delays in the payment of our invoices by government payment offices;

new legislation, procurement regulations, or union pressure that cause federal agencies to adopt restrictive procurement practices regarding the use of outside information technology providers;

changes in policy and goals by the government providing set aside funds to small businesses, disadvantaged businesses, and other socio-economic requirements in the allocation of contracts; and

general economic and political conditions.

These or other factors could cause federal government agencies and departments to reduce their purchases under contracts, to exercise their right to terminate contracts, or not to exercise options to renew contracts, any of which could cause us to lose revenue. We have substantial contracts in place with many federal departments and agencies, and our continued performance under these contracts, or award of additional contracts from these agencies, could be materially harmed by federal government spending reductions or budget cutbacks at these departments or agencies.

***The failure by Congress to approve budgets on a timely basis for the federal agencies we support could delay or reduce spending and cause us to lose revenue.***

On an annual basis, Congress must approve budgets that govern spending by each of the federal agencies we support. When Congress is unable to agree on budget priorities and is unable to pass the annual budget on a timely basis, Congress typically enacts a continuing resolution. A continuing resolution allows government agencies to operate at spending levels approved in the previous budget cycle. When government agencies must operate under a continuing resolution, it may delay funding we expect to receive from clients on work we are already performing and will likely result in any new initiatives being delayed, and potentially cancelled.

***The Office of Management and Budget process for ensuring government agencies properly support capital planning initiatives, including information technology investments, could reduce or delay federal information technology spending and cause us to lose revenue.***

The Office of Management and Budget, or OMB, supervises spending by federal agencies, including enforcement of the Government Performance Results Act. This Act requires, among other things, that federal agencies make an adequate business justification to support capital planning initiatives, including all information technology investments. The factors considered by the OMB include, among others, whether the proposed information technology investment is expected to achieve an appropriate return on investment, whether related processes are contemporaneously reviewed, whether inter-operability with existing systems and the capacity for these systems to share data across government has been considered, and whether existing off-the-shelf products are being utilized to the extent possible. If our clients do not adequately justify proposed information technology investments to the OMB, the OMB may refuse funding for their new or continuing information technology

investments, and we may lose revenue as a result.

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*Federal government contracts and related laws and regulations give government clients a variety of rights that are unfavorable to us, including the ability to terminate a contract at any time for convenience.*

Federal government contracts contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. These rights and remedies and related laws and regulations allow government clients, among other things, to:

terminate existing contracts, with short notice, for convenience, as well as for default;

reduce or modify contracts or subcontracts;

terminate our facility security clearances and thereby prevent us from receiving classified contracts;

cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;

decline to exercise an option to renew a multi-year contract;

claim rights in products, systems, and technology produced by us;

prohibit future procurement awards with a particular agency due to a finding of organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors;

subject the award of GSA schedule contracts, GWACs, and other ID/IQ contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest and may also result in a requirement to resubmit bids for the contract or in the termination, reduction, or modification of the awarded contract; and

suspend or debar us from doing business with the federal government or with a particular governmental agency.

If a government client terminates one of our contracts for convenience, we may recover only our incurred or committed costs, settlement expenses, and profit on work completed prior to the termination. If a federal government client were to unexpectedly terminate, cancel, or decline to exercise an option to renew with respect to one or more of our significant contracts or suspend or debar us from doing business with government agencies, our revenue and operating results would be materially harmed.

*Our failure to comply with complex laws and regulations could cause us to lose business and subject us to a variety of penalties.*

We must comply with laws and regulations relating to the formation, administration, and performance of government contracts, which affect how we do business with our government clients and may impose added costs on our business. Among the most significant laws and regulations are:

the Federal Acquisition Regulation, and agency regulations analogous or supplemental to the Federal Acquisition Regulation, which comprehensively regulate the formation, administration, and performance of government contracts, including provisions relating to the avoidance of conflicts of interest and intra-organizational conflicts of interest;

the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with some contract negotiations;

the Procurement Integrity Act, which requires evaluation of ethical conflicts surrounding procurement activity and establishing certain employment restrictions for individuals who participate in the procurement process;

the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under some cost-based government contracts;

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laws, regulations, and executive orders restricting the use and dissemination of information classified for national security purposes and the importation and exportation of specified products, technologies, and technical data;

laws surrounding lobbying activities a corporation may engage in and operation of a Political Action Committee established to support corporate interests; and

compliance with antitrust laws.

If a government review or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, harm to our reputation, suspension of payments, fines, and suspension or debarment from doing business with federal government agencies. The government may in the future reform its procurement practices or adopt new contracting rules and regulations, including cost accounting standards, that could be costly to satisfy or that could impair our ability to obtain new contracts. Any failure to comply with applicable laws and regulations could result in contract termination, price or fee reductions, or suspension or debarment from contracting with the federal government, each of which could lead to a material reduction in our revenue.

### **Risks Related To Our Business**

*We depend on contracts with U.S. federal government agencies for the majority of our revenue, and if our relationships with these agencies were harmed, our business would be threatened.*

Revenue from contracts with federal government agencies was 95% of total revenue for the fiscal year ended June 30, 2008 and 99% for the fiscal years ended June 30, 2007 and 2006. Revenue from contracts with clients in the Department of Defense and the National Guard accounted for approximately half of our revenue for the fiscal years ended June 30, 2008, 2007, and 2006, respectively. For this reason, any issue that compromises our relationship with agencies of the federal government in general, or within the Department of Defense and the National Guard in particular, would cause serious harm to our business.

Among the key factors in maintaining our relationships with federal government agencies and departments are our performance on individual contracts and delivery orders, the strength of our professional reputation, and the relationships of our senior management with client personnel. The loss of any member of our senior management could impair our ability to identify and secure new contracts and to maintain good client relations. Additionally, to the extent that our performance does not meet client expectations, or our reputation with one or more key clients is impaired, our revenue and operating results could be materially harmed.

*We face intense competition from many competitors that have greater resources than we do, which could result in price reductions, reduced profitability, and loss of market share.*

We operate in highly competitive markets and generally encounter intense competition to win contracts. If we are unable to successfully compete for new business or win recompetitions of existing business, our revenue growth and operating margins may decline. Many of our competitors are larger and have greater financial, technical, marketing, and public relations resources, larger client bases, and greater brand or name recognition than we do. Larger competitors include federal systems integrators such as Computer Sciences Corporation and Science Applications International Corporation, divisions of large defense contractors such as General Dynamics Corporation, Lockheed Martin Corporation, and Northrop Grumman Corporation, and consulting firms such as Accenture Ltd. and BearingPoint, Inc. Our larger competitors may be able to compete more effectively for very large-scale government contracts. Our larger competitors also may be able to provide clients with different or greater capabilities or benefits than we can provide in areas such as technical qualifications, past performance on large-scale contracts, geographic presence, the ability to provide a broader range of services without creating conflicts of interest or intra-organizational conflicts of interest, price, and the availability of key professional personnel. Our competitors also have established or may establish relationships among themselves or with third parties, including through mergers and acquisitions, to increase their ability to address client needs. Accordingly, it is possible that new competitors or alliances among competitors may emerge.

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*We derive significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon us, and we will lose revenue if we fail to compete effectively.*

We derive significant revenue from federal government contracts that are awarded through a competitive bidding process. We expect that most of the government business we seek in the foreseeable future will be awarded through competitive bidding. Competitive bidding imposes substantial costs and presents a number of risks, including:

the need to bid on engagements in advance of knowing the complete design or full requirements, which may result in unforeseen difficulties in executing the engagement and cost overruns;

the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may not be awarded to us;

the need to accurately estimate the resources and costs that will be required to service any contract we are awarded;

the possibility that difficult market conditions will cause our competitors to strive for growth by reducing their bid pricing and compel us to choose between bidding at unprofitable levels or losing contracts and foregoing revenue;

the expense and delay that may arise if our competitors protest or challenge contract awards made to us pursuant to competitive bidding, and the risk that any such protest or challenge could result in the resubmission of bids on modified specifications, or in termination, reduction, or modification of the awarded contract; and

the opportunity cost of not bidding on and winning other contracts we might otherwise pursue.

To the extent we engage in competitive bidding and are unable to win particular contracts, we not only incur substantial costs in the bidding process that would negatively affect our operating results, but we may be precluded from operating in the market for services that are provided under those contracts for a number of years. Even if we win a particular contract through competitive bidding, our profit margins may be depressed as a result of the costs incurred through the bidding process.

***Loss of our General Services Administration, or GSA, schedule contracts or our position as a prime contractor on one or more of our government-wide acquisition contracts, or GWACs, or our other multiple-award contracts would impair our ability to win new business.***

We believe that one of the key elements of our success is our position as the holder of six GSA schedule contracts and as a prime contractor under three GWACs and more than 40 agency-specific indefinite delivery/indefinite quantity, or ID/IQ, contracts. For the fiscal years ended June 30, 2008, 2007, and 2006, revenue from GSA schedule contracts, GWACs, and other ID/IQ contracts accounted for approximately 81%, 77%, and 76%, respectively, of our revenue from federal government clients. If we were to lose our position on one or more of these contracts, we could lose revenue and our operating results could suffer.

The Department of Defense has issued guidance providing that procurements of services that are not performance-based or that are to be procured using a contract vehicle outside of the Department of Defense must be approved in advance. This could result in the Department of Defense limiting its future use of GWACs and GSA schedule contracts. Initiatives taken by the Department of Defense or other government agencies and departments, or the impact of the ongoing reorganization by the GSA, could cause services we provide on existing contracts to migrate to contract vehicles on which we are not a prime contractor. Should this occur, our ability to compete for business from these organizations in the future may be harmed.

Orders under GSA schedule contracts, GWACs, and other ID/IQ contracts typically have a one- or two-year initial term with multiple options that may be exercised by our government clients to extend the contract for successive periods of one or more years. We can provide no assurance that our clients will exercise these options.





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*If subcontractors on our prime contracts are able to secure positions as prime contractors, we may lose revenue.*

For each of the past several years, we have received substantial revenue from government clients relating to work performed by other information technology providers acting as subcontractors to us. In some cases, companies that have not held GSA schedule contracts or secured positions as prime contractors on GWACs have approached us in our capacity as a prime contractor, seeking to perform services as our subcontractor for a government client. Some of these providers that are currently acting as subcontractors to us may in the future secure positions as prime contractors. If one or more of our current subcontractors are awarded prime contractor status in the future, it could reduce or eliminate our revenue for the work they were performing as subcontractors to us. Revenue derived from work performed by our subcontractors represented approximately 25%, 29%, and 30% of our revenue for the fiscal years ended June 30, 2008, 2007, and 2006, respectively.

*If our subcontractors fail to perform their contractual obligations, our performance and reputation as a prime contractor and our ability to obtain future business could suffer.*

As a prime contractor, we often rely significantly upon other companies as subcontractors to perform work we are obligated to deliver to our clients. Revenue derived from work performed by our subcontractors represented approximately 25%, 29%, and 30% of our revenue for the fiscal years ended June 30, 2008, 2007, and 2006, respectively. A failure by one or more of our subcontractors to satisfactorily perform the agreed-upon services on a timely basis may compromise our ability to perform our obligations as a prime contractor. In some cases, we have limited involvement in the work performed by the subcontractor and may have exposure as a result of problems caused by the subcontractor. In extreme cases, performance deficiencies on the part of our subcontractors could result in a government client terminating our contract for default. A default termination could expose us to liability for the agency's costs of re-procurement, damage our reputation, and hurt our ability to compete for future contracts. Additionally, we may have disputes with our subcontractors that could impair our ability to execute our contracts as required.

*Our quarterly operating results may fluctuate significantly as a result of factors outside of our control, which could cause the market price of our class A common stock to decline.*

Our revenue and operating results could vary significantly from quarter to quarter. In addition, we cannot predict with certainty our future revenue or results of operations. As a consequence, our operating results may fall below the expectations of securities analysts and investors, which could cause the price of our class A common stock to decline. Factors that may affect our operating results include:

fluctuations in revenue earned on contracts;

commencement, completion, or termination of contracts during any particular quarter;

variable purchasing patterns under GSA schedule contracts, GWACs, and agency-specific indefinite delivery/indefinite quantity contracts;

providing services under performance-based contracts;

additions and departures of key personnel;

strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments, or changes in business strategy;

timing of significant bid and proposal costs;

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contract mix, the extent of use of subcontractors, and the level of third-party hardware and software purchases for customers;

changes in presidential administrations and senior federal government officials or their priorities that affect the timing of technology procurement;

changes in policy or budgetary measures that adversely affect government contracts in general;

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interruption by events beyond our control such as earthquakes, power losses, telecommunications failures, hurricanes, and incidents of terrorism;

costs associated with our international operations, including legal and tax compliance costs; and

the seasonality of our business.

Reductions in revenue in a particular quarter could lead to lower profitability in that quarter because a relatively large amount of our expenses are fixed in the short-term. We may incur significant operating expenses during the start-up and early stages of large contracts and may not receive corresponding payments or revenue in that same quarter. We may also incur significant or unanticipated expenses when contracts expire, when they are terminated, or when they are not renewed. In addition, payments due to us from government agencies may be delayed due to billing cycles or as a result of failures of governmental budgets to gain Congressional and administration approval in a timely manner.

***If we fail to attract and retain skilled employees, we might not be able to staff recently awarded engagements and sustain our profit margins and revenue growth.***

We must hire significant numbers of highly qualified individuals who have advanced information technology and technical services skills and who work well with our clients in a government environment. In some cases, they are required to have security clearances issued by the Department of Defense or other government agencies. These employees are in great demand and are likely to remain a limited resource for the foreseeable future. If we are unable to recruit and retain a sufficient number of these employees, our ability to staff recently awarded engagements and to maintain and grow our business could be limited. We are operating in a tight labor market and, if it continues to tighten, we could be required to engage larger numbers of subcontractor personnel, which could cause our profit margins to suffer. In addition, some of our contracts contain provisions requiring us to commit to staff an engagement with personnel the client considers key to our successful performance under the contract. In the event we are unable to provide these key personnel or acceptable substitutions, the client may terminate the contract, and we may not be able to recover our costs.

***We may lose revenue and our cash flow and profitability could be negatively affected if expenditures are incurred prior to final receipt of a contract or contract funding modification.***

We provide professional services and sometimes procure materials on behalf of our government clients under various contract arrangements. From time to time, in order to ensure that we satisfy our clients' delivery requirements and schedules, we may elect to initiate procurements or provide services in advance of receiving formal contractual authorization from the government client or a prime contractor. If our government or prime contractor requirements should change or the government directs the anticipated procurement to a contractor other than us, or if the materials become obsolete or require modification before we are under contract for the procurement, our investment might be at risk. If we do not receive the required funding, our cost of services incurred in excess of contractual funding may not be recoverable. This could reduce anticipated revenue or result in a loss, negatively affecting our cash flow and profitability.

***We may lose money on some contracts if we underestimate the resources we need to perform under the contract.***

We provide services to the federal government under three types of contracts: cost-plus-fee, time-and-materials, and fixed-price. For the fiscal year ended June 30, 2008, we derived 41%, 42%, and 17% of our revenue from cost-plus-fee, time-and-materials, and fixed-price contracts, respectively. Each of these types of contracts, to differing degrees, involves the risk that we could underestimate our cost of fulfilling the contract, which may reduce the profit we earn or lead to a financial loss on the contract.

Under cost-plus-fee contracts, which are subject to a ceiling amount, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance-based. However, if our costs exceed the ceiling or are not allowable under the terms of the contract or applicable regulations, we may not be able to recover those costs.

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Under time-and-materials contracts, we are reimbursed for labor at negotiated hourly billing rates along with the cost of certain expenses, and we assume the risk that our costs of performance may exceed the negotiated hourly rates.

Under fixed-price contracts, we perform specific tasks for a fixed price. Compared to cost-plus-fee contracts and time-and-materials contracts, fixed-price contracts involve greater financial risk due to the potential for cost overruns. To the extent our actual costs exceed the estimates upon which the price was negotiated, we will generate less than the anticipated amount of profit or could incur a loss.

For all three contract types, we bear varying degrees of risk associated with the assumptions we use to formulate our pricing for the work. To the extent our working assumptions prove inaccurate, we may lose money on the contract, which would adversely affect our operating results.

### ***We may lose money or incur financial penalties if we agree to provide services under a performance-based contract arrangement.***

Under certain performance-based contract arrangements, we are paid only to the extent our customer actually realizes savings or achieves some other performance-based improvements that result from our services. In addition, we may also incur certain penalties. Performance-based contracts could impose substantial costs and risks, including:

the need to accurately understand and estimate in advance the improved performance that might result from our services;

the lack of experience both we and our primary customers have in using this type of contract arrangement; and

the requirement that we incur significant expenses with no guarantee of recovering these expenses or realizing a profit in the future. Even if we successfully execute a performance-based contract, our interim operating results and cash flows may be negatively affected by the fact that we may be required to incur significant up-front expenses prior to realizing any related revenue.

### ***Contracts with state and local governments, other governments, international entities, or other organizations with special standing, could impose substantial additional liability and costs upon us.***

As organizations seek to enhance their security, particularly state and local governments, other governments, international entities, and other organizations with special standing, such as the World Bank, we have the opportunity to expand our services beyond our core federal government client base. Contracting with such entities involves additional risks that may result in additional costs to us, including:

the additional costs associated with evaluating, qualifying, and negotiating such opportunities;

a requirement to understand and comply with the specific procurement laws and/or regulations of each individual state, locality, other government, international entity, or other party with special standing;

the contractual acceptance of liability provisions that impose, for example, liquidated damages or other monetary damages in excess of the amount of services we provide, which in some cases are unlimited;

the unavailability of certain protections that would typically be available under federal or common law; and

an increased risk of additional costs associated with dispute resolution.

*International sales and operations may pose potentially greater risks.*

International business may pose greater risks than domestic business due to the differing nature of and the potential for changes in foreign economic, regulatory and political environments. International business may also be highly sensitive to changes in foreign national priorities and government budgets.

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Work performed in foreign locations may be subject to foreign income and other taxes. We will incur costs in monitoring and complying with the tax laws and regulations in the various foreign locations where we do business, and these costs could be significant. Among other things, we could face scrutiny of transfer pricing arrangements by authorities in countries in which we operate. Failure to comply with all foreign tax laws and regulations may result in penalties and interest in addition to any tax liability owed. There are also U.S. and international regulations relating to investments, exchange controls and repatriation of earnings, as well as varying currency, political and economic risks.

It may be more difficult to enforce contracts and collect accounts receivable in foreign markets, our liabilities and risks under contracts or to third parties may be materially different, and we may encounter longer payment cycles. The legal form for our doing business in foreign markets, including as a branch or subsidiary, depends in part on local laws, and we may be subjected to the jurisdiction of foreign courts. In addition, some countries may provide reduced protection for our intellectual property rights, and laws often materially different from those in the U.S. govern relationships with our employees, suppliers, sales representatives and consultants.

We will also be required to comply with complex U.S. laws regulating our foreign operations. This includes the Foreign Corrupt Practices Act, or FCPA, which provides penalties for certain corrupt practices, such as bribes made to foreign officials, and defines standards relating to internal accounting controls. Most of the foreign countries in which we do business have laws similar to the FCPA and, in some cases, the restrictions are more severe. U.S. laws also regulate the brokering of defense articles and services and the import and export of certain articles, services, and data. Foreign countries generally have similar laws with which we must comply. In many cases, U.S. export control laws may be more restrictive than that of other countries; thus, foreign competitors may not be subject to the same degree of compliance. Additionally, the U.S. imposes certain anti-boycott obligations.

***We may not be successful in identifying acquisition candidates and, if we undertake acquisitions, they could be expensive, increase our costs or liabilities, or disrupt our business. Additionally, if we are unable to successfully integrate companies we acquire, our revenue and operating results may be impaired.***

One of our strategies is to augment our organic growth through acquisitions. We have completed eleven acquisitions of complementary companies that provide services in one of our three target markets. We may not be able to identify suitable acquisition candidates at prices that we consider appropriate or to finance acquisitions on terms that are satisfactory to us. Acquisitions of businesses or other material operations may require additional debt or equity financing, resulting in leverage or dilution of ownership. Additionally, negotiations of potential acquisitions and the integration of acquired business operations could disrupt our business by diverting management attention away from day-to-day operations and we may not be able to successfully integrate the companies we acquire. We also may not realize cost efficiencies or synergies that we anticipated when selecting our acquisition candidates. Acquired companies may have liabilities or adverse operating issues that we fail to discover through due diligence. Any costs, liabilities, or disruptions associated with future acquisitions could harm our operating results. In addition, following the integration of acquired companies, we may experience increased attrition, including but not limited to key employees of acquired companies, which could reduce our future revenue.

Our August 2007 acquisition of Constella Group, LLC, or Constella, is our largest acquisition to date. While substantially all of Constella's revenues are generated in the health care and public health market, primarily under contracts with the U.S. government, approximately 40% of Constella's revenues are from work performed outside the United States, and approximately 30% of its revenues are from commercial contracts primarily with customers in the pharmaceutical and biotechnology industries. The Constella acquisition expands our capabilities in the health care and public health market, but also exposes us to greater risks related to international and commercial work. We will likely have to continue to devote significant management attention and resources to manage and staff Constella's international operations and we expect to continue to incur increased travel, infrastructure and legal compliance costs associated with multiple international locations.

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Our recent acquisition of Era Systems Corporation, a Delaware corporation, and M/S ERA a.s., its indirect Czech subsidiary, establishes our presence in surveillance and flight tracking solutions for the air traffic management, military, security, and airport operations markets, but its international operations and complex technologies may also expose us to greater legal and business risks. Era's Czech operations utilize suppliers from various countries. Prior to our acquisition, Era filed disclosures with the U.S. Department of State regarding Era's potential brokering activities related to the foreign sales of its Czech subsidiary. U.S. law requires government approval of brokering of defense articles and services to certain foreign countries, and violation can result in civil and criminal penalties. Upon the acquisition, we have been in active discussions with the proper U.S. Government officials, and we are putting in place operational procedures prohibiting any unapproved brokering. We are conducting an audit of Era's operations and training its employees to ensure compliance with relevant U.S. laws. We are still in the preliminary stages of our discussions and review, and cannot be certain that no claims ultimately will be made against Era. Exports from the Czech Republic are subject to Czech export control laws, and our plan is to subject all such exports also to U.S. Government approvals, which can be expected to limit the countries to which such products may be exported. Prior to our acquisition, Era also conducted a review of various foreign representatives and consultants and began a process of restructuring certain of its related contractual agreements to ensure compliance with foreign laws that, amongst other things, restrict in certain countries use of commissioned representatives for select products.

***Unfavorable government audit results could force us to adjust previously reported operating results and could subject us to a variety of penalties and sanctions.***

The federal government audits and reviews our performance on contracts, pricing & cost accounting practices, and compliance with other applicable laws and regulations. Like most large government contractors, our contracts are audited and reviewed on a continual basis by federal agencies, including the Defense Contract Management Agency, or DCMA and the Defense Contract Audit Agency, or DCAA. An audit of our contracts, including an audit of contracts performed by companies we have acquired or may acquire or subcontractors we have hired or may hire, could result in a substantial adjustment to our previously reported operating results.

All significant incurred cost submission audits have been completed through fiscal year 2006. Non-audit reviews by the government may still be conducted on all our government contracts. If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made against us, whether or not true.

If we were suspended or debarred from contracting with the federal government generally, or any specific agency, if our reputation or relationship with government agencies were impaired, or if the government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our revenue and operating results would be materially harmed.

***If we experience systems, service, or product failure, our reputation could be harmed and our clients could assert claims against us for damages or refunds.***

We create, implement, and maintain information technology solutions, as well as sell products, that are often critical to our clients' operations, including operations in war zones and other hazardous environments. We have experienced and may in the future experience some systems and service failures, schedule or delivery delays, and other problems in connection with our work. If our solutions, services, products, including third party products we may resell to our clients, or other applications have significant defects or errors, are subject to delivery delays, or fail to meet our clients' expectations, we may:

lose revenue due to adverse client reaction;

be required to provide additional services to a client at no charge;

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receive negative publicity, which could damage our reputation and adversely affect our ability to attract or retain clients; or

suffer claims for substantial damages against us.

In addition to any costs resulting from product or service warranties, contract performance, or required corrective action, these failures may result in increased costs or loss of revenue if clients postpone subsequently scheduled work or cancel or fail to renew contracts.

While many of our contracts limit our liability for consequential damages that may arise from negligence in rendering services to our clients, these contractual provisions may not be legally sufficient to protect us if we are sued. In addition, our errors and omissions and product liability insurance coverage may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, or the insurer may disclaim coverage as to some types of future claims. As we continue to grow and expand our business into new areas, our insurance coverage may not be adequate. The successful assertion of any large claim against us could seriously harm our business. Even if not successful, these claims could result in significant legal and other costs, may be a distraction to our management, and may harm our reputation.

### ***Our business commitments require our employees to travel to potentially dangerous places, which may result in injury to our employees.***

Our business involves providing services that require our employees to operate in various countries around the world, including Iraq and Afghanistan. These countries may be experiencing political upheaval or unrest, and in some cases war or terrorism. Senior level employees or executives may, on occasion, be part of the teams deployed to provide services in these countries. As a result, it is possible that certain of our employees or executives will suffer injury or bodily harm in the course of these deployments. It is also possible that we will encounter unexpected costs in connection with additional risks inherent with sending our employees to dangerous locations, such as increased insurance costs, as well as the repatriation of our employees or executives for reasons beyond our control.

### ***Our employees may engage in misconduct or other improper activities, which could harm our business.***

We are exposed to the risk that employee fraud or other misconduct could occur. Misconduct by employees could include intentional failures to comply with federal government procurement regulations, engaging in unauthorized activities, seeking reimbursement for improper expenses or falsifying time records. Employee misconduct could also involve the improper use of our clients' sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in controlling unknown or unmanaged risks or losses, which could harm our business.

### ***Our failure to obtain and maintain necessary security clearances may limit our ability to perform classified work for government clients, which could cause us to lose business.***

Some government contracts require us to maintain facility security clearances and require some of our employees to maintain individual security clearances. We have seen a recent increase in the number of clients requiring special security clearances and the types of clearances required. If our employees lose or are unable to timely obtain security clearances, or we lose a facility clearance, the government client can terminate the contract or decide not to renew it upon its expiration. As a result, to the extent we cannot obtain the required security clearances for our employees working on a particular contract, or we fail to obtain them on a timely basis, we may not derive the revenue anticipated from the contract, which could harm our operating results.



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### ***Security breaches in sensitive government systems could result in loss of clients and negative publicity.***

Many of the systems we develop, install, and maintain involve managing and protecting information used in intelligence, national security, and other sensitive or classified government functions. A security breach in one of these systems could cause serious harm to our business, damage our reputation, and prevent us from being eligible for further work on sensitive or classified systems for federal government clients. We could incur losses from such a security breach that could exceed the policy limits under our insurance. Damage to our reputation or limitations on our eligibility for additional work resulting from a security breach in one of our systems could materially reduce our revenue.

### ***We depend on our intellectual property and our failure to protect it could enable competitors to market products and services with similar features that may reduce demand for our products.***

Our success depends in part upon the internally developed technology, proprietary processes, and other intellectual property that we utilize to provide our services and incorporate in our products. If we are unable to protect our intellectual property, our competitors could market services or products similar to our services and products, which could reduce demand for our offerings. Federal government clients typically retain a perpetual, world-wide, royalty-free right to use the intellectual property we develop for them in any manner they deem appropriate, including providing it to our competitors in connection with their performance of other federal government contracts. We typically seek governmental authorization to re-use intellectual property developed for the federal government or to secure export authorization. Federal government clients typically grant contractors the right to commercialize software developed with federal funding. However, if we were to improperly use intellectual property even partially funded by the federal government, the federal government could seek damages or royalties from us, sanction us, or prevent us from working on future government contracts.

We may be unable to prevent unauthorized parties from attempting to copy or otherwise obtain and use our technology. Policing unauthorized use of our technology is difficult, and we may not be able to prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our intellectual property as fully as those in the United States. Others, including our employees, may compromise the trade secrets and other intellectual property that we own. Although we require our employees to execute non-disclosure and intellectual property assignment agreements and comply with related policies and procedures, these agreements may not be legally or practically sufficient to protect our rights. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of the proprietary rights of others. Any litigation could result in substantial costs and diversion of resources, with no assurance of success.

### ***We may be harmed by intellectual property infringement claims.***

We may become subject to claims from our employees or third parties who assert that software and other forms of intellectual property that we use in delivering services and business solutions to our clients infringe upon intellectual property rights of such employees or third parties. Our employees develop much of the software and other forms of intellectual property that we use to provide our services and business solutions to our clients, but we also license technology from other vendors. If our vendors, our employees, or third parties assert claims that we or our clients are infringing on their intellectual property, we could incur substantial costs to defend those claims. In addition, if any of these infringement claims are ultimately successful, we could be required to:

cease selling or using products or services that incorporate the challenged software or technology;

obtain a license or additional licenses from our vendors or other third parties; or

redesign our products and services that rely on the challenged software or technology.

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***Activation of military and National Guard reserves could significantly reduce our revenue and profits.***

Activation of military reserves, in connection with international conflicts or otherwise, could result in some clients and client contracting staff being activated into the military services. This could delay contract awards that might be in the evaluation or award process, which could in turn reduce our revenue until such time as our clients are able to complete the evaluation and award process, or could even result in the loss of the potential contract award.

As of June 30, 2008 we had approximately 200 employees who serve as reserves for a branch of the military or the National Guard. In the event of a significant call-up we will pay these employees the differential between their military pay and their salary for up to one year. Our standard practice in the absence of a significant call-up is to provide for up to 15 days of differential pay for military leave. To the extent those called for military duty are directly billable on our contracts, our revenue could be reduced. Additionally, our fringe benefit expenses would be increased by any differential payments, which could reduce our profits.

***Our global drug development business, a component of our Constella acquisition, is subject to risks that may adversely affect our results of operations.***

Approximately 3% of our revenue for the fiscal year ended June 30, 2008 was derived from clinical research services. Contracts to provide clinical research services are subject to various risks, including:

*Regulatory Risk.* We are required to comply with the laws and regulations of various countries governing activities such as obtaining patients' informed consents, verifying qualifications of investigators, reporting patients' adverse reactions to products, and maintaining thorough and accurate records. We are also required to ensure that the computer systems we use to process human data from clinical trials are validated in accordance with the electronic records regulations that apply to pharmaceutical companies and clinical research organizations. If we fail to comply with these governmental regulations, it could result in the termination of our ongoing research or the disqualification of data for submission to regulatory authorities. We could also be barred from providing clinical trial services in the future or could be subject to fines. Additionally, we may have to repeat research or redo clinical trials at no further cost to our clients, but at substantial cost to us. These events could create a risk of liability to us from the pharmaceutical companies with whom we contract or the study participants.

*Liability for Personal Injury or Death.* Our clinical research business involves the testing of experimental drugs and medical devices on consenting human volunteers pursuant to a study protocol. Clinical research involves a risk of liability for personal injury or death to patients who participate in the study or who use a product approved by regulatory authorities after the clinical research had concluded, due to, among other reasons, possible unforeseen adverse side effects or improper administration of the drug or device by physicians. In some cases, these patients are already seriously ill and are at risk of further illness or death. To mitigate the risk of liability, we seek to include indemnity provisions in our contracts. Even if we are able to include indemnity provisions in our contracts, we may still have to pay damages or incur defense costs in connection with claims outside the scope of the indemnity or the client may not have the financial ability to fulfill its indemnification obligation. We carry insurance to cover our risk of liability, but our insurance is subject to deductibles and coverage limits and may not be adequate to cover claims.

***Foreign currency exchange rate fluctuations may adversely affect our business.***

The revenue and expenses of our foreign operations are generally denominated in local currencies, primarily the British pound, and then are translated into U.S. dollars for financial reporting purposes. For the year ended June 30, 2008, approximately 2% of our revenue was denominated in British pounds, and less than 1% of our revenue was denominated in other foreign currencies. Changes in the exchange rates between foreign currencies and the U.S. dollar will affect the translation of foreign results into U.S. dollars for purposes of reporting our consolidated results. Due to the variability of currency exposure and the potential volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations on future sales and operating results.

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### ***Covenants in our credit facility may restrict our financial and operating flexibility.***

On May 29, 2008, we amended our five-year unsecured revolving credit facility dated August 9, 2007 to increase the commitment from \$100 million to \$285 million. At June 30, 2008, we had \$150 million outstanding under this facility. The credit facility contains covenants limiting our ability to, among other things, merge or consolidate with others, incur liens, redeem or repurchase our stock, enter into transactions with affiliates, or dispose of assets. In addition, the credit facility contains financial covenants requiring us to maintain specified financial ratios. Our ability to satisfy these financial ratios can be affected by events beyond our control, and we cannot assure you that we will meet these ratios. If we do not comply with the various covenants under the credit facility, the lenders may, subject to various customary cure rights, require immediate payment of all amounts outstanding under the facility.

Any event of default could have a material adverse effect on our business. If the lenders declare amounts outstanding under the credit facility to be due, the lenders could proceed against our assets. We also may incur future debt obligations that might subject us to restrictive covenants that could affect our financial and operational flexibility or subject us to other events of default.

From time to time we may require consents or waivers from our lenders to permit actions that are prohibited by our credit facility. If our lenders refuse to provide waivers of our credit facility's restrictive covenants or financial ratios, then we may be prohibited from undertaking actions that are necessary or desirable to maintain and expand our business.

### **Other Risks Related To Our Stock**

#### ***Our stock price is volatile and could decline.***

The stock market in general, and the market for technology-related stocks in particular, has been highly volatile. As a result, the market price of our class A common stock is likely to be similarly volatile, and holders of our class A common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects. The price of our class A common stock could be subject to wide fluctuations in response to a number of factors, including those listed in this Risk Factors section and others such as:

our operating performance and the performance of other similar companies or companies deemed to be similar;

actual or anticipated differences in our quarterly operating results;

changes in our revenue or earnings estimates or recommendations by securities analysts;

publication of research reports about us or our industry by securities analysts;

additions and departures of key personnel;

contract mix and the extent of use of subcontractors;

strategic decisions by us or our competitors, such as acquisitions, consolidations, divestments, spin-offs, joint ventures, strategic investments, or changes in business strategy;

federal government spending levels, both generally and by our particular government clients;

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the passage of legislation or other regulatory developments that adversely affect us or our industry;

the failure by Congress to approve budgets on a timely basis;

speculation in the press or investment community;

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changes in the government information technology services industry;

terrorist acts;

general market conditions, including economic factors unrelated to our performance; and

military action related to international conflicts, wars, or otherwise.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

***Our chairman, whose interests may not be aligned with yours, controls our company, which could result in actions of which you or other stockholders do not approve.***

As of August 22, 2008, Ernst Volgenau, our chairman, beneficially owned 113,078 shares of class A common stock and 12,050,736 shares of class B common stock, which represented approximately 65.6% of the combined voting power of our outstanding common stock. As of August 22, 2008, our executive officers, directors and chairman of the Board of Directors as a group beneficially owned an aggregate of 1,675,212 shares of class A common stock and 12,050,736 shares of class B common stock, which represented approximately 66.1% of the combined voting power of our outstanding common stock. As a result, these individuals acting together, or Dr. Volgenau acting alone, will be able to control the outcome of all matters that our stockholders vote upon, including the election of directors, amendments to our certificate of incorporation, and mergers or other business combinations. In addition, upon the death of Dr. Volgenau and the conversion of his class B common stock into class A common stock, William K. Brehm, the former chairman of our Board of Directors, if he survives Dr. Volgenau, would beneficially own all of the outstanding class B common stock and could exercise significant influence over corporate matters requiring stockholder approval. This concentration of ownership and voting power may also have the effect of delaying or preventing a change in control of our company and could prevent stockholders from receiving a premium over the market price if a change in control is proposed.

***Provisions of our charter documents and Delaware law may inhibit potential acquisition bids that you and other stockholders may consider favorable, and the market price of our class A common stock may be lower as a result.***

There are provisions in our certificate of incorporation and by-laws that make it more difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control was considered favorable by you and other stockholders. For example, our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock. The Board of Directors can fix the price, rights, preferences, privileges, and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction. As a result, the market price of our class A common stock and the voting and other rights of our stockholders may be adversely affected. This issuance of shares of preferred stock may result in the loss of voting control to other stockholders.

Our charter documents contain other provisions that could have an anti-takeover effect, including:

the high-vote nature of our class B common stock;

only one of the three classes of directors is elected each year;

stockholders have limited ability to remove directors without cause;

stockholders cannot take actions by written consent;

stockholders cannot call a special meeting of stockholders; and

stockholders must give advance notice to nominate directors or submit proposals for consideration at stockholder meetings.

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In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for our class A common stock. These provisions may also prevent changes in our management.

**Item 1B. UNRESOLVED STAFF COMMENTS**

We have not received written comments from the commission staff regarding our periodic or current reports under the Securities Exchange Act of 1934 that remain unresolved.

**Item 2. PROPERTIES**

We lease our office facilities and we do not own any facilities or real estate. At June 30, 2008, we had approximately 1.3 million square feet of floor space at approximately 58 separate locations, primarily in the U.S. We have leased our corporate headquarters at 4300 Fair Lakes Court in Fairfax, Virginia 22033 since 1991. Both of our headquarters leases expire on December 31, 2015. We also lease additional facilities located in 17 states, the District of Columbia and various foreign countries.

**Item 3. LEGAL PROCEEDINGS**

From time to time, we are involved in various legal matters and proceedings concerning matters arising out of the ordinary course of our business. While we cannot predict the outcome of these matters, we currently do not expect that any liability arising out of these matters and proceedings will have a material adverse effect on our financial position, results of operations, or cash flows.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

During the fourth quarter of fiscal year 2008, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Since May 24, 2002, our class A common stock has been publicly traded on the New York Stock Exchange under the symbol SRX. Prior to May 24, 2002, our class A common stock was not publicly traded. From July 1, 2006 to June 30, 2008 the ranges of high and low sale prices of our class A common stock as reported by the New York Stock Exchange for each quarter during this period were as follows:

	High	Low
Year ended June 30, 2008:		
First Quarter	\$ 28.59	\$ 22.64
Second Quarter	31.88	26.26
Third Quarter	29.84	21.10
Fourth Quarter	27.27	21.92
Year ended June 30, 2007:		
First Quarter	\$ 30.31	\$ 23.31
Second Quarter	32.40	25.50
Third Quarter	28.19	20.65
Fourth Quarter	26.38	23.95

As of August 22, 2008, there were approximately 88 holders of record of our class A common stock and two holders of record of our class B common stock. The number of holders of record of our class A common stock is not representative of the number of beneficial holders because many shares are held by depositories, brokers or nominees. As of August 22, 2008, the closing price of our class A common stock was \$23.08.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain earnings, if any, to support our growth strategy and do not anticipate paying cash dividends in the foreseeable future.

***Sale of Unregistered Securities***

We issued 22,887, 46,392, and 56,142 shares of our class A common stock to our SRA International, Inc. 401(k) Plan through matching contributions as determined by our Board of Directors during the fiscal years ended June 30, 2008, 2007, and 2006, respectively. These issuances were not sales within the meaning of the Act.



**Table of Contents****Share Repurchases**

On May 2, 2007, our Board of Directors authorized a share repurchase program to buy back up to \$40 million of our class A common stock. The following table summarizes the repurchases of class A common stock during the three-month period ended June 30, 2008. All shares repurchased under the share repurchase program were purchased in open market transactions.

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan or Program
04/01/2008	04/30/2008	65,652(a)	\$ 25.28		\$ 22,720,495(b)
05/01/2008	05/31/2008	12,430(c)	23.34	1,000	22,697,965(b)
06/01/2008	06/30/2008	745,600(d)	22.44	745,600	5,969,056(b)
Total		823,682		746,600	

(a) Represents shares repurchased from terminated employees.

(b) Under the \$40 million share repurchase authorization.

(c) Includes 11,430 shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock awards. The remaining shares were purchased under the share repurchase program.

(d) Represents share purchased under the share repurchase program.

**Equity Compensation Plan Information**

Information regarding our equity compensation plans and the securities authorized for issuance thereunder is incorporated by reference in Item 12.

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***Stock Performance Graph***

The information included under this heading *Stock Performance Graph* is furnished and not filed and shall not be deemed to be soliciting material or subject to Regulation 14A, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total stockholder return on our class A common stock from June 30, 2003 to June 30, 2008 with the cumulative total return of (i) the Russell 2000 stock index and (ii) the services sector index of the Dow Jones US Computer Services. The Dow Jones US Computer Services index was used instead of the Goldman Sachs Technology Index, or GSTI, because GSTI is no longer available. This graph assumes the investment of \$100.00 at the closing price on June 30, 2003 in our class A common stock, the Russell 2000 stock index, and Dow Jones US Computer Services index, and assumes any dividends are reinvested. The historical information set forth below is not necessarily indicative of future performance.

	<b>June 30,</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
SRA International, Inc.	100.00	132.25	217.00	166.44	157.88	140.38
Russell 2000	100.00	133.37	145.96	167.24	194.73	163.19
Dow Jones US Computer Services	100.00	111.06	99.35	105.38	143.32	154.35

**Table of Contents****Item 6. SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with our financial statements and the related notes, and with Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Form 10-K. The statement of operations data for the fiscal years ended June 30 2008, 2007, and 2006 and the balance sheet data as of June 30, 2008 and 2007, are derived from our financial statements that have been audited by Deloitte & Touche LLP, our independent registered public accounting firm, and are included in this Form 10-K. The statement of operations data for the fiscal years ended June 30, 2005 and 2004, and the balance sheet data as of June 30, 2006, 2005, and 2004, are derived from our financial statements that have been audited by Deloitte & Touche LLP and not included in this Form 10-K. The selected financial data reflect our adoption of Statement of Financial Accounting Standards, or SFAS, No. 123R in July 2005 and our acquisitions completed through June 30, 2008. For more information on the more recent acquisitions, see Note 2 to our financial statements.

	Year Ended June 30,				
	2008	2007	2006	2005	2004
	(in thousands, except share and per share data)				
<b>Statement of Operations Data:</b>					
Revenue	\$ 1,506,933	\$ 1,268,872	\$ 1,179,267	\$ 881,770	\$ 615,802
Operating costs and expenses:					
Cost of services	1,121,913	954,656	880,802	653,115	442,771
Selling, general and administrative (b)	240,340	200,204	183,297	126,404	100,919
Depreciation and amortization	25,263	21,187	18,201	13,141	10,511
Total operating costs and expenses	1,387,516	1,176,047	1,082,300	792,660	554,201
Operating income	119,417	92,825	96,967	89,110	61,601
Interest expense	(3,288)	(35)	(79)	(3)	(6)
Interest income	4,261	6,311	4,311	3,445	1,480
Gain on sale of Mantas, Inc.	892	3,674			
Other income					153
Income before taxes	121,282	102,775	101,199	92,552	63,228
Provision for income taxes	48,018	39,345	38,679	34,829	24,291
Net income	\$ 73,264	\$ 63,430	\$ 62,520	\$ 57,723	\$ 38,937
Earnings per share: (a)					
Basic	\$ 1.27	\$ 1.12	\$ 1.14	\$ 1.09	\$ 0.76
Diluted	\$ 1.24	\$ 1.09	\$ 1.08	\$ 1.02	\$ 0.71
Weighted-average shares: (a)					
Basic	57,566,645	56,476,927	55,064,138	52,965,623	51,008,978
Diluted	59,277,059	58,381,788	57,738,875	56,549,303	54,738,028
	As of June 30,				
	2008	2007	2006	2005	2004
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 229,260	\$ 212,034	\$ 173,564	\$ 162,973	\$ 143,367
Working capital	372,351	297,085	299,567	285,489	229,796
Total assets	1,136,515	847,684	724,722	572,399	466,380
Total stockholders' equity	692,936	625,455	533,297	429,092	339,268

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- (a) Share and per share amounts have been adjusted to reflect the May 2005 two-for-one stock split.
- (b) Years ended June 30, 2008, 2007, and 2006 include \$10.1 million, \$11.5 million, and \$13.2 million, respectively, of stock compensation expense recognized in accordance with SFAS No. 123R.

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### **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis in conjunction with our financial statements and the related notes included elsewhere in this Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk Factors and elsewhere in this Form 10-K.*

#### **ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis that follows is organized to:

provide an overview of our business;

describe selected key metrics evaluated by management;

explain the year-over-year trends in our results of operations;

describe our liquidity and capital resources; and

explain our critical accounting policies, describe certain line items of our statements of operations, and define certain other terms we use in our discussion and analysis.

Readers who are not familiar with our company or the financial statements of federal government information technology services providers should closely review the Description of Critical Accounting Policies, the Description of Statement of Operations Items, and the Definition of Certain Items Used in this Management's Discussion and Analysis sections that appear at the end of this discussion and analysis. These sections provide background information that can help readers in understanding and analyzing our financial information.

#### **OVERVIEW**

We are a leading provider of technology and strategic consulting services and solutions to clients in national security, civil government, and global health. We offer a broad range of technology and strategic consulting services spanning the information technology life cycle, including: strategic consulting; systems design, development, and integration; and outsourcing and managed services. Our core business solutions include text and data mining; information assurance, cyber security and privacy protection; enterprise resource planning; business intelligence; contingency and disaster planning; enterprise architecture and portfolio management; identity management; information sharing and knowledge management; outsourcing, managed services, and infrastructure modernization; service-oriented architecture; training, modeling, and simulation; global health policy and program management; clinical research outsourcing, regulatory consulting and data management; and wireless integration services. These business solutions consist of repeatable tools, techniques, and methods that reflect the specific competencies we have gained from significant experience in these areas. We provide services in three target markets: national security, civil government, and health care and public health. Our largest market, national security, includes the Department of Defense, the National Guard, the Department of Homeland Security, the intelligence agencies, and other federal organizations with homeland security missions.

Since our founding in 1978, we have derived substantially all of our revenue from services provided to federal government clients. According to the *Federal Information Technology Market Forecast, FY 2008-FY 2013* report published by INPUT, an independent federal government market research firm, the contracted portion of U.S. federal government spending on information technology is forecasted to grow at an annual rate of 4.1% from \$71.9 billion in federal fiscal year 2008 to \$87.8 billion in federal fiscal year 2013. We estimate that our addressable market, which also includes management consulting, engineering and other professional services for local, state, and federal governments, is currently over \$150 billion in size. In order to grow, we will need to take market share from our competitors. Our growth is driven in part by contract awards and how we build-out our contracts. Ideally, the level of quarterly business awards would exceed the revenue booked in the quarter to drive backlog growth.



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We work with the federal government under three primary contract types: cost-plus-fee, time-and-materials, and fixed-price contracts. Cost-plus-fee contracts are typically lower risk arrangements and thus yield lower profit margins than time-and-materials and fixed-price arrangements. Time-and-materials and fixed-price contracts typically generate higher profit margins reflecting their generally higher risk. Where customer requirements are clear, we prefer to enter into time-and-materials and fixed-price arrangements rather than cost-plus-fee arrangements. Typically under time-and-materials and fixed-price, as compared with cost-plus-contracts, the customer can save money and we can earn better margins, given the more specific delivery requirements of these structures.

Most of our revenue is generated based on services provided either by our employees or subcontractors. To a lesser degree, the revenue we earn includes reimbursable travel and other items to support the contractual effort, and may include third-party hardware and software that we purchase and integrate for customers as part of the solutions that we provide. Thus, once we win new business, the key to delivering the revenue is through hiring new employees to meet customer requirements, retaining our employees, and ensuring that we deploy them on direct-billable jobs. Therefore, we closely monitor hiring success, attrition trends, and direct labor utilization. Since we earn higher profits from the labor services that our employees provide compared with subcontracted efforts and other reimbursable items such as hardware and software purchases for customers, we seek to optimize our labor content on the contracts we win. The level of hardware and software purchases we make for customers may vary from period to period depending on specific contract and customer requirements.

Cost of services includes labor, or the salaries and wages of our employees, plus fringe benefits; the costs of subcontracted labor and outside consultants; third-party materials, such as hardware and software that we purchase for customer solutions; and other direct costs such as travel incurred to support contract efforts. Since we earn higher profits on our own labor services, we expect the ratio of cost of services to revenue to decline when our labor services mix increases relative to subcontracted labor or third-party material. Conversely, as subcontracted labor or third-party material purchases for customers increase relative to our own labor services, we expect the ratio of cost of services to revenue to increase. As we continue to bid and win larger contracts, our own labor services component could decrease. This is because the larger contracts typically are broader in scope and require more diverse capabilities resulting in more subcontracted labor with the potential for more third-party hardware and software purchases. In addition, we can face hiring challenges in staffing larger contracts. While these factors could lead to a higher ratio of cost of services to revenue, the economics of these larger jobs are nonetheless generally favorable because they increase income, broaden our revenue base, and have a favorable return on invested capital.

We have been able to build and effectively use what we refer to as a central services model. This central services model employs the use of central services for marketing, business development, human resources, recruiting, finance and accounting, infrastructure and other core administrative services. This central services model allows us to reduce selling, general and administrative expenses as a percentage of revenue as revenue grows organically and through selective acquisitions, thereby contributing to the growth in operating income.

Depreciation and amortization expenses are affected by the level of our annual capital expenditures and the amount of identified intangibles related to acquisitions. We do not presently foresee significant changes in our capital expenditure requirements, which have averaged approximately 1% of revenue over the last three fiscal years. As we continue to make selected strategic acquisitions, the amortization of identified intangible assets may increase as a percentage of our revenue.

Our operating income, or revenue minus cost of services, selling, general and administrative expenses, and depreciation and amortization, and thus our operating margin, or the ratio of operating income to revenue, is driven by the mix and execution on our contracts, how we manage our costs, and the amortization charges resulting from acquisitions.

Our cash position is driven primarily by the level of net income, working capital in accounts receivable, capital expenditures and acquisition activities.

**Table of Contents****SELECTED KEY METRICS EVALUATED BY MANAGEMENT**

We manage and assess the performance of our business by evaluating a variety of metrics. Selected key metrics are discussed below.

***Revenue Growth***

Our total revenue growth rate was 18.8% in fiscal year 2008. This growth was attributable primarily to the acquisitions of RABA Technologies, LLC, or RABA, which was completed in October 2006 and Constella Group, LLC, or Constella, which was completed in August 2007. Our organic revenue growth rate was 2.9% in fiscal year 2008.

A part of our growth strategy includes pursuing strategic acquisitions to complement and accelerate internal growth by adding new capabilities, customers or intellectual property. From July 1, 2005 through June 30, 2008, we completed the following acquisitions:

<b>Acquisition</b>	<b>Strategic Value</b>	<b>Closing Date</b>	<b>Purchase Price (in millions)</b>
Galaxy Scientific Corporation	Command and Control, Communications, Computers, Intelligence (C4I)	July 1, 2005	\$ 98.7
Spectrum Solutions Group, Inc.	Enterprise Resource Planning	November 2, 2005	17.7
Mercomms Unlimited, Inc.	Maritime and Defense Communications	April 10, 2006	0.6
RABA Technologies, LLC	Intelligence	October 26, 2006	95.0
Constella Group, LLC	Health Sciences and International Health and Drug Development	August 9, 2007	190.6

***Contract Backlog***

Future growth is dependent upon the strength of our target markets, our ability to identify opportunities, and our ability to successfully bid and win new contracts. Our success can be measured in part based upon the growth of our backlog. The following table summarizes our contract backlog at the end of the year:

	<b>Year Ended June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in millions)</b>		
<b>Backlog:</b>			
Funded	\$ 676.5	\$ 600.4	\$ 512.8
Unfunded	3,182.7	2,809.8	2,748.8
Total backlog	\$ 3,859.2	\$ 3,410.2	\$ 3,261.6

Our total backlog of approximately \$3.9 billion as of June 30, 2008 represented a 13.2% increase over the fiscal year 2007 backlog. We currently expect to recognize revenue during fiscal year 2009 from approximately 24% of our total backlog as of June 30, 2008.



**Table of Contents****Contract mix**

Contract profit margins are generally affected by the type of contract. We can typically earn higher profits on fixed-price and time-and-materials contracts than cost-plus-fee contracts. Thus, an important part of growing our operating income is to increase the amount of services delivered under fixed-price and time-and-materials contracts. The following table summarizes our historical contract mix, measured as a percentage of total revenue, for the periods indicated:

	Year Ended June 30,		
	2008	2007	2006
Cost-plus-fee	41%	43%	45%
Time-and-materials	42	42	40
Fixed-price	17	15	15

**Headcount and Labor Utilization**

Because most of our revenue derives from services delivered by our employees, our ability to hire new employees and deploy them on direct-billable jobs is critical to our success. The following table represents our headcount and our direct labor utilization over the past three years. The direct labor utilization shown excludes our global drug development business, which does not have a material effect on the overall percentage.

	Year Ended June 30,		
	2008	2007	2006
Headcount	6,497	5,215	4,975
Direct labor utilization	79.2%	78.8%	78.5%

**Operating Margin**

Operating margin, or the ratio of operating income to revenue, is affected by the mix of our contracts, how we bid and execute our contracts, and how we manage our costs. Our operating margins were 7.9%, 7.3%, and 8.2% for the years ended June 30, 2008, 2007, and 2006, respectively. We generated a greater proportion of our revenue from our labor services in fiscal 2008 compared to fiscal 2007, which increased our operating margin. The decrease in operating margin between fiscal 2006 and 2007 is primarily attributable to lower margins on re-competed contracts during fiscal 2007 compared to fiscal 2006. Additionally, the amortization associated with identified intangibles recorded as a result of our acquisition of RABA reduced operating margin in the year ended June 30, 2007.

**Days Sales Outstanding**

Days sales outstanding, or DSO, is a measure of how efficiently we manage the billing and collection of our accounts receivable, our most significant working capital requirement. Accounts receivable represents the most significant asset we report on our balance sheet. Our reported DSO remained constant at 73 days for the years ended June 30, 2008 and 2007. We have a number of internal process initiatives underway that we believe will enable us to improve our invoicing and collection of accounts receivable with our U.S. customers. However, we do not anticipate a significant improvement in DSO due to an increase in receivables from international customers, which generally take longer to collect.

**Table of Contents****RESULTS OF OPERATIONS**

The following tables set forth some items from our consolidated statements of operations, and these items expressed as a percentage of revenue, for the periods indicated.

	2008	% Change	Year Ended June 30, 2007 (in thousands)	% Change	2006
Revenue	\$ 1,506,933	18.8%	\$ 1,268,872	7.6%	\$ 1,179,267
Operating costs and expenses:					
Cost of services	1,121,913	17.5	954,656	8.4	880,802
Selling, general, and administrative	240,340	20.0	200,204	9.2	183,297
Depreciation and amortization	25,263	19.2	21,187	16.4	18,201
Total operating costs and expenses	1,387,516	18.0	1,176,047	8.7	1,082,300
Operating income	119,417	28.6	92,825	(4.3)	96,967
Interest expense	(3,288)	*	(35)	*	(79)
Interest income	4,261	(32.5)	6,311	52.0	4,311
Gain on sale of Mantas, Inc.	892	(75.7)	3,674	100.0	
Income before taxes	121,282	18.0	102,775	1.6	101,199
Provision for income taxes	48,018	22.0	39,345	1.7	38,679
Net income	\$ 73,264	15.5%	\$ 63,430	1.5%	\$ 62,520

	(as a percentage of revenue)		
	2008	2007	2006
Revenue	100.0%	100.0%	100.0%
Operating costs and expenses:			
Cost of services	74.5	75.2	74.7
Selling, general and administrative	15.9	15.8	15.5
Depreciation and amortization	1.7	1.7	1.5
Total operating costs and expenses	92.1	92.7	91.8
Operating income	7.9	7.3	8.2
Interest expense	(0.3)	0.0	0.0
Interest income	0.3	0.5	0.4
Gain on sale of Mantas, Inc.	0.1	0.3	
Income before taxes	8.0	8.1	8.6
Provision for income taxes	3.1	3.1	3.3
Net income	4.9%	5.0%	5.3%

\* Year-over year rate of change greater than 100%

**Revenue**

Our revenue increased 18.8% to \$1.51 billion in fiscal 2008 from \$1.27 billion in fiscal 2007. Organic revenue growth was 2.9% for the year. Our increase in revenue was primarily acquisitive and driven by our October 2006 acquisition of RABA and August 2007 acquisition of

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Constella which together accounted for approximately \$182 million of additional revenue during fiscal 2008. In May 2008, we were informed that we were not successful in our recompetete bid for the Advanced Information Technology Services contract with the National Guard, which accounted for approximately 6% of our revenue in fiscal 2008. The contract will end during the first quarter of fiscal 2009.

Our revenue increased 7.6% to \$1.27 billion in fiscal 2007, from \$1.18 billion in fiscal 2006. Organic revenue growth was 3.4% for the year, with the remainder of growth mostly attributable to our October 2006 acquisition of RABA which generated approximately \$43 million in revenue during fiscal 2007. Organic growth was driven primarily by our Federal Deposit Insurance Corporation, or FDIC, contract, which generated approximately \$25.5 million in additional revenue during fiscal 2007 compared to fiscal 2006.

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***Cost of Services***

Cost of services increased 17.5% to \$1.12 billion in fiscal 2008, from \$954.7 million in fiscal 2007. This increase in cost of services was due primarily to the increased volume of services attributable to the acquired RABA and Constella contracts. As a percentage of revenue, cost of services decreased to 74.5% in fiscal 2008, from 75.2% in fiscal 2007, due primarily to an increase in our labor service mix relative to third-party materials.

Cost of services increased 8.4% to \$954.7 million in fiscal 2007, from \$880.8 million in fiscal 2006. This increase in cost of services was due primarily to the increased volume of services provided under our FDIC contract, and the volume of services attributable to RABA's existing contracts. As a percentage of revenue, cost of services increased to 75.2% in fiscal 2007, from 74.7% in fiscal 2006. This increase as a percentage of revenue was attributable primarily to lower margin on re-competed contracts during fiscal 2007 compared to fiscal 2006.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased 20.0% to \$240.3 million in fiscal 2008, from \$200.2 million in fiscal 2007. The increase in selling, general and administrative expenses was due primarily to our acquisitions of RABA and Constella. As a percentage of revenue, selling, general and administrative expenses increased slightly to 15.9% in fiscal 2008 from 15.8% in fiscal 2007. This increase as a percentage of revenue was primarily attributable to investments in marketing and sales and increased travel, infrastructure and compliance costs associated with our international operations.

Selling, general and administrative expenses increased 9.2% to \$200.2 million in fiscal 2007, from \$183.3 million in fiscal 2006. As a percentage of revenue, selling, general and administrative expenses increased to 15.8% in fiscal 2007 from 15.5% in fiscal 2006. This increase as a percentage of revenue resulted primarily from an increase in our allowance for doubtful accounts related to a potentially uncollectible receivable. Additionally, increased spending to recruit staff during fiscal 2007 increased the ratio of selling, general and administrative expenses to revenue as compared to fiscal 2006.

***Depreciation and Amortization***

Depreciation and amortization increased 19.2% to \$25.3 million in fiscal 2008, from \$21.2 million in fiscal 2007. This increase was due to the amortization of identified intangible assets related to our acquisitions of RABA and Constella. As a percentage of revenue, depreciation and amortization remained constant at 1.7% for both fiscal 2008 and 2007.

Depreciation and amortization increased 16.4% to \$21.2 million in fiscal 2007, from \$18.2 million in fiscal 2006. As a percentage of revenue, depreciation and amortization increased to 1.7% in fiscal 2007, from 1.5% in fiscal 2006. This increase in depreciation and amortization resulted primarily from the amortization associated with the identified intangibles recorded as a result of our acquisition of RABA.

***Interest Expense***

Interest expense increased to \$3.3 million in fiscal 2008, from \$35 thousand in fiscal 2007. This increase was due to the interest incurred on borrowings under our credit facility which we used to fund the acquisition of Constella.

***Interest Income***

Interest income decreased to \$4.3 million in fiscal 2008, from \$6.3 million in fiscal 2007. This decrease was due to a lower average cash balance and a general decline in interest rates in fiscal 2008 compared to fiscal 2007.

Interest income increased to \$6.3 million in fiscal 2007, from \$4.3 million in fiscal 2006. This increase was due to a general rise in interest rates and a greater average cash and cash equivalents balance.

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### ***Income Taxes***

In fiscal 2008, our effective income tax rate increased to 39.6%, from 38.3% in fiscal year 2007. This increase was due primarily to a decreased proportion of interest income earned from tax-advantaged municipal bond investments. The estimated effective tax rate is based on current tax law and current income and expense projections. The effective tax rate may be affected by future acquisitions, by changes in interest income from tax-advantaged municipal bond investments, or by the receipt of certain tax credits or refunds.

In fiscal 2007, our effective tax rate increased slightly to 38.3% from 38.2% in fiscal 2006. The increase was due primarily to additional services performed in higher taxing jurisdictions in fiscal 2007 compared to fiscal 2006.

### **SEASONALITY**

Our business operates on a fiscal year ending June 30. Quarterly revenue and operating margins can be affected by, among other things, seasonality in our business model. In the quarter ending September 30, we may experience a sequential decline in operating margins from our quarter ending June 30. In the quarter ending September 30, we generally experience lower staff utilization rates because of summer vacations and increased proposal activity in connection with the end of the federal fiscal year. We typically transition a significant number of professional staff temporarily off of billable engagements to support this increased proposal activity. The revenue mix can also change in the September quarter as the volume of lower-margin direct material purchases on behalf of government customers can increase near the end of the federal fiscal year.

In the quarter ending December 31, lower staff utilization rates may continue because of holiday vacations, and lower-margin direct materials volume may remain high because some of our customers have a December fiscal year end and tend to make more purchases in that quarter. In the March and June quarters, staff utilization may increase, and lower-margin direct material purchase volume may decline. This can have the effect of increasing operating margins in the last two quarters of our fiscal year.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our primary liquidity needs are to finance the costs of operations pending the billing and collection of accounts receivable, to acquire capital assets, to invest in research and development, to make selective strategic acquisitions, and to repurchase shares of our common stock.

As of June 30, 2008, our total cash and investments balances were \$229.3 million. We used a total of approximately \$190 million of cash, net of cash acquired, in fiscal 2008 related to the acquisition of Constella.

### ***Cash Flow***

Accounts receivable represent our largest working capital requirement. We bill most of our clients monthly after services are rendered. Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments.

### ***Fiscal 2008 Compared to Fiscal 2007***

Net cash provided by operating activities was \$83.8 million in fiscal 2008, compared to \$122.4 million in fiscal 2007, or 1.1 and 1.9 times net income for the same periods. The lower cash provided by operating activities was due largely to an increase in accounts receivable resulting from the implementation of a new accounting system in the United Kingdom and administrative delays in payment by one of our customers. This was partially offset by the timing of some vendor payments in fiscal year 2008 as compared to fiscal year 2007.

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We used \$199.6 million in net cash for investing activities in fiscal 2008, compared to \$101.2 million in fiscal 2007. The cash used for investing activities in fiscal 2008 was primarily the result of our acquisition of Constella in August 2007.

Net cash provided by financing activities was \$133 million in fiscal 2008, compared to \$17.2 million in fiscal 2007. The increase resulted primarily from the use of our credit facility to support the acquisition of Constella as well as greater stock option exercises. This was partially offset by cash used to repurchase shares of our common stock during fiscal 2008.

### *Fiscal 2007 Compared to Fiscal 2006*

Net cash provided by operating activities was \$122.4 million in fiscal 2007, compared to \$86.8 million in fiscal 2006, or 1.9 and 1.4 times net income for fiscal 2007 and 2006 respectively. The higher cash provided by operating activities was driven primarily by increased customer collections as a result of internal process initiatives implemented to improve our invoicing and collection of accounts receivable. Additionally, the payment of year-end incentive compensation was made after year-end, whereas in prior years such payments were made in June of each year.

We used \$101.2 million in net cash for investing activities in fiscal 2007, compared to \$104.7 million in fiscal 2006. Three factors drive our investing cash outflows: capital expenditures, the purchase, sale or maturity of investments with maturities that exceed 90 days, and acquisitions. The lower cash used for investing activities in fiscal 2007 was due primarily to lower cash generated from the sale and maturity of investments in fiscal 2007 compared to fiscal 2006, which was partially offset by the proceeds received in the sale of our interest in Mantas, Inc.

Net cash provided by financing activities was \$17.2 million in fiscal 2007, compared to \$28.5 million in fiscal 2006. The decrease was due to lower stock option exercises and related tax benefits.

### *Credit Facility*

On May 29, 2008, we amended our five-year unsecured revolving credit facility dated August 9, 2007 to increase the commitment from \$100 million to \$285 million. The credit facility terminates on August 9, 2012, at which time all outstanding borrowings under the facility become due. As of June 30, 2008, we had borrowings of \$150 million outstanding under the credit facility.

Outstanding borrowings under the credit facility bear interest at a rate per annum equal to, at our election, (i) LIBOR plus an applicable margin ranging from 0.65% to 0.95%, with such margin varying according to our leverage ratio, plus a utilization fee of 0.125% if outstanding borrowings exceed 50% of the credit facility, or (ii) an alternative base rate equal to the higher of the bank's prime rate or 0.5% above the Federal Funds Rate. In addition, we are required to pay the lenders a facility fee on the total committed amount under the credit facility ranging from 0.100% to 0.175% per annum, depending upon our leverage ratio. Interest is payable upon maturity.

We may use the proceeds from borrowings under the credit facility for any general corporate purpose. The credit facility contains customary covenants limiting our ability to, among other things, merge or consolidate with others, incur liens, redeem or repurchase our stock, enter into transactions with affiliates, or dispose of assets. In addition, the credit facility contains financial covenants requiring us to maintain a total leverage ratio of not more than 3.0 to 1.0 and an interest coverage ratio of at least 3.0 to 1.0. If we do not comply with the various covenants under the credit facility, the lenders may, subject to various customary cure rights, require immediate payment of all amounts outstanding under the facility.

**Table of Contents****Share Repurchases**

In May 2007, our Board of Directors authorized the repurchase of up to \$40 million of the Company's class A common stock. During the three months ended June 30, 2008, we repurchased approximately \$17 million of our stock under the repurchase authority. As of June 30, 2008, approximately \$6 million remained of the \$40 million authorized repurchase amount, which was repurchased subsequent to year-end.

On July 31, 2008, the Board authorized the repurchase of an additional \$100 million. The timing, price, quantity and manner of the purchases can be determined at the discretion of our Chief Executive Officer.

**Capital Requirements**

We believe the capital resources available to us under the credit facility and cash from our operations are adequate to fund our normal operating liquidity and capital expenditure requirements at least through fiscal 2009.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements.

**CONTRACTUAL OBLIGATIONS**

The following table summarizes our contractual obligations as of June 30, 2008 that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make.

Contractual obligations:	Total	Payments due by period			
		Less than 1 Year	1 to 3 Years (in thousands)	3 to 5 Years	More than 5 Years
Long-term debt (a)	\$ 150,000	\$	\$	\$ 150,000	\$
Operating lease obligations	205,383	36,346	62,044	49,857	57,136
<b>Total contractual obligations</b>	<b>\$ 355,383</b>	<b>\$ 36,346</b>	<b>\$ 62,044</b>	<b>\$ 199,857</b>	<b>\$ 57,136</b>

(a) See Note 17 to the Company's consolidated financial statements for additional information regarding debt and related matters. In the normal course of our business, we enter into agreements with subcontractors and vendors to provide products and services that we consume in our operations or that are delivered to our customers. These products and services are not considered unconditional obligations until the products and services are actually delivered, at which time we record a liability for our obligation.

**DESCRIPTION OF CRITICAL ACCOUNTING POLICIES**

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates including those related to revenue recognition, doubtful accounts receivable, goodwill and other intangible assets, and other contingent liabilities. We base our estimates on our historical experience and various other factors that we believe are reasonable at the time the estimates are made. Actual results may differ significantly from our estimates under different assumptions or conditions. We believe the critical accounting policies requiring us to make significant estimates and judgments are revenue recognition, and accounting for acquisitions, including the identification of intangible assets and the ongoing impairment assessments of the intangible assets. If any of these estimates or judgments proves to be incorrect, our reported results could be materially affected.





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### ***Revenue Recognition***

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable, and collectability is reasonably assured. We have a standard management process that we use to determine whether all required criteria for revenue recognition have been met. This standard management process includes a regular review of our contract performance. This review covers, among other matters, outstanding action items, progress against schedule, effort and staffing, requirements stability, quality, risks and issues, subcontract management, cost, commitments, and client satisfaction. During this review we determine whether the overall progress on a contract is consistent with the effort expended.

Absent evidence to the contrary, we recognize revenue as follows. Revenue on cost-plus-fee contracts is recognized to the extent of costs actually incurred plus a proportionate amount of the fee earned. We consider fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs actually incurred in performance of the contract. Revenue on time-and-materials contracts is recognized based on the hours actually incurred at the negotiated contract billing rates, plus the cost of any allowable material costs and out-of-pocket expenses. Revenue on fixed-price contracts where we perform systems design, development and integration is recognized using the percentage-of-completion method of contract accounting. Unless it is determined as part of our regular contract review that there is a more suitable objective measure of completion than costs expended to date, we determine the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected upon completion of the contract. Revenue on fixed-price outsourcing and managed services contracts is generally recognized ratably over the contract period. Revenue on fixed-price strategic consulting contracts is generally recognized based on costs incurred because these services are directed by our customers and are subject to their needs which fluctuate throughout the contract period. We consider performance-based fees, including award fees, under any contract type to be earned when we can demonstrate satisfaction of performance goals, based upon historical experience, or we receive contractual notification from a client that the fee has been earned. Billings for hardware or software purchased by customers under one of our contracts where we act as an agent to the transaction are excluded from our revenue and cost of services, except to the extent of any handling fee or profit earned. Fees paid by us as an agent to investigators and test subjects in connection with clinical research trials are also excluded from revenue and costs of services, except to the extent of any profit earned.

Contract revenue recognition inherently involves estimation. Examples of estimates include the contemplated level of effort to accomplish the tasks under contract, the cost of the effort, and an ongoing assessment of our progress toward completing the contract. From time to time, as part of our standard management processes, facts develop that require us to revise our estimated total costs or revenue. To the extent that a revised estimate affects contract profit or revenue previously recognized, we record the cumulative effect of the revision in the period in which the facts requiring the revision become known. Anticipated contract losses are recognized in the period in which it becomes probable and can be reasonably estimated.

We may proceed with work based on client direction prior to the completion and signing of formal contract documents. We have a formal review process for approving any such work. Revenue associated with such work is recognized only when it can be reliably estimated and realization is probable. We base our estimates on previous experiences with the client, communications with the client regarding funding status, and our knowledge of available funding for the contract or program.

We maintain reserves for doubtful accounts receivable that may arise in the normal course of business. Historically, we have not had significant write-offs of doubtful accounts receivable related to work we perform for the federal government. However, we do perform work on contracts and task orders where, on occasion, issues arise that lead to accounts receivable not being collected.

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### ***Contract Cost Accounting***

As a contractor providing services primarily to the federal government, we must categorize our costs as either direct or indirect and allowable or unallowable. Direct costs are those costs that are identified with specific contracts. These costs include labor, subcontractor and consultant services, third party materials we purchase under a contract, and other non-labor costs incurred in direct support of a contract. Indirect costs are those costs not identified with specific contracts. Rather, indirect costs are allocated to contracts in accordance with federal government rules and regulations. These costs typically include our selling, general and administrative expenses, fringe benefit expenses, and depreciation and amortization costs. Direct and indirect costs that are not allowable under the Federal Acquisition Regulation or specific contract provisions cannot be considered for reimbursement under our federal government contracts. We must specifically identify these costs to ensure we comply with these requirements. Our unallowable costs include a portion of our executive compensation, certain employee morale activities, certain types of legal and consulting costs, and the amortization of identified intangible assets, among others. As we acquire and integrate new companies, we try to manage our indirect costs by realizing opportunities for cost synergies and integrating the indirect support function of acquired companies into our own.

### ***Accounting for Acquisitions and Asset Impairment***

The purchase price that we pay to acquire the stock or assets of an entity must be assigned to the net assets acquired based on the estimated fair market value of those net assets. The purchase price in excess of the estimated fair market value of the tangible net assets and separately identified intangible assets acquired represents goodwill. The purchase price allocation related to acquisitions involves significant estimates and management judgments that may be adjusted during the purchase price allocation period, but generally not beyond one year from the acquisition date.

We must evaluate goodwill for impairment on an annual basis, or during any interim period if we have an indication that goodwill may be impaired. We assess the potential impairment of goodwill by comparing the carrying value of the assets and liabilities of our reporting unit to which goodwill is assigned to the estimated fair value of the reporting unit using a discounted cash flow approach. We performed our annual goodwill impairment analysis as of January 1, 2008. There was no indication of goodwill impairment as a result of our impairment analysis. If we are required to record an impairment charge in the future, it could materially affect our results of operations.

The estimated fair market value of identified intangible assets is amortized over the estimated useful life of the related intangible asset. We have a process pursuant to which we typically retain third-party valuation experts to assist us in determining the fair market values and useful lives of identified intangible assets. We evaluate these assets for impairment when events occur that suggest a possible impairment. Such events could include, but are not limited to, the loss of a significant client or contract, decreases in federal government appropriations or funding for specific programs or contracts, or other similar events. None of these events have occurred for the periods presented. We determine impairment by comparing the net book value of the asset to its future undiscounted net cash flows. If an impairment occurs, we will record an impairment expense equal to the difference between the net book value of the asset and its estimated discounted cash flows using a discount rate based on our cost of capital and the related risks of recoverability.

## **DESCRIPTION OF STATEMENT OF OPERATIONS ITEMS**

The following is a description of certain line items of our statements of operations.

### ***Revenue***

Most of our revenue is generated on the basis of services provided to the federal government, either by our employees or by our subcontractors. To a lesser degree, the revenue we earn may include third-party hardware and software that we purchase and integrate when requested by the client as a part of the solutions that we provide to our clients.

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*Contract Types.* When contracting with our government clients, we enter into one of three basic types of contracts: cost-plus-fee, time-and-materials, and fixed-price.

*Cost-plus-fee contracts.* Cost-plus-fee contracts provide for reimbursement of allowable costs and the payment of a fee, which is our profit. Cost-plus-fixed-fee contracts specify the contract fee in dollars. Cost-plus-award-fee contracts may provide for a base fee amount, plus an award fee that varies, within specified limits, based upon the client's assessment of our performance as compared to contractual targets for factors such as cost, quality, schedule, and performance.

*Time-and-materials contracts.* Under a time-and-materials contract, we are paid a fixed hourly rate for each direct labor hour expended and we are reimbursed for allowable material costs and out-of-pocket expenses. To the extent our actual direct labor and associated costs vary in relation to the fixed hourly billing rates provided in the contract, we will generate more or less profit, or could incur a loss.

*Fixed-price contracts.* Under a fixed-price contract, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less than the anticipated amount of profit or could incur a loss. Some fixed-price contracts have a performance-based component, pursuant to which we can earn incentive payments or incur financial penalties based on our performance.

### ***Cost of Services***

Cost of services includes the direct costs to provide our services and business solutions to clients. The most significant of these costs are the salaries and wages, plus associated fringe benefits, of our employees directly serving clients. Cost of services also includes the costs of subcontractors and outside consultants, third-party materials, such as hardware or software that we purchase and provide to the client as part of an integrated solution, and any other direct costs, such as travel expenses incurred to support contract efforts.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses include the salaries and wages, plus associated fringe benefits, of our employees not performing work directly for clients. Among the functions covered by these costs are asset and facilities management, business development, research and development, contracts and legal, finance and accounting, executive and senior management, human resources, and information system support. Facilities-related costs are also included in selling, general and administrative expenses.

### ***Depreciation and Amortization***

Depreciation and amortization includes depreciation of computers and other equipment, the amortization of software we use internally, the amortization of leasehold improvements, and the amortization of identified intangible assets.

## **DEFINITION OF CERTAIN TERMS USED IN THIS MANAGEMENT'S DISCUSSION AND ANALYSIS**

### ***Backlog***

We define backlog to include funded and unfunded orders for services under existing signed contracts, assuming the exercise of all options relating to those contracts, less the amount of revenue we have previously recognized under those contracts. Backlog includes all contract options that have been priced but not yet funded. Backlog also includes the contract value under single award indefinite delivery, indefinite quantity, or ID/IQ, contracts against which we expect future task orders to be issued without competition. Backlog does not take contract ceiling value into consideration under multiple award contracts, nor does it include any estimate of future potential delivery orders that might be awarded under multiple award ID/IQ vehicles, government-wide acquisition contracts, or GWACs, or General Services Administration, or GSA, schedule contracts. We define funded backlog to be the portion of backlog for which funding currently is appropriated and obligated to us under a contract or other authorization for payment signed by an authorized purchasing authority.



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We cannot guarantee that we will recognize any revenue from our backlog. The federal government has the prerogative to cancel any contract or delivery order at any time. Most of our contracts and delivery orders have cancellation terms that would permit us to recover all or a portion of our incurred costs and potential fees in such cases. Backlog varies considerably from time to time as current contracts or delivery orders are executed and new contracts or delivery orders under existing contracts are won.

**Days Sales Outstanding**

We calculate days sales outstanding, or DSO, by dividing the average accounts receivable at the beginning and end of the period, net of average billings in excess of revenue, by revenue per day in the period. Revenue per day for a quarter is determined by dividing total revenue by 90 days. Revenue per day for a year is determined by dividing total revenue by 360 days.

**Direct Labor Utilization**

We define direct labor utilization as the ratio of labor dollars worked on customer engagements to total labor dollars worked. We include every working employee of the company in the computation. We exclude leave taken, such as vacation time or sick leave, so that we can understand how we are applying worked labor. Leave actually taken by our employees is largely beyond the control of management in the near term.

**Organic Growth**

We calculate organic growth by comparing our actual reported revenue in the current period, including revenue attributable to acquired companies, with adjusted revenue from the prior-year period. In arriving at prior-year revenue, we include the revenue of acquired companies for the prior-year periods comparable to the current-year periods for which the acquired companies are included in our actual reported revenue. The resulting growth rate is intended to represent our organic, or non-acquisitive, growth year-over-year, including comparable period growth attributable to acquired companies. For illustrative purposes, we compute our fiscal 2008 organic growth rate of 18.8% as follows:

	Year Ended June 30,		% Increase
	2008	2007	
Revenue, as reported	\$ 1,506,933	\$ 1,268,872	18.8%
Plus: Revenue from acquired companies for the comparable prior year period		196,144	
Organic Revenue	\$ 1,506,933	\$ 1,465,016	2.9%

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides a new single authoritative definition of fair value and enhanced guidance for measuring the fair value of assets and liabilities. It requires additional disclosures regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The effective date for all nonrecurring fair value measurements of nonfinancial assets and liabilities was delayed until fiscal years beginning after November 15, 2008. We do not expect the adoption of this new standard to have a material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates and

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report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of this new standard to have a material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, which replaces SFAS No 141. The statement retains the fundamental requirement of SFAS No. 141 that the acquisition method of accounting be used for all acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. An entity may not apply it before that date. We will apply this guidance effective July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, which is intended to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries as a component of equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effect, if any, that adoption of SFAS No. 160 will have on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS No. 161 requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We do not expect the adoption of this new standard to have a material impact on our financial statements.

In April 2008, the FASB issued Staff Position, or FSP, FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP FAS 142-3 is effective for the fiscal years beginning after December 15, 2008. We will apply this guidance effective July 1, 2009.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 transfers the hierarchy of GAAP from the auditing literature to the accounting standards and identifies a consistent hierarchy for selecting accounting principles to be used in applying U.S. GAAP. SFAS No. 162 is effective 60 days after the SEC's approval of PCAOB Auditing Standard No. 6, *Evaluating Consistency of Financial Statements*. We do not expect the adoption of this new standard to have a material impact on our financial statements.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Financial instruments that potentially subject us to credit risk consist primarily of cash equivalents, short- and long-term investments, accounts receivable, and long-term debt. We are exposed to market risk, primarily related to interest rates and foreign currency exchange rates.

The interest rates on our revolving credit facility are affected by changes in market interest rates. Borrowings under our revolving credit facility bear interest at either (i) LIBOR plus and applicable margin ranging from 0.65% to 0.95%, with such margin varying according to our leverage ratio, plus a utilization fee of 0.125% if outstanding borrowings exceed 50% of the credit facility, or (ii) an alternative base rate equal to the

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higher of the bank's prime rate or 0.5% above the Federal Funds Rate. A hypothetical 1% increase in the interest rate could increase our interest expense for fiscal 2009 by approximately \$1.5 million based on our outstanding debt at June 30, 2008.

We invest our excess cash in high credit quality investments, and therefore, we believe that concentrations of credit risk with respect to cash equivalents and investments are limited. Our investment policy requires that investments be in direct obligations of the U.S. government, certain U.S. government sponsored entities, investments that are secured by direct or sponsored U.S. government obligations, or certain corporate or municipal debt obligations rated at least single-A or A-1/P-1, as applicable, by both Moody's Investor Service and Standard and Poor's. Our policy does not allow investment in any equity securities or the obligations of any entity under review for possible downgrade by a major rating service to a debt rating below single-A.

As of June 30, 2008 and 2007, the carrying value of financial instruments approximated fair value. These investments primarily consist of corporate and municipal bonds with maturities of 4 months or less that are classified as held-to-maturity.

We believe that concentrations of credit risk with respect to accounts receivable are limited as they are primarily federal government receivables.

We are exposed to changes in foreign currency rates. Approximately 2% of our total revenue in fiscal 2008 was derived from our international operations, primarily earned in the United Kingdom. At present, we do not utilize any derivative instruments to manage risk associated with currency exchange rate fluctuations. The functional currency of certain foreign operations is the local currency. Our practice in our international operations is to negotiate contracts in the same currency in which the predominant expenses will be incurred, thereby mitigating the exposure to foreign currency exchange fluctuations.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements of SRA International, Inc. and subsidiaries are submitted on pages F-1 through F-28 of this report.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**  
None.

**Item 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2008. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2008, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report. Additionally, in 2007, our Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation by the company of the New York Stock Exchange corporate governance listing standards.

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of SRA International, Inc. and subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rule 13a-15(f), and for assessing the effectiveness of internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability and fair presentation of published financial statements in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our chief executive officer and chief financial officer, management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2008 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. This assessment excluded the internal control over financial reporting at Constella Group, LLC which was acquired on August 9, 2007 and whose financial statements reflect approximately 1% and 6% of net and total assets, respectively, 11% of revenue and 7% of net income of the related consolidated financial statement amounts as of and for the year ended June 30, 2008. Based on this assessment, management determined that the Company's internal control over financial reporting was effective as of June 30, 2008.

Deloitte & Touche LLP (D&T), an independent registered public accounting firm, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. The D&T report immediately follows this report.

/s/ STANTON D. SLOANE  
**President and Chief Executive Officer**

/s/ STEPHEN C. HUGHES  
**Chief Financial Officer and Executive Vice President,  
Operations**

Date: August 27, 2008



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors and Stockholders of SRA International, Inc. and Subsidiaries

We have audited the internal control over financial reporting of SRA International, Inc. and subsidiaries (the Company) as of June 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Constella Group, LLC, which was acquired on August 9, 2007 and whose financial statements constitute approximately 1% and 6% of net and total assets, respectively, 11% of revenue and 7% of net income of the consolidated financial statement amounts as of and for the year ended June 30, 2008. Accordingly, our audit did not include the internal control over financial reporting at Constella Group, LLC. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and the financial statement schedule as of and for the year ended June 30, 2008 of the Company and our report dated August 27, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company's adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia

August 27, 2008



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**Item 9B. OTHER INFORMATION**

None.

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**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required to be set forth herein is contained under the heading Executive Officers of the Registrant in Part I of this report. Other information required by this Item will be included under the headings Proposal 1 Election of Directors, Corporate Governance and Section 16(a) Beneficial Ownership reporting Compliance in the definitive proxy statement for our 2008 annual meeting of stockholders, or the 2008 proxy statement, which sections are incorporated herein by reference.

**Item 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included under the headings Director Compensation, Executive Compensation, Compensation Committee Report on Executive Compensation, and Compensation Committee Interlocks and Insider Participation, in the 2008 proxy statement, which sections are incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item will be included under the headings Beneficial Ownership of Common Stock and Equity Compensation Plan Information in the 2008 proxy statement, which sections are incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be included under the heading Certain Relationships and Related Transactions in the 2008 proxy statement, which section is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item will be included under the heading Proposal 2 Ratification of Selection of Independent Auditors in the 2008 proxy statement, which section is incorporated herein by reference.

**Table of Contents****PART IV****Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of the report:

(1) Consolidated Financial Statements

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements</u>	F-1
<u>Consolidated Balance Sheets</u>	F-2
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	F-5
<u>Consolidated Statements of Cash Flows</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

(2) Financial Statement Schedule

<u>Schedule II Valuation and Qualifying Accounts for the three years ended June 30, 2008</u>	F-28
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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(3) Exhibits

<b>Exhibit Number</b>	<b>Description</b>
2.2^^	Equity Purchase Agreement dated June 20, 2007 and Closing Agreement dated August 9, 2007, by and among SRA International, Inc., Systems Research Applications Corporation, Constella Group, LLC, and Donald A. Holzworth, as Seller Representative and certain identified shareholders of Constella. Pursuant to Item 601(b)(2) of Regulation S-K, the exhibits and schedules of the Equity Purchase Agreement and Closing Agreement are omitted.
3.1	Amended and Restated Certificate of Incorporation of the Registrant
3.2	Amended and Restated By-Laws of the Registrant
4.1	Specimen common stock certificate
4.2	See Exhibits 3.1 and 3.2 for provisions of the Certificate of Incorporation and By-Laws of the Registrant defining the rights of holders of common stock of the Registrant
10.1	1994 Stock Option Plan, as amended*
10.3	2002 Stock Incentive Plan*
10.4	Deferred Compensation Plan for Key Employees, as amended*

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- 10.5 Office Lease Agreement, dated May 11, 1999, between the Registrant and Fair Lakes North and South L.P., as amended
- 10.6 Office Lease Agreement, dated May 11, 1999, between the Registrant and Fair Lakes North and South L.P., as amended
- 10.8 401(k) Savings Plan, as amended and restated effective January 1, 2001\*
- 10.8a^ Amendment to 401(k) Savings Plan\*

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**Exhibit**

<b>Number</b>	<b>Description</b>
10.14	Employment Agreement dated April 18, 2007 between SRA International, Inc. and Stanton D. Sloane
10.15	Credit Agreement, dated as of August 9, 2007
10.15a	Amendment, dated as of May 29, 2008, to Credit Agreement
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Previously filed and incorporated by reference to the Registrant's Registration Statement on Form S-1 filed on May 21, 2002 (333-83780).

Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002 (File No. 001-31334).

Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 13, 2002 (File No. 001-31334).

Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008. (File No. 001-31334).

Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on August 28, 2007 (File No. 001-31334).

Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on June 3, 2008 (File No. 001-31334).

^ Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (File No. 001-31334).

^^ Incorporated by reference to the Registrant's Annual Report on Form 10-K filed for the fiscal year ended June 30, 2007 (File No. 001-31334).

\* Management contract or compensatory plan, contract or arrangement.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Fairfax, Virginia on the 27th day of August, 2008.

**SRA INTERNATIONAL, INC.**

By: /s/ STANTON D. SLOANE  
Stanton D. Sloane

**President and Chief Executive Officer**

**(Principal Executive Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ STANTON D. SLOANE <b>Stanton D. Sloane</b>	President and Chief Executive Officer (Principal Executive Officer)	August 27, 2008
/s/ STEPHEN C. HUGHES <b>Stephen C. Hughes</b>	Chief Financial Officer and Executive Vice President, Operations (Principal Financial and Accounting Officer)	August 27, 2008
/s/ ERNST VOLGENAU <b>Ernst Volgenau</b>	Chairman	August 27, 2008
/s/ JOHN W. BARTER <b>John W. Barter</b>	Director	August 27, 2008
<b>Larry R. Ellis</b>	Director	
/s/ EDMUND P. GIAMBASTIANI, JR. <b>Edmund P. Giambastiani Jr.</b>	Director	August 27, 2008
/s/ MILES R. GILBURNE <b>Miles R. Gilburne</b>	Director	August 27, 2008
/s/ WILLIAM T. KEEVAN <b>William T. Keevan</b>	Director	August 27, 2008



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/s/ MICHAEL R. KLEIN

Director

August 27, 2008

**Michael R. Klein**

Director

**David H. Langstaff**

Director

**Gail R. Wilensky**

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE**  
**CONSOLIDATED FINANCIAL STATEMENTS**

To the Board of Directors and Stockholders of SRA International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of SRA International, Inc. and subsidiaries (the Company) as of June 30, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15 (a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SRA International, Inc. and subsidiaries as of June 30, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 12 to the consolidated financial statements, effective July 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 27, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia

August 27, 2008

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands)****Assets**

	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 229,260	\$ 212,034
Restricted cash	1,194	
Accounts receivable, net	344,974	262,409
Prepaid expenses and other	64,159	26,370
Deferred income taxes, current	11,544	5,860
<b>Total current assets</b>	<b>651,131</b>	<b>506,673</b>
Property and equipment, net	37,949	36,685
<b>Other assets:</b>		
Goodwill	395,766	256,530
Identified intangibles, net	36,813	30,849
Deferred income taxes, noncurrent	3,217	8,163
Deferred compensation trust	7,747	8,784
Other assets	3,892	
<b>Total other assets</b>	<b>447,435</b>	<b>304,326</b>
<b>Total assets</b>	<b>\$ 1,136,515</b>	<b>\$ 847,684</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

**Liabilities and Stockholders' Equity**

	June 30,	
	2008	2007
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 163,927	\$ 110,897
Accrued payroll and employee benefits	99,742	81,711
Billings in excess of revenue recognized	15,111	16,980
<b>Total current liabilities</b>	<b>278,780</b>	<b>209,588</b>
<b>Long-term liabilities:</b>		
Long-term debt	150,000	
Other long-term liabilities	14,799	12,641
<b>Total long-term liabilities</b>	<b>164,799</b>	<b>12,641</b>
<b>Total liabilities</b>	<b>443,579</b>	<b>222,229</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, par value \$0.20 per share; 5,000,000 shares authorized; none issued		
Class A common stock, par value \$0.004 per share; 180,000,000 shares authorized; 45,119,238 and 43,576,434 shares issued as of June 30, 2008 and 2007; 42,840,128 and 42,865,008 shares outstanding as of June 30, 2008 and 2007	180	174
Class B common stock, par value \$0.004 per share; 55,000,000 shares authorized; 14,050,736 and 14,199,828 shares issued and outstanding as of June 30, 2008 and 2007	56	57
Additional paid-in capital	333,288	302,970
Treasury stock, at cost	(42,076)	(5,996)
Accumulated other comprehensive income	10	
Retained earnings	401,478	328,250
<b>Total stockholders' equity</b>	<b>692,936</b>	<b>625,455</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,136,515</b>	<b>\$ 847,684</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share and per share amounts)

	Year Ended June 30,		
	2008	2007	2006
Revenue	\$ 1,506,933	\$ 1,268,872	\$ 1,179,267
Operating costs and expenses:			
Cost of services	1,121,913	954,656	880,802
Selling, general and administrative	240,340	200,204	183,297
Depreciation and amortization	25,263	21,187	18,201
Total operating costs and expenses	1,387,516	1,176,047	1,082,300
Operating income	119,417	92,825	96,967
Interest expense	(3,288)	(35)	(79)
Interest income	4,261	6,311	4,311
Gain on sale of Mantas, Inc.	892	3,674	
Income before taxes	121,282	102,775	101,199
Provision for income taxes	48,018	39,345	38,679
Net income	\$ 73,264	\$ 63,430	\$ 62,520
Earnings per share:			
Basic	\$ 1.27	\$ 1.12	\$ 1.14
Diluted	\$ 1.24	\$ 1.09	\$ 1.08
Weighted-average shares:			
Basic	57,566,645	56,476,927	55,064,138
Diluted	59,277,059	58,381,788	57,738,875

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(in thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated			Total Shareholder Equity	Comprehensive Income
	Shares	Amount	Shares	Amount		Shares	Amount	Deferred Stock-Based Compensation	Other Income	Retained Earnings		
Balance, July 1, 2005	39,239,400	157	15,627,466	63	231,754	(819,523)	(4,839)	(343)		202,300	429,092	
Net income										62,520	62,520	\$ 62,520
Issuance of common stock (a)	1,751,010	7			13,911			(919)			12,999	
Reissuance of treasury stock					3,198	134,162	799				3,997	
Purchase of treasury stock						(69,375)	(2,262)				(2,262)	
Tax benefits of stock option exercises					13,774						13,774	
Shares converted between classes	1,167,638	5	(1,167,638)	(5)								
FAS 123(R) stock based compensation					12,803			374			13,177	
Balance, June 30, 2006	42,158,048	169	14,459,828	58	275,440	(754,736)	(6,302)	(888)		264,820	533,297	\$ 62,520
Net income										63,430	63,430	\$ 63,430
Issuance of common stock (a)	1,158,386	4			8,872			674			9,550	
Reissuance of treasury stock					855	46,392	390				1,245	
Purchase of treasury stock						(3,082)	(84)				(84)	
Tax benefits of stock option exercises					6,521						6,521	
Shares converted between classes	260,000	1	(260,000)	(1)								
FAS 123(R) stock based compensation					11,282			214			11,496	
Balance, June 30, 2007	43,576,434	174	14,199,828	57	302,970	(711,426)	(5,996)			328,250	625,455	\$ 63,430
Net income										73,264	73,264	\$ 73,264
Issuance of common stock (a)	1,393,712	5			15,022						15,027	
Reissuance of treasury stock					481	22,887	198				679	
Purchase of treasury stock						(1,590,571)	(36,278)				(36,278)	
Tax benefits of stock option exercises					4,667						4,667	
Shares converted between classes	149,092	1	(149,092)	(1)								
FAS 123(R) stock based compensation					10,148						10,148	
FIN 48 reserve										(36)	(36)	
Foreign currency translation adjustment									10		10	10
Balance, June 30, 2008	45,119,238	\$ 180	14,050,736	\$ 56	\$ 333,288	(2,279,110)	\$(42,076)	\$	\$ 10	\$ 401,478	\$ 692,936	\$ 73,274

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- (a) Relates to the exercise of stock options, vesting of restricted stock, and the issuance of common stock for the Employee Stock Purchase Plan. The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	2008	Year Ended June 30, 2007	2006
<b>Cash flows from operating activities:</b>			
Net income	\$ 73,264	\$ 63,430	\$ 62,520
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	25,263	21,187	18,201
Stock-based compensation	10,148	11,496	13,177
Deferred income taxes	(738)	(5,722)	(1,901)
Gain on sale of Mantas, Inc.	(892)	(3,674)	
Loss on disposal of property and equipment	788		
<b>Changes in assets and liabilities, net of the effect of acquisitions:</b>			
Accounts receivable	(35,039)	17,425	(41,822)
Prepaid expenses and other	3,050	(2,667)	2,250
Accounts payable and accrued expenses	2,427	(8,991)	32,609
Accrued payroll and employee benefits	13,232	17,385	2,534
Billings in excess of revenue recognized	(4,085)	11,028	(664)
Other	(3,621)	1,547	(73)
<b>Net cash provided by operating activities</b>	<b>83,797</b>	<b>122,444</b>	<b>86,831</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(10,763)	(12,624)	(15,639)
Purchases of investments			(9,748)
Sales and maturities of investments		9,749	25,723
Acquisitions, net of cash acquired	(189,714)	(102,005)	(105,084)
Proceeds from sale of Mantas, Inc.	892	3,674	
<b>Net cash used in investing activities</b>	<b>(199,585)</b>	<b>(101,206)</b>	<b>(104,748)</b>
<b>Cash flows from financing activities:</b>			
Issuance of common stock	15,027	9,550	12,999
Tax benefits of stock option exercises	4,667	6,521	13,774
Reissuance of treasury stock	679	1,245	3,997
Borrowings (repayments) under credit facility	150,000		
Payment of financing costs	(1,081)		
Purchase of treasury stock	(36,278)	(84)	(2,262)
<b>Net cash provided by financing activities</b>	<b>133,014</b>	<b>17,232</b>	<b>28,508</b>
<b>Net increase in cash and cash equivalents</b>	<b>17,226</b>	<b>38,470</b>	<b>10,591</b>
Cash and cash equivalents, beginning of period	212,034	173,564	162,973
<b>Cash and cash equivalents, end of period</b>	<b>\$ 229,260</b>	<b>\$ 212,034</b>	<b>\$ 173,564</b>
<b>Supplemental disclosures of cash flow information:</b>			
<b>Cash paid during the period:</b>			
Interest	\$ 2,656	\$	\$



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Income taxes	\$ 51,390	\$ 38,012	\$ 26,377
Cash received during the period:			
Interest	\$ 4,376	\$ 6,103	\$ 4,219
Income taxes	\$ 961	\$ 938	\$ 1,038

The accompanying notes are an integral part of these consolidated financial statements.

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended June 30, 2008, 2007, and 2006**

**1. Summary of Significant Accounting Policies:  
Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of SRA International, Inc. (a Delaware corporation), and its wholly-owned subsidiaries (SRA or the Company). All intercompany transactions and balances have been eliminated.

**Nature of Business**

SRA provides technology and strategic consulting services and solutions to clients in national security, civil government, and health care and public health. Since SRA's founding in 1978, the Company has derived substantially all of its revenue from services provided to federal government clients.

Revenue from contracts with federal government agencies was 95% of total revenue for the fiscal year ended June 30, 2008 and 99% for the fiscal years ended June 30, 2007 and 2006. The National Guard, as a client group, accounted for approximately 10% of revenue for the year ended June 30, 2006. The United States Agency for International Development accounted for approximately 10% of revenue for the year ended June 30, 2006. No client or client group accounted for more than 10% of revenue in either the year ended June 30, 2008 or 2007.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments in determining the reported amounts of assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, doubtful accounts receivable, goodwill and other intangible assets, and other contingent liabilities. The Company bases its estimates on historical experience and various other factors that are deemed reasonable at the time the estimates are made. Actual results may differ from estimates under different assumptions or conditions.

**Revenue Recognition**

***Contract Accounting***

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable, and collectability is reasonably assured. The Company has a standard management process that it uses to determine whether all required criteria for revenue recognition have been met. This standard management process includes a regular review of the Company's contract performance. This review covers, among other matters, outstanding action items, progress against schedule, effort and staffing, requirements stability, quality, risks and issues, subcontract management, cost, commitments, and client satisfaction. During this review the Company determines whether the overall progress on a contract is consistent with the effort expended.

Absent evidence to the contrary, the Company recognizes revenue as follows. Revenue on cost-plus-fee contracts is recognized to the extent of costs actually incurred plus a proportionate amount of the fee earned. The Company considers fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs actually incurred in performance of the contract. Revenue on time-and-materials contracts is recognized based on the hours actually incurred at the negotiated contract billing rates, plus the cost of any allowable material costs and out-of-pocket expenses. Revenue on fixed-price contracts where the Company performs systems design,

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development and integration is recognized using the percentage-of-completion method of contract accounting. Unless it is determined as part of the Company's regular contract performance review that overall progress on a contract is not consistent with costs expended to date, the Company determines the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected upon completion of the contract. Revenue on fixed-price outsourcing and managed services contracts is generally recognized ratably over the contract period. Revenue on fixed-price strategic consulting contracts is generally recognized based on costs incurred because these services are directed by the Company's customers and are subject to their needs which fluctuate throughout the contract period. The Company considers performance-based fees, including award fees, under any contract type to be earned when it can demonstrate satisfaction of performance goals, based upon historical experience, or when the Company receives contractual notification from a client that the fee has been earned. Billings for hardware or software purchased by customers under one of the Company's contracts where it acts as an agent to the transaction are excluded from the Company's revenue and cost of services, except to the extent of any handling fee or profit earned. Fees paid by the Company as an agent to investigators and test subjects in connection with clinical research trials are also excluded from revenue and cost of services, except to the extent of any profit earned.

Contract revenue recognition inherently involves estimation. Examples of estimates include the contemplated level of effort to accomplish the tasks under contract, the cost of the effort, and an ongoing assessment of the Company's progress toward completing the contract. From time to time, as part of its standard management processes, facts develop that require the Company to revise estimated total costs or revenue. To the extent that a revised estimate affects contract profit or revenue previously recognized, the Company records the cumulative effect of the revision in the period in which the facts requiring the revision become known. Anticipated contract losses are recognized in the period in which they become probable and can be reasonably estimated.

The Company may proceed with work based on client direction prior to the completion and signing of formal contract documents. The Company has a formal review process for approving any such work. Revenue associated with such work is recognized only when it can be reliably estimated and realization is probable. The Company bases its estimates on previous experiences with the client, communications with the client regarding funding status, and its knowledge of available funding for the contract or program.

The Company maintains reserves for doubtful accounts receivable that may arise in the normal course of business. This allowance for doubtful accounts is based on several factors, including the customer's payment history, the age of the accounts receivable, and management's judgment regarding the likelihood of collection. Historically, the Company has not had significant write-offs of doubtful accounts receivable related to work performed for the federal government. However, the Company does perform work on contracts and task orders where, on occasion, issues arise that lead to accounts receivable not being collected.

Revenue for the years ended June 30, 2008, 2007, and 2006 was earned from the following contract types:

	2008	2007	2006
Cost-plus-fee	41%	43%	45%
Time-and-materials	42	42	40
Fixed-price	17	15	15

***Software Licensing and Related Activities***

The Company enters into arrangements, which may include the sale of licenses of the Company's proprietary software, consulting services and maintenance, or various combinations of each element. The Company recognizes revenue based on Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended, and modified by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*. SOP 98-9 modified SOP 97-2 by requiring revenue to be recognized using the residual method if certain conditions are met. Revenue is recognized based on the residual method when an agreement

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has been signed by both parties, the fees are fixed or determinable, collection of the fees is probable, delivery of the product has occurred, and no other significant obligations remain. In the limited cases where return or refund rights have been offered, the Company defers all revenue recognition until the end of the return or refund period. Total software licensing and related activities revenue was \$6.2 million, \$5.4 million, and \$4.0 million for the years ended June 30, 2008, 2007, and 2006, respectively. Software licensing of the Company's proprietary software and related activities revenue was less than 1% of consolidated revenue for all periods presented.

### **Research and Development Costs**

Research and development costs are expensed as incurred. Total research and development costs, which are included in selling, general and administrative expenses, were \$1.4 million, \$1.2 million, and \$1.3 million for the years ended June 30, 2008, 2007, and 2006, respectively.

### **Internal-Use Computer Software**

The Company capitalizes costs incurred to license and implement software for internal-use in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal-Use*. Such costs are amortized over periods ranging from three to seven years. The Company did not capitalize internal-use software costs for the year ended June 30, 2008. For the years ended June 30, 2007 and 2006 the Company capitalized \$0.2 million and \$0.6 million, respectively.

### **Impairment of Long-Lived Assets**

Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets and other intangibles may not be fully recoverable, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If an impairment is indicated as a result of this review, the Company recognizes a loss based on the amount by which the carrying amount exceeds the estimated discounted future cash flows.

### **Income Taxes**

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities less valuation allowances, if required. Enacted statutory tax rates are used to compute the tax consequences of these temporary differences. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit.

### **Deferred Compensation Plan**

Certain key employees of the Company are eligible to defer a specified percentage of their cash compensation by having it contributed to a nonqualified deferred compensation plan. Eligible employees may elect to defer up to 50% of their base salary and up to 100% of performance bonuses, reduced by any amounts withheld for the payment of taxes or other deductions required by law. The Company funds its deferred

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compensation liabilities by making cash contributions to a Rabbi Trust at the time the salary or bonus being deferred would otherwise be payable to the employee. Gains or losses on amounts held in the Rabbi Trust are fully allocable to plan participants. As a result, there is no net impact on the Company's results of operations, and the liability to plan participants is fully funded at all times.

### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with a current maturity of 90 days or less to be cash equivalents.

### **Investments in Debt Securities**

The Company considers all investments with current maturity dates of one year or less that do not qualify as cash equivalents to be short-term investments. The Company does not purchase investments with original maturity dates that exceed two years. The Company classifies all investments in debt securities as held-to-maturity and accounts for these investments at amortized cost.

### **Restricted Cash**

The Company's global drug development business receives advances from its customers which are restricted as to withdrawal or usage.

### **Property and Equipment**

Property and equipment, including major additions or improvements thereto, are recorded at cost and depreciated over their estimated useful lives ranging from three to seven years using the straight-line method. Leasehold improvements are amortized over the lesser of the lease term or the asset's estimated useful life, but typically not exceeding seven years, using the straight-line method. Depreciation and amortization expense related to property and equipment, including capitalized internal-use computer software, was \$15.4 million, \$14.4 million, and \$13.2 million for the years ended June 30, 2008, 2007, and 2006, respectively.

### **Goodwill and Intangible Assets**

Goodwill, which represents the excess of the cost of an acquired entity over the net amounts assigned to assets acquired and liabilities assumed, is assessed for impairment under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (Note 6). Intangible assets with finite lives are amortized on a straight-line basis over their useful lives, typically determined with the assistance of an outside valuation firm, of 2 to 12 years. Intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

### **Concentration of Credit Risk and Fair Value of Financial Instruments**

Financial instruments that potentially subject the Company to credit risk consist primarily of cash equivalents, short- and long-term investments, and accounts receivable. The Company believes that concentrations of credit risk with respect to cash equivalents and investments are limited due to the high credit quality of these investments. The Company's investment policy requires that investments be in direct obligations of the U.S. government, certain U.S. government sponsored entities, investments that are secured by direct or sponsored U.S. government obligations, or certain corporate or municipal debt obligations rated at least single-A or A-1/P-1, as applicable, by both Moody's Investor Service and Standard and Poor's. The Company's policy does not allow investment in any equity securities or the obligations of any entity under review for possible downgrade by a major rating service to a debt rating below single-A.

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Investments in both fixed and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely affected because of a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations because of changes in interest rates or the Company may suffer losses in principal if forced to sell securities which have seen a decline in market value because of changes in interest rates. Investments are made in accordance with an investment policy approved by the Company's Board of Directors. Under this policy, no investment securities may have original maturities exceeding two years and the average duration of the portfolio cannot exceed nine months.

The Company believes that concentrations of credit risk with respect to accounts receivable are limited as they are primarily federal government receivables.

As of June 30, 2008 and 2007, the carrying value of financial instruments approximated fair value. These investments primarily consist of corporate and municipal debt obligations with maturities of 4 months or less that are classified as held-to-maturity.

**Foreign Currency Translation**

The assets and liabilities of our foreign subsidiaries whose functional currency is other than the U.S. dollar are translated at the exchange rate in effect on the reporting date, and income and expenses are translated at the weighted-average exchange rate during the period. The net translation gains and losses are not included in determining net income, but are accumulated as a separate component of other comprehensive income or loss.

**Earnings Per Share**

The Company calculates basic and diluted earnings per share (EPS) in accordance with SFAS No. 128, *Earnings Per Share*. Basic EPS is computed by dividing reported net income by the basic weighted-average number of common shares outstanding. Diluted EPS considers the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The difference between basic and diluted weighted-average common equivalent shares with respect to the Company's EPS calculation is due to the effect of potential future exercises of stock options and vesting of restricted stock shares.

The Company currently has outstanding shares of class A and class B common stock. Our class A and class B common stock have equal dividend and liquidation rights. The only difference between the two classes is that holders of our class A common stock are entitled to one vote per share and holders of our class B common stock are entitled to ten votes per share. Each share of class B common stock is convertible at any time at the option of the holder into one share of class A common stock.

Basic and diluted EPS have been calculated using the if-converted method for class A common stock and the two-class method for class B common stock pursuant to SFAS 128. The two-class method is an earnings allocation formula that determines EPS for each class of common stock according to the weighted-average of dividends declared, outstanding shares per class and participation rights in undistributed earnings. The computation of EPS by applying the two-class method does not yield a different result than that provided under the if-converted method.

Undistributed earnings are calculated as follows (in thousands):

	Year Ended June 30,		
	2008	2007	2006
Net income	\$ 73,264	\$ 63,430	\$ 62,520
Less: dividends			
Undistributed earnings	\$ 73,264	\$ 63,430	\$ 62,520

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Weighted-average common shares outstanding are calculated as follows (in thousands):

	Year Ended June 30,					
	2008		2007		2006	
	Class A	Class B	Class A	Class B	Class A	Class B
Basic weighted-average common shares outstanding	43,451	14,116	42,151	14,326	40,270	14,794
Assumed conversion of class B shares	14,116		14,326		14,794	
Effect of potential exercise or vesting of stock-based awards	1,710		1,905		2,675	
Diluted weighted-average common shares outstanding	59,277	14,116	58,382	14,326	57,739	14,794

Stock options that were not included in the computation of diluted weighted-average common shares outstanding, because to do so would have been antidilutive were 1,586,075, 1,749,771, and 1,490,708 for the years ended June 30, 2008, 2007, and 2006, respectively.

Basic and diluted EPS are calculated as follows (in thousands, except per share amounts):

	Year Ended June 30,					
	2008		2007		2006	
	Class A	Class B	Class A	Class B	Class A	Class B
<b>Basic</b>						
Weighted-average shares outstanding	43,451	14,116	42,151	14,326	40,270	14,794
Divided by: Total weighted-average shares outstanding (class A and class B)	57,567	57,567	56,477	56,477	55,064	55,064
Multiplied by: Undistributed earnings	\$ 73,264	\$ 73,264	\$ 63,430	\$ 63,430	\$ 62,520	\$ 62,520
Subtotal	\$ 55,299	\$ 17,965	\$ 47,340	\$ 16,090	\$ 45,723	\$ 16,797
Divided by: Weighted-average shares outstanding	43,451	14,116	42,151	14,326	40,270	14,794
Earnings per share	\$ 1.27	\$ 1.27	\$ 1.12	\$ 1.12	\$ 1.14	\$ 1.14
<b>Diluted</b>						
Weighted-average shares outstanding	59,277	14,116	58,382	14,326	57,739	14,794
Divided by: Total weighted-average shares outstanding (class A and class B)	59,277	59,277	58,382	58,382	57,739	57,739
Multiplied by: Undistributed earnings	\$ 73,264	\$ 73,264	\$ 63,430	\$ 63,430	\$ 62,520	\$ 62,520
Subtotal	\$ 73,264	\$ 17,447	\$ 63,430	\$ 15,565	\$ 62,520	\$ 16,019
Divided by: Weighted-average shares outstanding	59,277	14,116	58,382	14,326	57,739	14,794
Earnings per share	\$ 1.24	\$ 1.24	\$ 1.09	\$ 1.09	\$ 1.08	\$ 1.08

**Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides a new single authoritative definition of fair value and enhanced guidance for measuring the fair value of assets and liabilities. It requires additional disclosures regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The effective date for all nonrecurring fair value measurements of nonfinancial assets and liabilities was delayed until fiscal years beginning after November 15, 2008. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.





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In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, which replaces SFAS No. 141. The statement retains the fundamental requirement of SFAS No. 141 that the acquisition method of accounting be used for all acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. An entity may not apply it before that date. The Company will apply this guidance effective July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, which is intended to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries as a component of equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the effect, if any, that adoption of SFAS No. 160 will have on its financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS No. 161 requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In April 2008, the FASB issued Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP FAS 142-3 is effective for the fiscal years beginning after December 15, 2008. The Company is currently evaluating the effect, if any, that adoption of FSP FAS 142-3 will have on its financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which reorganizes the GAAP hierarchy. The standard transfers the hierarchy of GAAP from the auditing literature to the accounting standards and identifies a consistent hierarchy for selecting accounting principles to be used in applying U.S. GAAP. SFAS No. 162 is effective 60 days after the SEC's approval of PCAOB Auditing Standard No. 6, *Evaluating Consistency of Financial Statements (AS/6)*. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

## **Reclassifications**

Certain reclassifications have been made to prior-period balances to conform to the current-period presentation, including the reclassification of prepaid software licenses and maintenance on cost-plus-fee and time-and-materials contracts from accounts receivable to billings in excess of revenue recognized.

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**2. Acquisitions:**

**Galaxy Scientific Corporation**

In July 2005, the Company completed its acquisition of Galaxy Scientific Corporation, (Galaxy), a privately-held provider of systems engineering, information technology, and tactical communication services and solutions to the federal government. Galaxy specializes in command and control, communications, computers and intelligence (C4I) tactical systems; information assurance; information technology; training systems; engineering support; and safety and security technologies. The Company acquired Galaxy for approximately \$98.7 million, net of acquisition costs, from cash on hand. Approximately \$12 million of the purchase price was allocated to identified intangibles and approximately \$73.4 million to goodwill. Pursuant to the requirements of SFAS No. 141, the acquisition did not meet the criteria of a material and significant acquisition, and therefore, pro forma disclosures are not presented in these consolidated financial statements.

**Spectrum Solutions Group, Inc.**

In November 2005, the Company acquired Spectrum Solutions Group, Inc., (Spectrum), a privately-held provider of enterprise solutions to the federal government. The Company acquired Spectrum for approximately \$9.7 million, net of acquisition costs, from cash on hand. Approximately \$0.9 million of the purchase price was allocated to identified intangibles and approximately \$6.7 million to goodwill. The Company agreed to make additional purchase price payments contingent upon the achievement of certain milestones by Spectrum. In January 2007, the Company paid former shareholders of Spectrum \$8 million in additional purchase price. This additional purchase price payment resulted in an \$8 million addition to goodwill. A final additional purchase price payment, if certain milestones are met, will be paid to the former shareholders of Spectrum. Pursuant to the requirements of SFAS No. 141, the acquisition did not meet the criteria of a material and significant acquisition, and therefore, pro forma disclosures are not presented in these consolidated financial statements.

**Mercomms Unlimited, Inc.**

Effective April 10, 2006, SRA acquired Mercomms Unlimited, Inc., (Mercomms), which specializes in advanced maritime and defense communications technologies for the federal government. Mercomms was acquired for approximately \$637 thousand, substantially all of which was assigned to identified intangibles. Pursuant to the requirements of SFAS No. 141, the acquisition did not meet the criteria of a material and significant acquisition, and therefore, pro forma disclosures are not presented in these consolidated financial statements.

**RABA Technologies, LLC**

In October 2006, the Company completed its acquisition of RABA Technologies, LLC (RABA), a provider of high-end technical services to the national security and intelligence communities. RABA's services include software development, systems integration and operational support. The Company acquired RABA for approximately \$95 million, net of acquisition costs, from cash on hand. Approximately \$11.4 million of the purchase price was allocated to identified intangible assets and approximately \$79.2 million to goodwill. If certain milestones are met, an additional purchase price payment of up to \$5 million will be paid to the former stockholders of RABA. If paid, this contingent payment will result in additional goodwill in fiscal year 2009. Pursuant to the requirements of SFAS No. 141, the acquisition did not meet the criteria of a material and significant acquisition, and therefore, pro forma disclosures are not presented in these consolidated financial statements.

**Constella Group, LLC**

On August 9, 2007, the Company completed the acquisition of all outstanding equity interests in Constella Group, LLC (Constella). The results of Constella's operations have been included in these consolidated financial statements since that date. Headquartered in Durham, NC, Constella provides three interrelated service offerings: domestic health sciences, international health development and global drug development.

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The Company acquired Constella for a total purchase price of approximately \$191.3 million, which includes direct transaction costs of approximately \$0.7 million. Financing for the acquisition consisted of available cash and borrowings under a credit facility obtained prior to closing. Of the total cash consideration given, approximately \$51.6 million was used to repay all outstanding debt obligations of Constella on the closing date. Approximately \$18.7 million remains in escrow to secure indemnification obligations of Constella's shareholders.

The Company recorded post-closing net asset adjustments of \$37.6 million related to tax liabilities. The Company intends to pursue resolution of these liabilities with various tax authorities to obtain a favorable outcome. To the extent the Company is unable to reduce the liabilities, the Company expects to recover the amounts from the selling shareholders of Constella and has, therefore, established a receivable from sellers which is included in other current assets. Approximately \$14.5 million of this receivable relates to the uncertain income tax positions discussed in Note 12. The remaining \$23.1 million relates to service taxes and employment taxes. In addition to the \$37.6 million of tax liabilities, the Company recorded \$6.8 million of legal and tax compliance costs to the receivable from sellers. Any change in the liabilities will be recorded as an increase in or decrease to the receivable from sellers.

**Purchase Price Allocation**

Under the purchase method of accounting, the assets and liabilities of Constella were recorded at their respective fair values as of the date of acquisition. Management's estimates of the fair value of assets acquired and liabilities assumed are based, in part, on third-party valuations. The allocation of the purchase price is as follows (in thousands):

Cash and cash equivalents	\$ 1,582
Restricted cash	667
Accounts receivable, net	47,436
Prepaid expenses and other	3,224
Property and equipment	6,735
Other assets	154
Accounts payable and accrued expenses	(12,988)
Tax liabilities	(37,615)
Accrued payroll and employee benefits	(4,799)
Billings in excess of revenue recognized	(2,216)
Other long-term liabilities	(3,515)
Net liabilities acquired	\$ (1,335)
Definite-lived intangible assets acquired	15,780
Receivable from sellers	37,615
Goodwill	139,236
Total adjusted purchase price	\$ 191,296

**Intangible Assets**

In allocating the purchase price, the Company considered, among other factors, its intended future use of the acquired assets, analyses of historical financial performance and estimates of future performance under Constella's contracts. The fair values of intangible assets and their estimated useful lives were based in part on work completed by a third-party valuation firm. These intangible assets are amortized on a straight-line basis over the estimated useful lives indicated below. The following table sets forth the component values of the acquired intangible assets as of August 9, 2007 (in thousands):

	Fair Value	Estimated Useful Life
Customer relationships	\$ 15,600	2-8 years
Technology	180	3 years

Total

\$ 15,780

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**Table of Contents****Pro Forma Financial Information**

The unaudited financial information in the table below summarizes the combined results of operations of SRA and Constella, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and borrowings under the credit facility had taken place at the beginning of each of the periods presented. The unaudited pro forma financial information for the fiscal years ended June 30, 2008 and 2007 combines the historical results for SRA and Constella for those periods and includes the business combination accounting effect of amortization charges from acquired intangible assets, interest expense at the Company's current level of debt, expense related to retention agreements for Constella employees, and the related tax effects (in thousands, except per share amounts).

	Fiscal Year Ended June 30,	
	2008	2007
Revenue	\$ 1,528,886	\$ 1,465,381
Operating income	\$ 119,341	\$ 101,822
Net income	\$ 72,661	\$ 65,253
Diluted earnings per share (class A and B common stock)	\$ 1.23	\$ 1.12

**3. Accounts Receivable:**

Accounts receivable, net as of June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Billed and billable, net of allowance of \$2,835 and \$2,689 as of June 30, 2008 and 2007, respectively	\$ 319,418	\$ 240,735
Unbilled:		
Retainages	4,616	4,508
Revenue recorded in excess of milestone billings on fixed-price contracts	15,186	11,585
Revenue recorded in excess of contractual authorization, billable upon receipt of contractual amendments/documents	7,614	7,188
Allowance for unbillable amounts	(1,860)	(1,607)
<b>Total unbilled</b>	<b>25,556</b>	<b>21,674</b>
Total accounts receivable	\$ 344,974	\$ 262,409

The billable receivables included in the billed and billable line item above represent primarily revenue earned in the final month of the reporting period and were billable as of the balance sheet date. These billable receivables are typically billed and collected within 90 days of the balance sheet date.

Consistent with industry practice, certain receivables related to long-term contracts are classified as current, although some of these amounts are not expected to be billed and collected within one year. Unbilled accounts receivable at June 30, 2008 are expected to be billed and collected within one year except for approximately \$1.9 million related to a portion of retainages.

**Table of Contents****4. Prepaid Expenses and Other:**

Prepaid expenses and other as of June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Receivable from sellers (see Note 2)	\$ 44,387	\$
Prepaid maintenance and software	7,679	17,610
Customer lease receivable	1,482	
Hardware and equipment purchased on behalf of customers		1,706
Other	10,611	7,054
 Total prepaid expenses and other	 \$ 64,159	 \$ 26,370

**5. Property and Equipment:**

The components of property and equipment as of June 30, 2008 and 2007 are as follows (in thousands):

	2008	2007
Leasehold improvements	\$ 25,134	\$ 25,853
Furniture, equipment, and software	77,995	65,636
 Subtotal	 103,129	 91,489
Less: Accumulated depreciation and amortization	(65,180)	(54,804)
 Total property and equipment, net	 \$ 37,949	 \$ 36,685

**6. Goodwill and Identified Intangibles:**

The components of goodwill and identified intangible assets as of June 30, 2008 and 2007 are as follows (in thousands):

	2008	2007
Goodwill	\$ 395,766	\$ 256,530
Identified intangibles	62,484	46,704
 Subtotal	 458,250	 303,234
Less: Accumulated amortization	(25,671)	(15,855)
 Total goodwill and identified intangibles	 \$ 432,579	 \$ 287,379

Goodwill must be reviewed annually for impairment. The Company performs this review at the beginning of each calendar year. The Company performed the annual goodwill impairment analysis as of January 1, 2008 and concluded that there was no impairment of goodwill.

The changes in the carrying amount of goodwill were as follows (in thousands):

Balance as of July 1, 2006	\$ 169,334
Acquisitions of RABA and Spectrum	87,196

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Balance as of June 30, 2007	\$ 256,530
Acquisition of Constella Group, LLC	139,236
Balance as of June 30, 2008	\$ 395,766

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Identified intangible assets consisted of the following (in thousands):

	Weighted-Average Useful Life	Gross Carrying Amount	2008		2007		Net Carrying Amount
			Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	7 years	\$ 62,044	\$ (25,359)	\$ 36,685	\$ 46,444	\$ (15,739)	\$ 30,705
Technology and other	2 years	440	(312)	128	260	(116)	144
<b>Total identified intangibles</b>		<b>\$ 62,484</b>	<b>\$ (25,671)</b>	<b>\$ 36,813</b>	<b>\$ 46,704</b>	<b>\$ (15,855)</b>	<b>\$ 30,849</b>

Amortization expense of identified intangibles was \$9.8 million, \$6.8 million, and \$5.0 million for the years ended June 30, 2008, 2007, and 2006, respectively. Identified intangibles are being amortized on a straight-line basis over a period of 2 to 12 years.

Estimated amortization expense is as follows for the periods indicated (in thousands):

Years ending June 30,	
2009	9,541
2010	8,112
2011	6,619
2012	3,967
2013	2,957
Thereafter	5,617
<b>Total</b>	<b>\$ 36,813</b>

**7. Accounts Payable and Accrued Expenses:**

Accounts payable and accrued expenses as of June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Vendor obligations	\$ 121,942	\$ 101,877
Tax liabilities (see Note 2)	36,084	
Current taxes payable and other	5,901	9,020
<b>Total accounts payable and accrued expenses</b>	<b>\$ 163,927</b>	<b>\$ 110,897</b>

**8. Accrued Payroll and Employee Benefits:**

Accrued payroll and employee benefits as of June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Accrued salaries and incentive compensation	\$ 42,086	\$ 35,018
Accrued leave	39,555	32,334



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Accrued fringe benefits	18,101	14,359
Total accrued payroll and employee benefits	\$ 99,742	\$ 81,711

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**Table of Contents****9. Other Long-Term Liabilities:**

Other long-term liabilities as of June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Liability to deferred compensation plan participants	\$ 7,747	\$ 8,784
Incentives for tenant improvements and other	7,052	3,857
<b>Total other long-term liabilities</b>	<b>\$ 14,799</b>	<b>\$ 12,641</b>

**10. Benefit Plan:**

The Company maintains a defined contribution plan, the SRA International, Inc. 401(k) Savings Plan (Plan). All regular and full-time employees are generally eligible to participate in the Plan. The Board of Directors of SRA may elect to make matching or other discretionary contributions to the Plan. The Company's matching contribution expense was \$12.9 million, \$12.5 million, and \$10.0 million for the years ended June 30, 2008, 2007, and 2006, respectively, including the value of the stock described in the next paragraph.

Plan participants may elect to receive matching contributions in cash, company stock, or a combination of the two. Matching contributions are earned by participants on the basis of their calendar year contributions to the Plan. The Company makes the matching contributions, including the transfer of class A common stock, each January for participant contributions made during the previous calendar year. The Company contributed 22,887, 46,392, and 56,142 shares of class A common stock to the Plan during the years ended June 30, 2008, 2007, and 2006, respectively.

**11. Stockholders' Equity and Stock Options:****Preferred Stock**

The Company is authorized to issue 5,000,000 shares of preferred stock, \$0.20 par value per share, the terms and conditions of which are determined by the Board of Directors at each issuance. No preferred stock has been issued.

**Common Stock**

Holders of class A common stock are entitled to dividends per share in an amount equal to dividends per share declared and paid on class B common stock. Holders of both classes of common stock vote as a single class, with each share of class A common stock having one vote per share and each share of class B common stock having ten votes per share. Holders of both classes of common stock would share ratably in the net assets of the Company upon its liquidation or dissolution.

**Treasury Stock**

In limited circumstances, the Company may elect to repurchase shares of outstanding common stock from employees upon the exercise of stock options, or upon the vesting of restricted stock, for the purpose of satisfying the minimum required tax withholding.

**Stock Options****Accounting for Stock-Based Compensation:*****Stock-Based Benefit Plans***

In March 2002, the Company adopted the SRA International, Inc. 2002 Stock Incentive Plan. Upon adoption, up to 7,058,822 shares of class A common stock were reserved for issuance under the 2002 plan. Pursuant to the terms of the 2002 plan, the number of shares authorized for issuance automatically increases at the beginning of each fiscal year, beginning with the fiscal year ended June 30, 2004. An additional

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9,792,667 shares of class A common stock

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were reserved for issuance pursuant to the automatic increase feature of the 2002 plan through July 1, 2008. The 2002 plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock, and other stock-based awards. The 2002 plan is administered by the compensation committee of the Board of Directors, which determines the number of shares covered by options, and the exercise price, vesting period, and duration of option grants. The Board of Directors also has the authority under the 2002 plan to determine the number of shares of common stock subject to any restricted stock or other stock-based awards and the terms and conditions of such awards. The 2002 plan expires in March 2012.

Effective July 1, 2005, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, which requires that compensation costs related to share-based payment transactions be recognized in financial statements. The Company applied the modified prospective method under which compensation costs for all awards granted after the date of adoption and the unvested portion of previously granted awards outstanding at the date of adoption are measured at estimated fair value and included in operating expenses over the vesting period during which an employee provides service in exchange for the award. The Company's restricted stock awards are considered nonvested share awards as defined under SFAS No. 123R.

***Fair Value Determination***

The Company has 10-year and 15-year options. The Company uses the Black-Scholes-Merton option pricing model and straight-lines amortization of compensation expense over the requisite service period of the grant. The following weighted-average assumptions were used for option grants during the years ended June 30, 2008, 2007, and 2006:

*Expected Volatility.* The expected volatility of the Company's shares was estimated based upon the historical volatility of the Company's share price. The expected volatility factor used in valuing options granted during the years ended June 30, 2008, 2007, and 2006 was 33%, 31% and 32%, respectively.

*Expected Term.* The expected term was estimated based upon exercise experience of option grants made in the past to Company employees. Historical experience shows that employees typically exercise options prior to the end of the contractual term. The expected term used in valuing options granted for all periods presented was 5 years.

*Risk-free Interest Rate.* The Company bases the risk-free interest rate used in the Black-Scholes-Merton valuation method on the implied yield available on a U.S. Treasury note with a term equal to the expected term of the underlying grants. The weighted-average risk-free interest rate used in valuing options granted during the years ended June 30, 2008, 2007, and 2006 was 3.9%, 4.7%, and 4.2%, respectively.

*Dividend Yield.* The Black-Scholes-Merton valuation model calls for single expected dividend yield as an input. The Company has not paid dividends in the past nor does it expect to pay dividends in the future. As such, the Company used a dividend yield percentage of zero for all periods presented.

***Stock Compensation Expense***

In accordance with SFAS No. 123R, the Company estimates forfeitures and is recognizing compensation expense only for those share-based awards that are expected to vest. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Our estimate of the forfeiture rate is based primarily upon historical experience of employee turnover.

The Company recorded \$10.1 million, \$11.5 million, and \$13.2 million of stock-based compensation expense for the years ended June 30, 2008, 2007, and 2006, respectively. The lower stock-based compensation expense reflects adjustments to account for the forfeitures of certain share-based awards in excess of what was estimated at the time of grant.

As of June 30, 2008, there was \$19.7 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be fully amortized in four years, with half of the total amortization cost being recognized within the next 13 months.

**Table of Contents****Stock Option Activity**

During the year ended June 30, 2008, the Company granted stock options to purchase 644,652 shares of class A common stock at a weighted-average exercise price of \$24.98 per share based on the fair value of class A common stock on the date of grant. The Black-Scholes-Merton weighted-average value of options granted for the years ended June 30, 2008, 2007, and 2006, was \$8.94, \$9.27, and \$12.32, respectively. Using the Black Scholes-Merton model, the total value of the options granted for the years ended June 30, 2008, 2007, and 2006, was \$4.9 million, \$5.2 million, and \$18.1 million respectively. The options vest at the rate of 25% per year, beginning on the date of grant and expire ten years from the grant date.

The following table summarizes stock option activity for the year ended June 30, 2008:

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, July 1, 2005	8,028,226	\$ 12.54	\$ 178,040
Options granted	1,625,760	34.62	\$
Options exercised	(1,680,503)	6.98	\$ 43,974
Options cancelled and expired	(306,699)	23.58	\$ 3,030
Shares under option, July 1, 2006	7,666,784	\$ 18.00	\$ 80,365
Options granted	627,202	25.48	\$
Options exercised	(1,137,725)	7.33	\$ 21,144
Options cancelled and expired	(537,464)	29.44	\$ 1,087
Shares under option, July 1, 2007	6,618,797	\$ 19.62	\$ 51,440
Options granted	644,652	24.98	\$
Options exercised	(1,268,418)	10.81	\$ 20,318
Options cancelled and expired	(566,136)	29.96	\$ 644
Shares under option, June 30, 2008	5,428,895	\$ 21.24	\$ 23,721
Options exercisable at June 30, 2008	3,643,981	\$ 18.32	\$ 23,309
Shares reserved for equity awards at June 30, 2008	7,757,516		

Information with respect to stock options outstanding and stock options exercisable at June 30, 2008 was as follows:

Range of Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$3.17 \$5.07	641,982	7.1 years	\$ 4.33
\$10.85 \$16.80	1,254,641	6.9	\$ 14.32
\$19.39 \$25.11	1,746,057	6.9	\$ 21.97
\$25.30 \$35.40	1,786,215	7.6	\$ 31.46
	5,428,895		

Range of Exercise Price	Options Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$3.17 \$5.07	641,982	7.1 years	\$ 4.33

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\$10.85	\$16.80	1,254,641	6.9	\$	14.32
\$19.39	\$25.11	1,004,063	6.1	\$	21.18
\$25.30	\$35.40	743,295	6.8	\$	33.30
		3,643,981			

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During the years ended June 30, 2008 and 2007, the Company also granted 200,848 and 295,337 nonvested restricted shares at a weighted-average grant date fair market value of \$25.47 and \$26.02 per share, respectively. These shares vest at the rate of 25% per year.

The following table summarizes restricted stock activity for the year ended June 30, 2008:

	Number of Shares	Weighted-Average Grant-Date Value
Nonvested restricted shares at July 1, 2007	308,046	\$ 26.65
Restricted shares granted	200,848	25.47
Restricted shares vested	(80,899)	24.60
Restricted shares forfeited	(47,078)	25.99
Nonvested restricted shares at June 30, 2008	380,917	\$ 25.91

As of June 30, 2008, there were 7,757,516 shares of Class A common stock reserved for issuance under the 2002 Stock Incentive Plan.

**Employee Stock Purchase Plan**

The Company maintains the SRA International, Inc. 2004 Employee Stock Purchase Plan (ESPP) and has reserved 500,000 shares for issuance thereunder. The ESPP permits eligible employees to purchase class A common stock, through payroll deductions of up to 15% of the employee's compensation, at a price equal to 95% of the average of the high and low price of the class A common stock on the last day of each offering period. Employees purchased 45,510, 47,347, and 36,179 shares for the years ended June 30, 2008, 2007, and 2006, respectively, under the ESPP.

**Common Stock Repurchase**

On May 2, 2007, the Company's Board of Directors authorized the repurchase of up to \$40 million of the Company's class A common stock. Repurchases under the share repurchase authorization may be made from time to time in the open market or in privately negotiated transactions. The Company is not obligated to acquire any particular amount of common stock under the authorization and it may be suspended at any time.

The following table summarizes class A common stock repurchase activity under the stock purchase authority for the year ended June 30, 2008 (in thousands, except share and per share amounts):

Number of shares repurchased	1,500,944
Cost of shares repurchased	\$ 34,031
Average price per share	\$ 22.67

As of June 30, 2008, approximately \$6 million remained of the \$40 million authorized repurchase amount, which was repurchased subsequent to year-end. On July 31, 2008, the Board authorized the repurchase of an additional \$100 million.

**12. Income Taxes:**

The provision for federal and state income taxes for the years ended June 30, 2008, 2007, and 2006, included the following (in thousands):

	2008	2007	2006
Current provision:			
Federal	\$ 41,523	\$ 37,789	\$ 33,802

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State	7,233	7,278	6,778
Deferred provision:			
Federal	(793)	(5,127)	(1,622)
State	55	(595)	(279)
Total income tax provision	\$ 48,018	\$ 39,345	\$ 38,679

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The Company's effective income tax rate varied from the statutory federal income tax rate for the years ended June 30, 2008, 2007, and 2006 as follows:

	2008	2007	2006
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	4.2	4.2	4.2
Stock-based compensation	0.0	0.0	0.1
Municipal bond interest	(0.1)	(0.9)	(0.5)
Refunds and credits	0.0	(0.1)	(0.8)
Nondeductible expenses and other	0.5	0.1	0.2
<b>Effective tax rate</b>	<b>39.6%</b>	<b>38.3%</b>	<b>38.2%</b>

The components of the net deferred tax asset as of June 30, 2008 and 2007 were as follows (in thousands):

	2008	2007
<b>Deferred tax assets:</b>		
Compensated absences and other accruals not yet deductible for tax purposes	\$ 20,226	\$ 16,973
Financial statement depreciation in excess of tax depreciation	5,167	6,037
Deferred compensation	2,707	2,569
Nonqualified stock awards	10,678	9,061
Other	268	201
<b>Total deferred tax assets</b>	<b>39,046</b>	<b>34,841</b>
<b>Deferred tax liabilities:</b>		
Identified intangibles	(14,155)	(8,188)
Prepaid expenses	(2,291)	(6,571)
Unbilled contract revenue	(6,359)	(4,579)
Capitalized software	(1,480)	(1,480)
<b>Total deferred tax liabilities</b>	<b>(24,285)</b>	<b>(20,818)</b>
<b>Net deferred tax asset</b>	<b>\$ 14,761</b>	<b>\$ 14,023</b>

**Uncertain Tax Positions**

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, (FIN 48) on July 1, 2007. FIN 48 clarifies the accounting for income tax uncertainties. The Company has developed and implemented a process based on the guidelines of FIN 48 to ensure that uncertain tax positions are identified, analyzed and properly reported in the Company's financial statements in accordance with SFAS No. 109. The Company recognizes accrued interest and penalties related to uncertain tax positions in federal and foreign income tax expense.

As a result of this review process, the Company adjusted the estimated value of its uncertain tax positions by recognizing additional liabilities of approximately \$40 thousand through a charge to retained earnings. Upon the adoption of FIN 48, the estimated value of the Company's uncertain tax positions was a liability of \$0.6 million, which includes accrued interest of \$20 thousand. If the Company's positions are sustained by the taxing authorities in favor of the Company, approximately \$0.6 million would reduce the Company's effective tax rate.

As a result of the Constella acquisition, the Company assumed additional liability for gross uncertain tax positions of \$14.5 million, including post-acquisition interest and penalties, which is included in other current liabilities because the Company intends to resolve these matters within the next 12 months. Of this amount, approximately \$6.2 million, \$3.4 million and \$4.9 million represents potential taxes, interest and penalties,



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respectively. The Company established a receivable for \$14.5 million under the terms of the equity purchase agreement (see Note 2). Any change in the tax liability, including future accrued interest and penalties, will be recorded as an increase in or decrease to the receivable from sellers.

As of June 30, 2008, the estimated value of the Company's uncertain tax positions was a liability of \$15.1 million, which includes taxes, interest and penalties of \$6.7 million, \$3.4 million and \$5.0 million, respectively. The change in uncertain tax positions, excluding interest and penalties, during the fiscal year ended June 30, 2008 is as follows (in thousands):

Balance at July 1, 2007	\$ 572
Additions for tax positions of prior years' acquisition	6,442
Settlements	(273)
Lapse of applicable statute of limitations	(38)
<b>Net change in uncertain tax positions</b>	<b>\$ 6,131</b>
Balance at June 30, 2008	\$ 6,703

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions with varying statutes of limitation. Periods for fiscal years ended after July 1, 2004 generally remain subject to examination for federal and state tax authorities. In foreign jurisdictions, tax years after 1999 may remain subject to examination by tax authorities.

### 13. Commitments and Contingencies:

#### Government Contracting

Payments to the Company on cost-plus-fee contracts are provisional and are subject to adjustment upon audit by the Defense Contract Audit Agency. Audits of significant incurred cost submissions have been completed through June 30, 2006. In the opinion of management, audit adjustments that may result from audits for periods after June 30, 2006 are not expected to have a material effect on the Company's financial position, results of operations, or cash flows.

Additionally, federal government contracts, by their terms, generally can be terminated at any time by the federal government, without cause, for the convenience of the federal government. If a federal government contract is so terminated, the Company would be entitled to receive compensation for the services provided and costs incurred through the time of termination, plus a negotiated amount of profit. Federal government contractors who fail to comply with applicable government procurement-related statutes and regulations may be subject to potential contract termination, suspension and debarment from contracting with the government, or other remedies. Management believes the Company has complied with all applicable procurement-related statutes and regulations.

#### Leases

Net rent expense for the years ended June 30, 2008, 2007, and 2006 was as follows (in thousands):

	2008	2007	2006
Office space	\$ 39,554	\$ 30,637	\$ 27,649
Sublease income	(2,443)	(1,486)	(1,085)
<b>Subtotal</b>	<b>37,111</b>	<b>29,151</b>	<b>26,564</b>
Furniture and equipment	801	707	881
<b>Total</b>	<b>\$ 37,912</b>	<b>\$ 29,858</b>	<b>\$ 27,445</b>



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The following table summarizes our future minimum rental commitments under noncancellable operating leases, primarily for office space, as of June 30, 2008 (in thousands).

Years ending June 30,	Rental Commitments	Sublease Income	Net Commitments
2009	36,346	966	35,380
2010	33,340	244	33,096
2011	28,704	70	28,634
2012	26,360		26,360
2013	23,497		23,497
Thereafter	57,136		57,136
Total minimum lease payments	\$ 205,383	1,280	204,103

The Company leases all of its office facilities. Leases for certain office space entitle the Company to incentives for tenant improvements, rent holidays, or rent escalation clauses pursuant to its lease agreements. The incentives for tenant improvements are recorded as liabilities and amortized as reductions in rent expense over the term of the respective leases. The Company recognizes rent expense, including escalated rent and rent holidays, on a straight-line basis over the term of the lease. Certain lease commitments are subject to adjustment based on changes in the Consumer Price Index.

Capitalized lease obligations included in accounts payable and accrued expenses were \$0.2 million and \$0.1 million as of June 30, 2008 and 2007 and represent the current portion of amounts due under leases for the use of computers and other equipment. The long-term portion of the capital lease obligations was approximately \$0.6 million and \$0.4 million at June 30, 2008 and 2007, respectively and is included in other long-term liabilities. Included in property and equipment are leased assets of \$1.7 million and \$1.1 million less accumulated amortization of \$1.2 million and \$0.5 million as of June 30, 2008 and 2007, respectively.

**14. Litigation:**

The Company is involved in various legal proceedings concerning matters arising in the ordinary course of business. The Company currently believes that any ultimate liability arising out of these proceedings will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

**15. Gain on Sale of Mantas, Inc.:**

In May 2001, Mantas, which was previously one of our service offerings, was contributed to a separate company, Mantas, Inc., which was formed with funding and other contributions received from unrelated third parties. Mantas, Inc. is a provider of services to the financial services industry to address anti-money laundering and other data mining issues.

In October 2006, i-flex solutions completed its acquisition of Mantas, Inc. The Company recognized a total pre-tax gain of approximately \$3.7 million during fiscal 2007 related to the sale and \$0.9 million during fiscal 2008 upon the release of funds pursuant to the terms of the escrow agreement.

**16. Segment Reporting:**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Although the Company is organized by strategic business unit, the Company considers each of its government contracting units to have similar economic characteristics, provide similar types of services, and have a similar customer base. Accordingly, the Company reports one operating segment for financial reporting purposes as this segment aggregates all of its current operations.



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This segment represents the Company's core business and includes high-end consulting services and information technology solutions primarily for federal government clients.

### **17. Debt**

On August 9, 2007, the Company entered into a \$100 million five-year unsecured revolving credit facility. On May 29, 2008, the Company amended this credit facility to increase the commitment from \$100 million to \$285 million.

The credit facility terminates on August 9, 2012, at which time all outstanding borrowings under the facility become due. Outstanding borrowings under the credit facility bear interest at a rate per annum equal to, at the election of the Company, (i) LIBOR plus an applicable margin ranging from 0.65% to 0.95%, with such margin varying according to the Company's leverage ratio, plus a utilization fee of 0.125% if outstanding borrowings exceed 50% of the credit facility, or (ii) an alternative base rate equal to the higher of the bank's prime rate or 0.5% above the Federal Funds Rate. In addition, the Company is required to pay the lenders a facility fee on the total committed amount under the credit facility ranging from 0.100% to 0.175% per annum, depending upon the Company's leverage ratio. Interest is payable at maturity.

The Company may use the proceeds from borrowings under the credit facility for any general corporate purpose. The credit facility contains covenants limiting the Company's ability to, among other things, merge or consolidate with others, incur liens, redeem or repurchase Company stock, enter into transactions with affiliates, or dispose of assets. In addition, the credit facility contains financial covenants requiring the Company to maintain a total leverage ratio of not more than 3.0 to 1.0 and an interest coverage ratio of at least 3.0 to 1.0. If the Company does not comply with the various covenants under the credit facility, the lenders may, subject to various customary cure rights, require immediate payment of all amounts outstanding under the facility.

The Company capitalized \$1.1 million of debt financing costs associated with the origination of the credit facility and the subsequent amendment during the year ended June 30, 2008. These debt financing costs are being amortized on a straight-line basis from the date incurred to the August 9, 2012 expiration date. Approximately \$0.8 million of the unamortized balance at June 30, 2008 is included in long-term assets and \$0.2 million is included in other current assets.

At June 30, 2008, the Company had \$150 million outstanding on the credit facility which is included in long-term liabilities. The weighted-average rate of interest on the outstanding borrowings was approximately 4.7% for the year ended June 30, 2008. The Company was in compliance with all debt covenants as of June 30, 2008.

### **18. Facility Exit Costs**

During the fiscal year ended June 30, 2008, the Company reviewed its space utilization and identified excess leased office facilities. To improve the Company's overall cost structure going forward, the Company initiated activities to consolidate certain facilities and sublease excess space. For the fiscal year ended June 30, 2008, the Company recognized a total facility exit charge of \$3.3 million, which was included in selling, general and administrative expenses. Of this total, approximately \$3 million relates to lease exit costs associated with vacating the facilities and the remainder relates to the write-off of leasehold improvements and unearned rent abatements.

The costs associated with these exit activities were valued using the estimated fair value method prescribed under SFAS No.146, *Accounting for Cost Associated with Exit or Disposal Activities*. In determining the fair value of the facility exit charge, the Company made estimates related to potential sublease income and future exit costs. If the actual amounts differ from the Company's estimates, the amount of the facility exit charge could be materially impacted. Amounts related to the abandonment of excess leased facilities will continue to be paid through the end of the lease terms, with the latest ending in fiscal year 2012.

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The following is a summary of the accrued facility exit charge (in thousands):

	<b>Facility Exit Costs</b>
Balance as of July 1, 2007	\$
Facility exit costs accrued	3,257
Cash payments	(211)
Non-cash settlement	(236)
Balance as of December 31, 2007	\$ 2,810
Cash payments	(815)
Balance as of March 31, 2008	\$ 1,995
Cash payments	(686)
Balance as of June 30, 2008	\$ 1,309

**19. Quarterly Financial Data (Unaudited) (in thousands, except per share amounts):**

	<b>Revenue</b>	<b>Operating Income</b>	<b>Income Before Taxes</b>	<b>Net Income</b>	<b>Earnings Per Share (a)</b>	
					<b>Basic</b>	<b>Diluted</b>
<b>Year Ended June 30, 2008</b>						
1 <sup>st</sup> Quarter	\$ 364,127	\$ 29,873	\$ 30,619	\$ 18,459	\$ 0.32	\$ 0.31
2 <sup>nd</sup> Quarter	382,015	29,690	29,827	17,991	0.31	0.30
3 <sup>rd</sup> Quarter	376,002	29,556	29,831	18,043	0.31	0.30
4 <sup>th</sup> Quarter	384,789	30,298	31,005	18,771	0.33	0.32
<b>Year Ended June 30, 2007</b>						
1 <sup>st</sup> Quarter	\$ 304,034	\$ 22,831	\$ 24,674	\$ 15,121	\$ 0.27	\$ 0.26
2 <sup>nd</sup> Quarter	321,045	22,064	27,209	16,683	0.30	0.29
3 <sup>rd</sup> Quarter	317,586	22,779	23,952	14,973	0.26	0.26
4 <sup>th</sup> Quarter	326,207	25,151	26,940	16,653	0.29	0.28

- (a) The sum of earnings per share for the four quarters may differ from the annual earnings per share due to the required method of computing the weighted-average number of shares in the interim period.

**20. Subsequent Events:*****Acquisition of Interface & Control Systems, Inc.***

On July 1, 2008, the Company acquired Interface and Control Systems, Inc. (ICS), a privately-held product development and engineering services firm specializing in real-time, embedded and autonomous command and control software systems for space applications, for approximately \$8.1 million in cash. Approximately \$0.7 million was deposited in escrow to secure indemnification obligations. The results of ICS's operations will be included in the Company's results of operations beginning July 1, 2008.

***Acquisition of Era Systems Corporation***

On July 30, 2008, the Company acquired Era Systems Corporation, a privately-held provider of advanced surveillance technologies for the air traffic management, airport operations, military and security market, for approximately \$122.6 million in cash. Approximately \$25 million was



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deposited in escrow to secure indemnification obligations. The results of Era's operations will be included in the Company's results of operations beginning August 1, 2008.

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**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****Years Ended June 30, 2008, 2007, and 2006****Schedule II Valuation and Qualifying Accounts**

Activity in the Company's allowance accounts for the years ended June 30, 2008, 2007, and 2006, was as follows (in thousands):

**Allowance for Doubtful Accounts**

<b>Period</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Deductions</b>	<b>Other</b>	<b>Balance at End of Period</b>
2008	\$ 2,689	\$ 30	\$ 373	\$ 489*	\$ 2,835
2007	1,614	1,510	567	132*	2,689
2006	1,159	75	49	429*	1,614

**Allowance for Unbillable Amounts**

<b>Period</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Deductions</b>	<b>Other</b>	<b>Balance at End of Period</b>
2008	\$ 1,607	\$ 253	\$	\$	\$ 1,860
2007	1,735		128		1,607
2006	1,852	21	138		1,735

\* Represents allowances assumed in connection with acquisitions.