

SRA INTERNATIONAL INC  
Form 10-Q  
February 09, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2008**

**OR**

**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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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**54-1360804**  
(I.R.S. Employer  
Identification No.)

**4300 Fair Lakes Court, Fairfax, Virginia**  
(Address of Principal Executive Offices)

**22033**  
(Zip Code)

**Registrant's telephone number, including area code: (703) 803-1500**

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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 Exchange Act.). Yes  No

As of January 31, 2009, there were 42,357,682 shares outstanding of the registrant's class A common stock and 13,850,736 shares outstanding of class B common stock.

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**SRA INTERNATIONAL, INC.**

**QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS**

**ENDED DECEMBER 30, 2008**

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**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in thousands)

**Assets**

	<b>December 31, 2008</b>	<b>June 30, 2008</b>
Current assets:		
Cash and cash equivalents	\$ 106,964	\$ 229,260
Restricted cash	800	1,194
Accounts receivable, net	358,971	344,974
Inventories	2,762	
Prepaid expenses and other	42,616	64,159
Deferred income taxes, current	11,062	11,544
Total current assets	523,175	651,131
Property, plant and equipment, net	40,776	37,949
Other assets:		
Goodwill	487,310	395,766
Identified intangibles, net	49,056	36,813
Deferred income taxes, noncurrent	5,321	3,217
Deferred compensation trust	6,097	7,747
Notes receivable and other assets	25,288	3,892
Total other assets	573,072	447,435
Total assets	\$ 1,137,023	\$ 1,136,515

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

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in thousands, except share and per share amounts)

**Liabilities and Stockholders' Equity**

	December 31, 2008	June 30, 2008
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 118,365	\$ 163,927
Accrued payroll and employee benefits	98,757	99,742
Billings in excess of revenue recognized	23,893	15,111
Short-term borrowings	8,857	
<b>Total current liabilities</b>	<b>249,872</b>	<b>278,780</b>
<b>Long-term liabilities:</b>		
Long-term debt	175,000	150,000
Other long-term liabilities	12,889	14,799
<b>Total long-term liabilities</b>	<b>187,889</b>	<b>164,799</b>
<b>Total liabilities</b>	<b>437,761</b>	<b>443,579</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; 45,571,010 and 45,119,238 shares issued as of December 31, 2008 and June 30, 2008; 42,302,739 and 42,840,128 shares outstanding as of December 31, 2008 and June 30, 2008	182	180
Class B common stock, par value \$0.004 per share; 55,000,000 shares authorized; 13,850,736 and 14,050,736 shares issued and outstanding as of December 31, 2008 and June 30, 2008	55	56
Additional paid-in capital	341,023	333,288
Treasury stock, at cost	(63,901)	(42,076)
Accumulated other comprehensive (loss) gain	(5,819)	10
Retained earnings	427,722	401,478
<b>Total stockholders' equity</b>	<b>699,262</b>	<b>692,936</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,137,023</b>	<b>\$ 1,136,515</b>

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

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(in thousands, except share and per share amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Revenue	\$ 369,323	\$ 382,015	\$ 761,678	\$ 746,142
Operating costs and expenses:				
Cost of services	268,050	286,029	555,872	560,998
Selling, general and administrative	74,560	59,872	145,768	112,990
Depreciation and amortization	7,415	6,424	14,293	12,591
Acquired in-process research and development	(200)		900	
<b>Total operating costs and expenses</b>	<b>349,825</b>	<b>352,325</b>	<b>716,833</b>	<b>686,579</b>
Operating income	19,498	29,690	44,845	59,563
Interest expense	(2,155)	(752)	(3,935)	(1,605)
Interest income	631	889	1,403	2,488
Gain on sale of Constella Futures Holding, LLC			1,939	
Income before taxes	17,974	29,827	44,252	60,446
Provision for income taxes	7,144	11,836	18,008	23,996
Net income	\$ 10,830	\$ 17,991	\$ 26,244	\$ 36,450
Earnings per share:				
Basic	\$ 0.19	\$ 0.31	\$ 0.47	\$ 0.63
Diluted	\$ 0.19	\$ 0.30	\$ 0.46	\$ 0.61
Weighted-average shares:				
Basic	56,122,367	57,663,214	56,364,444	57,475,124
Diluted	57,285,022	59,599,737	57,629,785	59,376,343

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

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

(in thousands)

	Six Months Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 26,244	\$ 36,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,293	12,591
Stock-based compensation	5,362	4,886
Deferred income taxes	(2,312)	(4,542)
Gain on sale of Constella Futures Holding, LLC	(1,939)	
Loss on disposal of property and equipment		744
Acquired in-process research and development	900	
Changes in assets and liabilities, net of the effect of acquisitions and divestitures:		
Accounts receivable	(11,106)	(32,881)
Inventories	2,606	
Prepaid expenses and other	(4,806)	3,328
Accounts payable and accrued expenses	(20,150)	5,118
Accrued payroll and employee benefits	(3,853)	(309)
Billings in excess of revenue recognized	7,719	(4,033)
Other	(4,657)	145
Net cash provided by operating activities	8,302	21,497
Cash flows from investing activities:		
Capital expenditures	(8,869)	(6,650)
Payments to Spectrum Solutions Group, Inc. shareholders	(7,016)	
Acquisitions, net of cash acquired	(132,246)	(185,955)
Issuance of notes receivable	(17,526)	
Proceeds from sale of Constella Futures Holding, LLC	31,846	
Net cash used in investing activities	(133,811)	(192,605)
Cash flows from financing activities:		
Issuance of common stock	2,265	10,063
Tax benefits of stock option exercises	108	4,184
Net borrowings under credit facilities	23,431	50,000
Payment of financing costs		(324)
Purchase of treasury stock	(21,824)	(272)
Net cash provided by financing activities	3,980	63,651
Effect of exchange rate changes on cash and cash equivalents	(767)	
Net decrease in cash and cash equivalents	(122,296)	(107,457)
Cash and cash equivalents, beginning of period	229,260	212,034
Cash and cash equivalents, end of period	\$ 106,964	\$ 104,577
Supplemental disclosures of cash flow information:		

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Cash paid during the period:

Interest	\$ 3,093	\$ 1,185
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Income taxes	\$ 26,667	\$ 34,466
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Cash received during the period:

Interest	\$ 1,740	\$ 2,761
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Income taxes	\$ 342	\$ 729
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The accompanying notes are an integral part of these condensed consolidated financial statements.



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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Net income	\$ 10,830	\$ 17,991	\$ 26,244	\$ 36,450
Change in foreign currency translation adjustment	(3,035)	142	(5,830)	88
Comprehensive income	\$ 7,795	18,133	20,414	36,538

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

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Three Months Ended December 31, 2008 and 2007**

**1. Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements include the accounts of SRA International, Inc. (a Delaware corporation) and its wholly-owned subsidiaries (SRA or the Company) and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with generally accepted accounting principles, have been omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all necessary adjustments and reclassifications that are necessary for fair presentation of the periods presented. The results for the three and six months ended December 31, 2008 are not necessarily indicative of the results to be expected for the full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K for the year ended June 30, 2008.

***Recent Accounting Pronouncements***

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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 does not expect the adoption of this new standard to have a material impact 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*

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**Three Months Ended December 31, 2008 and 2007**

*Other Intangible Assets.* The intent of the FSP 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 does not expect the adoption of this FSP to have a material impact 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 became effective November 15, 2008. The adoption of this new standard did not have a material impact on the Company's financial statements.

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. The Company adopted SFAS No. 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in the financial statements effective July 1, 2008. This adoption did not have a material effect on these condensed consolidated financial statements. 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 adoption of SFAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities is not expected to have a material impact on the Company's 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 report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The Company adopted SFAS No. 159 effective July 1, 2008. This adoption did not have a material effect on the Company's financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities. An entity must include participating securities in its calculation of basic and diluted earnings per share pursuant to the two-class method as described in SFAS No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating FSP EITF 03-6-1 to determine the impact, if any, on its financial statements.

**2. Nature of Business:**

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

Revenue from contracts with U.S. federal government agencies was 92% and 95% of total revenue for the six months ended December 31, 2008 and 2007, respectively. No client or client group accounted for more than 10% of revenue in the periods presented herein.

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**Three Months Ended December 31, 2008 and 2007**

**3. Acquisitions and Divestitures:**

**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, for approximately \$9.8 million, including direct transaction costs of approximately \$0.1 million. The equity purchase agreement provided for two additional purchase price payments contingent upon the achievement of certain milestones by Spectrum. The Company made a payment to former Spectrum shareholders of \$8.0 million in January 2007 at the conclusion of the first earn-out period. This resulted in additional goodwill of \$8.0 million. In September 2008, the Company paid \$7.0 million to the Spectrum shareholders, with the exception of one shareholder, to settle threatened litigation regarding the second earn-out payment. This resulted in additional goodwill of \$7.0 million.

In September 2008, the Company filed a claim against the shareholder referenced above seeking recovery of the first earn-out payment made to that individual. This shareholder has filed a claim against the Company asserting entitlement to a second earn-out payment of \$9.4 million. The Company believes it has a strong defense and valid claims and will be asserting its rights vigorously. Any payments the Company recovers under its claim against the shareholder would reduce goodwill. Any additional payments made by the Company to settle this matter would increase goodwill.

**Era Systems Corporation**

On July 30, 2008, the Company acquired Era Systems Corporation (Era), a privately-held provider of advanced surveillance technologies and flight tracking solutions for the air traffic management, airport operations, military and security markets. The results of Era's operations have been included in these condensed consolidated financial statements since that date.

The Company acquired Era for approximately \$125.2 million, which includes direct transaction costs of approximately \$0.8 million. Financing for the acquisition consisted of available cash and borrowings under a credit facility obtained prior to closing. Of the total cash consideration paid, approximately \$12.1 million was used to repay a portion of Era's outstanding debt obligations on the closing date, and \$25.0 million was placed into escrow as security for the payment of post-closing net working capital adjustments and to secure indemnification obligations of Era's stockholders, including the legal violations described in the section captioned **RISK FACTORS**. Before being acquired by SRA, Era acquired a company under terms that included an earn-out arrangement. Additional payments may be made under this earn-out arrangement if certain sales targets are met. Such payments would increase goodwill when paid. Through December 2008, the Company has made earn-out payments of \$0.3 million, which increased goodwill.

Based on a preliminary allocation, approximately \$24.3 million of the purchase price was allocated to definite-lived intangible assets acquired and approximately \$86.2 million was allocated to goodwill. The identified intangibles included in-process research and development of \$0.9 million, which was expensed immediately in accordance with SFAS No. 141. The remaining \$23.4 million of identified intangible assets will be amortized over estimated useful lives ranging from 2 years to 20 years.

In December 2008 the Company filed a claim for \$10.8 million associated with the net working capital calculation. This was recorded as a receivable from sellers in the preliminary purchase price allocation. In January 2009 Era's stockholders' representative filed an objection to the Company's claim and, in the alternative, asserted off-setting claims exceeding the Company's claim by \$2 million. Management believes the Company's claim associated with the net working capital adjustment is well supported and does not believe the stockholders' objections are meritorious. To the extent any payments made or received related to the net working capital claim differ from the receivable, an adjustment will be recorded to goodwill.

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**Three Months Ended December 31, 2008 and 2007**

The purchase price allocation involves management judgments and estimates and may be adjusted during the purchase price allocation period, but generally not beyond one year from the acquisition date. The allocation will be finalized upon resolution of the closing balance sheet audit and any resulting net working capital adjustments to the purchase price.

**Interface and Control Systems, Inc.**

On July 2, 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. The results of ICS's operations have been included in these condensed consolidated financial statements since that date.

The Company acquired ICS for a total purchase price of approximately \$8.5 million, which includes direct transaction costs of approximately \$0.2 million. Financing for the acquisition consisted of available cash. Of the total cash consideration paid, approximately \$0.3 million was used to repay outstanding debt obligations of ICS on the closing date, and approximately \$0.8 million was placed into escrow as security for the payment of post-closing net asset adjustments and to secure indemnification obligations of ICS's shareholders.

The Company has finalized the purchase price allocation for the acquisition of ICS. Based on the final allocation, approximately \$1.0 million of the purchase price was allocated to definite-lived intangible assets acquired, and approximately \$6.5 million was allocated to goodwill. The identified intangible assets will be amortized over estimated useful lives ranging from 2 years to 10 years.

**Constella Group, LLC**

On August 9, 2007, the Company acquired Constella Group, LLC (Constella). At the time of acquisition, Constella provided three interrelated service offerings: domestic health sciences, international health development and global clinical development.

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. Approximately \$51.6 million of the total cash consideration was used to repay all outstanding debt obligations of Constella on the closing date and \$18.7 million was placed into escrow as security for the payment of post-closing net asset adjustments and to secure indemnification obligations of Constella's shareholders. Of the total purchase price, \$1.3 million was allocated to net tangible liabilities acquired, \$15.8 million was allocated to definite-lived intangible assets acquired, \$139.2 million was allocated to goodwill, and \$37.6 million was allocated to a receivable from sellers related to pre-acquisition tax liabilities.

*Divestiture of Constella Futures Holding, LLC*

On September 2, 2008, the Company sold its ownership interest in Constella Futures Holding, LLC (Futures), a wholly owned subsidiary of Constella, to a group of private investors led by the former Constella chairman and chief executive officer for a total estimated purchase price of approximately \$38.8 million. The transaction resulted in a pre-tax gain of approximately \$1.9 million and an \$8.4 million reduction of goodwill. The operating results of Futures are included in the operating results of the Company in the accompanying condensed consolidated statements of operations for the six months ended December 31, 2008 (through the date of the sale) and for the three and six months ended December 31, 2007 (from the date of acquisition).

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Three Months Ended December 31, 2008 and 2007**

The buyers of Futures paid \$16.6 million cash, and provided a \$10.0 million senior promissory note, and a \$7.5 million senior net asset note, the principal amount of which is subject to adjustment based on a determination of final net assets. The Company estimates that final net assets will increase the principal amount of the net asset note to \$12.2 million. Both senior notes bear interest at 6% per annum, payable monthly, and are secured by a \$7 million bank letter of credit, a \$3 million personal guaranty, and the assets of Futures as a new company. The senior net asset note is to be paid in three installments of \$2.0 million, \$2.0 million, and the remainder on September 1, 2009, 2010 and 2011, respectively. The senior promissory note is to be paid in two installments of \$1.0 million and \$9.0 million on September 1, 2012 and 2013, respectively. The Company and Futures, upon mutual agreement, may agree to modify or supplement existing credit terms as believed necessary, depending upon Futures continuing operating results and cash flows.

As a result of the sale, the escrow established in connection with the Constella acquisition was reduced from \$18.7 million to \$1.0 million. The Company received \$5.4 million from escrow as reimbursement for indemnified costs and \$12.3 million plus interest was returned to the Constella shareholders. As of June 30, 2008, the Company had recorded approximately \$44.4 million related to pre-acquisition tax liabilities and legal and compliance costs related to the Futures business along with an offsetting receivable from the Constella sellers. The majority of the tax liabilities were relieved as a result of the Futures sale. Therefore, the liabilities have been reduced to \$0.2 million, which, if realized, the Company expects to recover from the remaining escrow.

The parties entered into a transitional services agreement pursuant to which the Company provided services to Futures through December 31, 2008 to assist with the transition of human resources, information technology, and financial operations. Fees for these services are billed at cost and were approximately \$0.2 million through December 31, 2008.

**4. Goodwill and Identified Intangibles:**

The components of goodwill and identified intangible assets as of December 31, 2008 and June 30, 2008 are as follows (in thousands):

	<b>December 31, 2008</b>	<b>June 30, 2008</b>
Goodwill	\$ 487,310	\$ 395,766
Identified intangibles	79,789	62,484
Subtotal	567,099	458,250
Less: Accumulated amortization	(30,733)	(25,671)
<b>Total goodwill and identified intangibles</b>	<b>\$ 536,366</b>	<b>\$ 432,579</b>

Goodwill is reviewed annually for impairment. This review is performed at the beginning of each calendar year and is currently underway. Any adjustments resulting from the review will be reflected in the financial statements for the quarter ended March 31, 2009.

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

Balance as of June 30, 2008	\$ 395,766
Acquisitions of ICS and Era	92,949
Payments to Spectrum shareholders	7,016
Divestiture of Constella Futures Holding, LLC	(8,421)

Balance as of December 31, 2008

\$ 487,310

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

	Weighted-Average Useful Life Remaining	December 31, 2008				June 30, 2008		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
		Customer relationships	6 years	\$ 57,605	\$ (29,118)	\$ 28,487	\$ 62,044	\$ (25,359)
Technology and other	7 years	22,184	(1,615)	20,569	440	(312)	128	
<b>Total identified intangibles</b>		<b>\$ 79,789</b>	<b>\$ (30,733)</b>	<b>\$ 49,056</b>	<b>\$ 62,484</b>	<b>\$ (25,671)</b>	<b>\$ 36,813</b>	

Amortization expense of identified intangibles was \$3.0 million and \$2.5 million for the three months ended December 31, 2008 and 2007, respectively and \$6.0 million and \$4.8 million for the six months ended December 31, 2008 and 2007, respectively. Identified intangibles are being amortized on a straight-line basis over a period of 2 to 20 years.

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

Years ending June 30,	
2009 (remainder of fiscal year)	\$ 5,746
2010	10,427
2011	8,839
2012	6,182
2013	5,172
Thereafter	12,690
<b>Total</b>	<b>\$ 49,056</b>

**5. Earnings Per Share and Other Comprehensive Income:****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.



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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 No. 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

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Three Months Ended December 31, 2008 and 2007**

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):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Net income	\$ 10,830	\$ 17,991	\$ 26,244	\$ 36,450
Less: dividends				
Undistributed earnings	\$ 10,830	\$ 17,991	\$ 26,244	\$ 36,450

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2008		2007		2008		2007	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic weighted-average common shares outstanding	42,108	14,014	43,501	14,162	42,332	14,032	43,294	14,181
Assumed conversion of class B shares	14,014		14,162		14,032		14,181	
Effect of potential exercise or vesting of stock-based awards	1,163		1,937		1,266		1,901	
Diluted weighted-average common shares outstanding	57,285	14,014	59,600	14,162	57,630	14,032	59,376	14,181

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 3,988,286 and 1,330,929 for the three months ended December 31, 2008 and 2007, respectively and 3,121,079 and 1,393,940 for the six months ended December 31, 2008 and 2007, respectively.

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Three Months Ended December 31, 2008 and 2007**

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2008		2007		2008		2007	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
<b>Basic</b>								
Weighted-average shares outstanding	42,108	14,014	43,501	14,162	42,332	14,032	43,294	14,181
Divided by: Total weighted-average shares outstanding (class A and class B)	56,122	56,122	57,663	57,663	56,364	56,364	57,475	57,475
Multiplied by: Undistributed earnings	\$ 10,830	\$ 10,830	\$ 17,991	\$ 17,991	\$ 26,244	\$ 26,244	\$ 36,450	\$ 36,450
Subtotal	\$ 8,126	\$ 2,704	\$ 13,572	\$ 4,419	\$ 19,710	\$ 6,534	\$ 27,457	\$ 8,993
Divided by: Weighted-average shares outstanding	42,108	14,014	43,501	14,162	42,332	14,032	43,294	14,181
Earnings per share	\$ 0.19	\$ 0.19	\$ 0.31	\$ 0.31	\$ 0.47	\$ 0.47	\$ 0.63	\$ 0.63
<b>Diluted</b>								
Weighted-average shares outstanding	57,285	14,014	59,600	14,162	57,630	14,032	59,376	14,181
Divided by: Total weighted-average shares outstanding (class A and class B)	57,285	57,285	59,600	59,600	57,630	57,630	59,376	59,376
Multiplied by: Undistributed earnings	\$ 10,830	\$ 10,830	\$ 17,991	\$ 17,991	\$ 26,244	\$ 26,244	\$ 36,450	\$ 36,450
Subtotal	\$ 10,830	\$ 2,649	\$ 17,991	\$ 4,275	\$ 26,244	\$ 6,390	\$ 36,450	\$ 8,705
Divided by: Weighted-average shares outstanding	57,285	14,014	59,600	14,162	57,630	14,032	59,376	14,181
Earnings per share	\$ 0.19	\$ 0.19	\$ 0.30	\$ 0.30	\$ 0.46	\$ 0.46	\$ 0.61	\$ 0.61

**6. Accounting for Stock-Based Compensation:****Adoption of SFAS No. 123R**

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.

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Three Months Ended December 31, 2008 and 2007**

In accordance with SFAS No. 123R, the Company estimates forfeitures and recognizes 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 \$2.7 million of stock-based compensation expense for both the three months ended December 31, 2008 and 2007, and \$5.4 million and \$4.9 million of stock-based compensation for the six months ended December 31, 2008 and 2007, respectively.

As of December 31, 2008, there was \$22.4 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 15 months.

**Stock Option Activity**

During the six months ended December 31, 2008 and 2007, respectively, the Company granted stock options to purchase 71,880 and 373,312 shares of class A common stock at a weighted-average exercise price of \$22.88 and \$25.74 per share based on the market value of class A common stock on the date of grant. The Black-Scholes-Merton weighted-average value of options granted for the six months ended December 31, 2008 and 2007, was \$8.51 and \$9.51, respectively. Using the Black Scholes-Merton model, the total value of the options granted for the six months ended December 31, 2008 and 2007, was \$0.5 million and \$3.0 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 six months ended December 31, 2008:

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, July 1, 2008	5,428,895	\$ 21.24	\$ 23,721
Options granted	71,880	22.88	
Options exercised	(146,766)	10.25	1,530
Options cancelled and expired	(153,475)	28.83	16
Shares under option, December 31, 2008	5,200,534	\$ 21.34	\$ 10,924
Options exercisable at December 31, 2008	4,102,329	\$ 19.78	\$ 10,916
Shares reserved for equity awards at December 31, 2008	9,171,901		

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Three Months Ended December 31, 2008 and 2007**

Information with respect to stock options outstanding and stock options exercisable at December 31, 2008 was as follows:

Range of Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$ 3.17 \$ 5.07	586,082	6.6 years	\$ 4.34
\$10.85 \$16.80	1,172,289	6.0	14.39
\$19.39 \$25.11	1,746,432	5.5	21.96
\$25.30 \$35.40	1,695,731	7.1	31.40
	5,200,534		

Range of Exercise Price	Options Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$ 3.17 \$ 5.07	586,082	6.6 years	\$ 4.34
\$10.85 \$16.80	1,170,289	6.0	14.39
\$19.39 \$25.11	1,331,072	4.4	21.31
\$25.30 \$35.40	1,014,886	6.7	32.90
	4,102,329		

During the six months ended December 31, 2008 and 2007, the Company also granted 460,894 and 172,618 nonvested restricted shares at a weighted-average grant date market value of \$23.28 and \$25.67 per share, respectively. These shares vest at the rate of 25% per year.

The following table summarizes restricted stock activity for the six months ended December 31, 2008:

	Number of Shares	Weighted-Average Grant-Date Value
Nonvested restricted shares at July 1, 2008	380,917	\$ 25.91
Restricted shares granted	460,894	23.28
Restricted shares vested	(66,521)	21.05
Restricted shares forfeited	(75,531)	24.89
Nonvested restricted shares at December 31, 2008	699,759	\$ 24.26

As of December 31, 2008, there were 9,171,901 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

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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 16,878 and 10,147 shares during the three months ended December 31, 2008 and 2007, respectively, and 33,389 and 20,823 shares during the six months ended December 31, 2008 and 2007, respectively, under the ESPP.

**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Three Months Ended December 31, 2008 and 2007****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. The Board authorized the repurchase of up to an additional \$100 million of the Company's class A common stock on July 31, 2008. 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 the class A common stock repurchase activity under the stock purchase authorization beginning July 1, 2007:

Authorization Date	Amount Authorized (in millions)	Total Shares Repurchased	Total Cost of Shares Repurchased (in millions)	Average Price Per Share	Date Completed	Shares Repurchased Six Months Ended December 31	
						2008	2007
May 2, 2007	\$ 40.0	1,769,723	\$ 40.0	\$ 22.60	July 2008	268,779	
July 31, 2008	\$ 100.0	700,015	\$ 15.4	\$ 22.04		700,015	

As of December 31, 2008, approximately \$84.6 million remained of the \$100.0 million authorized repurchase amount.

**7. Accounts Receivable:**

Accounts receivable, net as of December 31, 2008 and June 30, 2008 consisted of the following (in thousands):

	December 31, 2008	June 30, 2008
Billed and billable, net of allowance of \$3,406 as of December 31, 2008 and \$2,835 as of June 30, 2008	\$ 317,256	\$ 319,418
Unbilled:		
Retainages	4,207	4,616
Revenue recorded in excess of milestone billings on fixed-price contracts	34,628	15,186
Revenue recorded in excess of contractual authorization, billable upon receipt of contractual amendments/documents	4,864	7,614
Allowance for unbillable amounts	(1,984)	(1,860)
Total unbilled	41,715	25,556
Total accounts receivable	\$ 358,971	\$ 344,974

The billable receivables included in the billed and billable line item above represent primarily revenue earned in the final month of the reporting period. 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 and programs are classified as current, although some of these amounts are not expected to be billed and collected within one year. Unbilled accounts receivable at December 31, 2008 are expected to be

billed and collected within one year except for approximately \$0.8 million of retainages.



**Table of Contents****SRA INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Three Months Ended December 31, 2008 and 2007****8. Inventories:**

Inventories as of December 31, 2008 and June 30, 2008 consisted of the following (in thousands):

	December 31, 2008	June 30, 2008
Raw materials	\$ 2,499	
Work in process	420	
<b>Total inventory</b>	<b>\$ 2,919</b>	
Reserve for obsolescence	(157)	
<b>Total inventory, net</b>	<b>\$ 2,762</b>	<b>\$</b>

The Company's inventories relate to the production facilities in the Czech Republic, which were part of the Era acquisition. Inventories consist of materials and labor, and are stated at the lower of average cost or market value. Cost is determined using the first-in first-out (FIFO) method. The value of inventory is reduced for excess and obsolete inventory based on the Company's best estimates of future demand and market conditions.

**9. 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.

***Litigation*****General Legal Matters**

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.

**10. Debt**

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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.

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**Three Months Ended December 31, 2008 and 2007**

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) London Interbank Offered Rate (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.

At December 31, 2008, the Company had \$175 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 3.8% for the six months ended December 31, 2008. The Company was in compliance with all debt covenants as of December 31, 2008.

The Company also maintains a secured revolving credit facility and an overdraft facility related to its operations in the Czech Republic, which were part of the Era acquisition. The secured revolving credit facility has a limit of approximately \$7.6 million. Borrowings under this facility bear interest at LIBOR, Prague Interbank Offered Rate (PRIBOR), or Euro Interbank Offered Rate, depending on the currency in which the loan is drawn, plus 1.4%. As of December 31, 2008, the Company had approximately \$4.0 million outstanding under this facility, which is included in short-term borrowings. This facility is set to expire on September 30, 2010.

The overdraft facility maintained in the Czech Republic is denominated in Czech Koruna, bears interest at a rate of PRIBOR plus 1.55% and has a limit of approximately \$8.2 million. This facility is set to expire on August 31, 2009. At December 31, 2008, outstanding borrowings under this facility totaled approximately \$4.7 million and are included in short-term borrowings.

**11. Income Taxes:**

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 interest of \$20 thousand. If the Company's positions are sustained by the taxing authority, the Company's income tax liability would be reduced by \$0.6 million.

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**SRA INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**Three Months Ended December 31, 2008 and 2007**

As of June 30, 2008, the Company had recorded liabilities of \$14.5 million related to gross uncertain tax positions assumed in connection with the Constella acquisition and had established an offsetting receivable from sellers under the terms of the equity purchase agreement. As discussed in Note 3, all but \$0.2 million of these liabilities related to Constella Futures Holding, LLC, which was sold on September 2, 2008. Therefore, the liabilities have been reduced to \$0.2 million as of December 31, 2008, which, if realized, the Company expects to recover from the remaining escrow.

As of December 31, 2008, the Company's estimated liability for uncertain tax positions was \$0.8 million, which includes taxes, interest and penalties of \$0.6 million, \$0.1 million and \$0.1 million, respectively.

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 2003 may remain subject to examination by tax authorities.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**FORWARD-LOOKING STATEMENTS**

The matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Form 10-Q, 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 or referred to in the section captioned RISK FACTORS, as well as any cautionary language in this Form 10-Q, 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-Q. 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.

**OVERVIEW**

We are a leading provider of technology and strategic consulting services and solutions to government organizations. 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 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; air traffic 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 government organizations with homeland security missions.

Since our founding in 1978, we have derived the majority 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. 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. 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. We also develop and sell proprietary software and hardware to customers. For example, our Era business develops, manufactures and sells flight tracking and surveillance solutions. The amount of proprietary software and hardware that we sell 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 purchases. 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 produce 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. As we continue to expand internationally, selling, general and administrative expenses may increase as a percentage of revenue due to additional travel, infrastructure and compliance costs. Additionally, as we increase our product offerings, we expect an increase in selling, general and administrative expenses as a percentage of revenue and a decline in cost of services as a percentage of revenue.

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.

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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, acquisition activities and share repurchases.

**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***

Revenue for the three months ended December 31, 2008 decreased by 3.3% from the three months ended December 31, 2007. The decrease in revenue for the three months ended December 31, 2008 was due primarily to the loss of our Advanced Information Technology Services (AITS) contract, which accounted for 6.8% of our revenue in the three months ended December 31, 2007. The lost revenue from our AITS contract was partially offset by revenue growth in our U.S. services business. Increases from acquisitive revenue were offset by divested revenue during the quarter

For the six months ended December 31, 2008, revenue increased by 2.1% from the six months ended December 31, 2007. This growth was primarily acquisitive in nature and resulted from our July 2008 acquisition of Era Systems Corporation (Era) and our August 2007 acquisition of Constella Group, LLC (Constella).

For the immediate future, we intend to direct our primary focus to the U.S. services business, delivering differentiated information technology and professional solutions to government agencies. While we will focus primarily on organic growth in the near term, part of our growth strategy includes selectively pursuing strategic acquisitions to complement and accelerate internal growth by adding new capabilities, customers or intellectual property. From July 1, 2007 through December 31, 2008, we completed the following acquisitions:

Acquisition	Strategic Value	Closing Date	Purchase Price (in millions)
Constella Group, LLC	Health Sciences and Drug Development	August 9, 2007	\$ 190.6
Interface and Control Systems, Inc.	Product Development and Engineering Services	July 2, 2008	8.3
Era Systems Corporation	Advanced Surveillance Technologies	July 30, 2008	124.4

We are anticipating slippage in orders in our Era business due, in part, to political and economic instability in our customers' countries. The requirement to obtain licenses to sell export controlled technology may further delay sales or limit the countries to which we are permitted to sell our products. These risks are discussed in more detail in the section captioned "RISK FACTORS."

**Table of Contents****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:

	December 31, 2008	June 30, 2008
	(in millions)	
Backlog:		
Funded	\$ 801.7	\$ 676.5
Unfunded	3,115.1	3,182.7
Total backlog	\$ 3,916.8	\$ 3,859.2

Our total backlog of \$3.9 billion as of December 31, 2008 represented a 1.5% increase over the June 30, 2008 backlog. Our backlog includes orders under contracts that in some cases extend for several years, with the latest expiring during calendar year 2015. Congress often appropriates funds for our clients on a yearly basis, even though their contract with us may call for performance that is expected to take a number of years. As a result, contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under the contracts may remain unfunded unless and until Congress makes subsequent appropriations and the procuring agency allocates funding to the contract.

We currently expect to recognize revenue during the remaining two quarters of fiscal 2009 from approximately 14.9% or \$584.9 million of our total backlog as of December 31, 2008. Of this amount, \$477.3 million is included in funded backlog and \$107.6 million is included in unfunded backlog under multi-year contracts. The amount of revenue that we expect to recognize from backlog is calculated by summing forecasted revenue for the remainder of the fiscal year for each project included in backlog. The primary risks that could affect our ability to recognize such revenue are the unilateral right of the government to cancel multi-year contracts and related orders or to terminate existing contracts for convenience or default, and, in the case of unfunded backlog, the potential that full funding may not be available. In addition, the amount of revenue we expect to realize under a particular engagement included in backlog may change because a program schedule could change or a contract could be modified.

**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:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Cost-plus-fee	35%	42%	36%	42%
Time-and-materials	43	42	42	42
Fixed-price	22	16	22	16

**Operating Margin**

Operating margin, or the ratio of operating income to revenue, is affected by the mix of our contracts and how we manage our costs. Our operating margins were 5.9% and 8.0% for the six months ended December 31, 2008 and 2007, respectively. The decrease in operating margin for the six months ended December 31, 2008 is





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primarily due to increased selling, general and administrative costs as a percentage of revenue. As discussed in the section captioned RESULTS OF OPERATIONS, this decrease in operating margin was attributable to our Era and Global Clinical Development (GCD) businesses as well as increased investments in marketing and sales and higher recruiting costs. The write-off of in-process research and development related to the Era acquisition also contributed to the lower operating margin.

### ***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. As of December 31, 2008, we had 6,951 employees. Direct labor utilization was 76.3% and 76.4% for the three months and six months ended December 31, 2008, respectively. These percentages exclude our Era business as direct labor utilization is not a relevant metric for that business.

### ***Proprietary Software Sales***

In connection with our service offerings, we also develop and sell proprietary software products to customers. We believe intellectual property represents a differentiating factor in new business opportunities and we have recently increased our focus and investment in this area. Sales of our proprietary software can increase our operating margin and may vary substantially quarter to quarter. Proprietary software sales were \$2.6 million and \$1.5 million for the three months ended December 31, 2008 and 2007, respectively and \$3.5 million and \$3.1 million for the six months ended December 31, 2008 and 2007, respectively.

### ***Days Sales Outstanding***

Days sales outstanding (DSO) is a measure of how efficiently we manage the billing and collection of our accounts receivable, our most significant working capital requirement. For the three months ended December 31, 2008, DSO increased to 82 days from 79 days for the three months ended September 30, 2008. This increase was due primarily to the billing terms of Era's existing contracts, which are heavily dependent on contract milestones and, therefore, may cause significant fluctuations in our accounts receivable balances. We have a number of internal process initiatives underway that we believe will enable us to continue to improve our invoicing and collection of accounts receivable.

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

The following tables set forth some items from our condensed consolidated statements of operations, the period-over-period rate of change in each of the line items and the items expressed as a percentage of revenue, for the periods indicated.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2008	2007	% Change	2008	2007	% Change
	(in thousands)			(in thousands)		
Revenue	\$ 369,323	\$ 382,015	(3.3)%	\$ 761,678	\$ 746,142	2.1%
Operating costs and expenses:						
Cost of services	268,050	286,029	(6.3)	555,872	560,998	(0.9)
Selling, general and administrative	74,560	59,872	24.5	145,768	112,990	29.0
Depreciation and amortization	7,415	6,424	15.4	14,293	12,591	13.5
Acquired in-process research and development	(200)		100.0	900		100.0
Total operating costs and expenses	349,825	352,325	(0.7)	716,833	686,579	4.4
Operating income	19,498	29,690	(34.3)	44,845	59,563	(24.7)
Interest expense	(2,155)	(752)	*	(3,935)	(1,605)	*
Interest income	631	889	(29.0)	1,403	2,488	(43.6)
Gain on sale of Constella Futures Holding, LLC.				1,939		100.0
Income before taxes	17,974	29,827	(39.7)	44,252	60,446	(26.8)
Provision for income taxes	7,144	11,836	(39.6)	18,008	23,996	(25.0)
Net income	\$ 10,830	\$ 17,991	(39.8)%	\$ 26,244	\$ 36,450	(28.0)%

	(as a percentage of revenue)		(as a percentage of revenue)	
	2008	2007	2008	2007
Revenue	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of services	72.6	74.9	73.0	75.2
Selling, general and administrative	20.2	15.7	19.1	15.1
Depreciation and amortization	2.0	1.7	1.9	1.7
Acquired in-process research and development	(0.1)		0.1	
Total operating costs and expenses	94.7	92.2	94.1	92.0
Operating income	5.3	7.8	5.9	8.0
Interest expense	(0.6)	(0.2)	(0.6)	(0.2)
Interest income	0.2	0.2	0.2	0.3
Gain on sale of Constella Futures Holding, LLC.			0.3	
Income before taxes	4.9	7.8	5.8	8.1
Provision for income taxes	1.9	3.1	2.4	3.2
Net income	3.0%	4.7%	3.4%	4.9%

\* Period-over-period rate of change greater than 100%.

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**THREE MONTHS ENDED DECEMBER 31, 2008 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2007**

***Revenue***

For the three months ended December 31, 2008, our revenue decreased 3.3% to \$369.3 million, from \$382.0 million for the three months ended December 31, 2007. This decrease was driven by the loss of our AITS contract, which accounted for 6.8% of our revenue in the three months ended December 31, 2007. This decrease to revenue was partially offset by revenue growth in our U.S. services business. Revenue derived from the acquisitions of Era and Interface and Control Systems, Inc. (ICS) was almost entirely offset by the loss of revenue from the sale of Constella Futures Holding, LLC (Futures).

***Cost of Services***

For the three months ended December 31, 2008, cost of services decreased 6.3% to \$268.1 million, from \$286.0 million for the three months ended December 31, 2007. This decrease in cost of services was due primarily to the loss of our AITS contract. As a percentage of revenue, cost of services decreased to 72.6% for the three months ended December 31, 2008, from 74.9% for the three months ended December 31, 2007. This decrease was due primarily to an increase in our labor services mix relative to purchased third-party materials.

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

For the three months ended December 31, 2008, selling, general and administrative expenses increased 24.5% to \$74.6 million, from \$59.9 million for the three months ended December 31, 2007. As a percentage of revenue, selling, general and administrative expenses increased to 20.2% for the three months ended December 31, 2008, from 15.7% for the three months ended December 31, 2007. This increase as a percentage of revenue was attributable to several factors. Revenue in our GCD business declined due to deteriorating economic conditions in the commercial contract research industry, causing the ratio of selling, general and administrative expenses to revenue to increase approximately 180 basis points. We continue to make investments in marketing and sales and recruiting, which accounted for approximately 120 basis points of the increase. Additionally, our Era product business, which generally has higher marketing and sales and research and development costs, accounted for approximately 50 basis points of the increase.

***Depreciation and Amortization***

For the three months ended December 31, 2008, depreciation and amortization increased 15.4% to \$7.4 million, from \$6.4 million for the three months ended December 31, 2007. As a percentage of revenue, depreciation and amortization increased to 2.0% for the three months ended December 31, 2008, from 1.7% for the three months ended December 31, 2007. The increase was due to the amortization of identified intangible assets related to our acquisition of Era.

***Interest Expense***

For the three months ended December 31, 2008, interest expense increased to \$2.2 million, from \$0.8 million for the three months ended December 31, 2007. This increase was due to the additional outstanding borrowings under our credit facility to support the acquisition of Era.

***Interest Income***

For the three months ended December 31, 2008, interest income decreased to \$0.6 million, from \$0.9 million for the three months ended December 31, 2007. This decrease was due to a general decline in interest rates during the three months ended December 31, 2008 compared to the three months ended December 31, 2007.

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**Table of Contents*****Income Taxes***

Our effective income tax rate was 39.7% for both the three months ended December 31, 2008 and 2007.

**SIX MONTHS ENDED DECEMBER 31, 2008 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2007*****Revenue***

For the six months ended December 31, 2008, our revenue increased 2.1% to \$761.7 million, from \$746.1 million for the six months ended December 31, 2007. This increase was primarily acquisitive and driven by our July 2008 acquisition of Era. The revenue lost from the sale of Futures was almost entirely offset by the revenue derived from the acquisitions of Era and ICS.

***Cost of Services***

For the six months ended December 31, 2008, cost of services decreased 0.9% to \$555.9 million, from \$561.0 million for the six months ended December 31, 2007. As a percentage of revenue, cost of services decreased to 73.0% for the six months ended December 31, 2008, from 75.2% for the six months ended December 31, 2007. This decrease was due primarily to an increase in our labor services mix relative to purchased third-party materials.

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

For the six months ended December 31, 2008, selling, general and administrative expenses increased 29.0% to \$145.8 million, from \$113.0 million for the six months ended December 31, 2007. As a percentage of revenue, selling, general and administrative expenses increased to 19.1% for the six months ended December 31, 2008, from 15.1% for the six months ended December 31, 2007. This increase as a percentage of revenue was attributable to several factors. Revenue in our GCD business declined due to deteriorating economic conditions in the commercial contract research industry, causing the ratio of selling, general and administrative expenses to revenue to increase approximately 110 basis points. We continue to make investments in marketing and sales and recruiting, which accounted for approximately 110 basis points of the increase. Compliance costs associated with our international operations accounted for approximately 40 basis points of the increase. Additionally, our Era product business, which generally has higher marketing and sales and research and development costs, accounted for approximately 40 basis points of the increase in selling, general and administrative expenses.

***Depreciation and Amortization***

For the six months ended December 31, 2008, depreciation and amortization increased 13.5% to \$14.3 million, from \$12.6 million for the six months ended December 31, 2007. As a percentage of revenue, depreciation and amortization increased to 1.9% for the six months ended December 31, 2008, from 1.7% for the six months ended December 31, 2007. The increase was due to the amortization of identified intangible assets related to our acquisition of Era.

***Interest Expense***

For the six months ended December 31, 2008, interest expense increased to \$3.9 million, from \$1.6 million for the six months ended December 31, 2007. This increase was due to the additional outstanding borrowings under our credit facility to support the acquisition of Era.

***Interest Income***

For the six months ended December 31, 2008, interest income decreased to \$1.4 million, from \$2.5 million for the six months ended December 31, 2007. This decrease was due to a general decline in interest rates during the six months ended December 31, 2008 compared to the six months ended December 31, 2007.

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### ***Income Taxes***

For the six months ended December 31, 2008, our effective income tax rate increased to 40.7% from 39.7% for the six months ended December 31, 2007. This increase is due to the write-off of in-process research and development costs related to the Era acquisition, which is not deductible for tax purposes.

### **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. 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, and to make selective strategic acquisitions.

### ***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. We continue to try to improve our invoicing and collection procedures as cash flows from operations remain a top priority.

Net cash provided by operating activities was \$8.3 million for the six months ended December 31, 2008 compared to \$21.5 million for the six months ended December 31, 2007, or 0.3 and 0.6 times net income for the same periods. The decrease in cash provided by operating activities was due to lower net income as well as the timing of certain large vendor payments during the six months ended December 31, 2008 compared to the six months ended December 31, 2007.

We used \$133.8 million in net cash for investing activities in the six months ended December 31, 2008, compared to \$192.6 million in the six months ended December 31, 2007. The reduction in cash used for investing activities in the six months ended December 31, 2008 was primarily the result of a lesser amount of cash used in our acquisitions of Era and ICS in July 2008 compared to our acquisition of Constella in August 2007. Additionally, proceeds from our sale of Futures decreased the amount of cash used in investing activities for the six months ended December 31, 2008.

Net cash provided by financing activities was \$4.0 million for the six months ended December 31, 2008, compared to \$63.7 million of cash provided in the six months ended December 31, 2007. This change resulted primarily from the cash used to repurchase shares of our common stock during the six months ended

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December 31, 2008. Greater borrowings under our credit facility in the six months ended December 31, 2007 to support the acquisition of Constella compared to those in the six months ended December 31, 2008 to support the acquisitions of ICS and Era also contributed to the decrease in cash provided by financing activities.

***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 December 31, 2008, we had \$175 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 3.8% for the six months ended December 31, 2008. We were in compliance with all debt covenants as of December 31, 2008.

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.

We also maintain a secured revolving credit facility and an overdraft facility relating to our operations in the Czech Republic, which were part of the Era acquisition. The secured revolving credit facility has a limit of approximately \$7.6 million. Borrowings under this facility bear interest at a rate of LIBOR, PRIBOR, or EURIBOR, depending on the currency in which the loan is drawn, plus 1.4%. This facility expires on September 30, 2010. As of December 31, 2008, the Company had approximately \$4.0 million outstanding under this facility, which is included in short-term borrowings.

The overdraft facility maintained in the Czech Republic, is denominated in Czech Koruna, bears interest at a rate of PRIBOR plus 1.55% and has a limit of approximately \$8.2 million. This facility is set to expire on August 31, 2009. At December 31, 2008, outstanding borrowings under this facility totaled approximately \$4.7 million and are included in short-term borrowings.

***Capital Requirements***

We believe the capital resources available to us under the credit facility, cash and cash equivalents on hand, and cash from our operations are adequate to fund our normal operating liquidity and capital expenditure requirements for at least the next twelve months.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements.



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**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, accounting for acquisitions, including the identification of intangible assets and the ongoing impairment assessments of the intangible assets and accounting for stock-based compensation. If any of these estimates or judgments proves to be incorrect, our reported results could be materially affected.

***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 our contracts where we act as an agent for the customer 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 to investigators and test subjects as an agent in connection with clinical research trials for which we are reimbursed 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 they become probable and can be reasonably estimated.

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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.

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

For our federal government contracts, 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 net tangible 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 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 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 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

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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.

### ***Accounting for Stock-Based Compensation***

We account for stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment*. Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes-Merton option-pricing model and is recognized as expense ratably on a straight-line basis over the requisite service period. The Black-Scholes-Merton option-pricing model requires various judgmental assumptions including expected volatility, forfeiture rates, and expected option life. Significant changes in any of these assumptions could materially affect the fair value of stock-based awards granted in the future.

### ***Other Matters***

Our significant accounting policies, including the critical policies listed above, are described in the notes to the consolidated financial statements for the year ended June 30, 2008, included in our Annual Report on Form 10-K.

## **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 based on services provided either by our employees or subcontractors. 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. To a lesser degree, we develop and sell software and hardware products to customers.

*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



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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 (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 (GWACs), or General Services Administration (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 cannot guarantee that we will recognize the full amount of 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 related 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 (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 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.

**Table of Contents****Organic Revenue**

We calculate organic revenue by comparing our reported revenue for the current period to revenue for the same period in the prior year adjusted to include revenue of acquired businesses for the pre-acquisition period of the prior year. In arriving at prior-year revenue, we include the revenue of acquired companies and remove the revenue of divested companies for the prior-year periods comparable to the current-year periods for which the companies are included in our reported revenue. The resulting rate is intended to represent our organic, or non-acquisitive, growth or decline year-over-year, including comparable period growth or decline attributable to acquired companies. We believe that this non-GAAP financial measure provides useful information because it allows investors to better assess the underlying growth rate of our business, including the post-acquisition activity of acquired companies. This non-GAAP financial measure is not used for any other purpose and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. For illustrative purposes, we compute the decrease in our organic revenue of 2.9% and 0.8% for the three and six month periods ending December 31, 2008, respectively, as follows:

	<b>Three Months Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Revenue, as reported	\$ 369,323	\$ 382,015	(3.3)%
Plus: Revenue from acquired companies for the comparable prior year period		16,650	
Less: Revenue from divested companies for the comparable prior year period		(18,244)	
 Organic Revenue	 \$ 369,323	 \$ 380,421	 (2.9)%

	<b>Six Months Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Revenue, as reported	\$ 761,678	\$ 746,142	2.1%
Plus: Revenue from acquired companies for the comparable prior year period		46,915	
Less: Revenue from divested companies for the comparable prior year period		(25,475)	
 Organic Revenue	 \$ 761,678	 \$ 767,582	 (0.8)%

**Recent Accounting Pronouncements**

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 do not expect the adoption of this new standard to have a material impact on our financial statements.

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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 (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 FSP 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 do not expect the adoption of this new FSP to have a material impact on our 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 became effective November 15, 2008. The adoption of this new standard did not have a material impact on our financial statements.

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. We adopted SFAS No. 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in our financial statements effective July 1, 2008. This adoption did not have a material effect on these condensed consolidated financial statements. 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 adoption of SFAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities is not expected 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 report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We adopted SFAS No. 159 effective July 1, 2008. This adoption did not have a material effect on our financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities. An entity must include participating securities in its calculation of basic and diluted earnings per share pursuant to the two-class method as described in SFAS No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating FSP EITF 03-6-1 to determine the impact, if any, on our financial statements.

**Item 3. 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 short-term and long-term debt. The Company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates.

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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 an applicable margin ranging from 0.4% to 0.7%, 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. A hypothetical 1% increase in the interest rate could increase our interest expense for the remainder of fiscal 2009 by approximately \$0.9 million based on our outstanding debt at December 31, 2008.

We invest our excess cash in high credit quality investments and diversify these investments amongst our bank group; 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. We do not purchase investments with original maturities that exceed two years.

As of December 31, 2008 and June 30, 2008, the carrying value of financial instruments approximated fair value. These investments, which are classified as held-to-maturity, consist of corporate and municipal bonds with maturities of 4 months or less. As of December 31, 2008, we held \$107.0 million in cash and cash equivalents and \$0.1 million in short-term investments. Because of their short-term maturities, we do not believe that a change in market rates would have a material impact on the value of our investments. However, declining interest rates would negatively impact our interest income in future periods when funds are reinvested after these instruments mature. A hypothetical 1% increase or decrease in interest rates could increase or decrease our interest income and related cash flows for the remainder of fiscal 2009 by approximately \$0.5 million based on our cash and cash equivalents and short-term investment balance at December 31, 2008.

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

We are exposed to changes in foreign currency rates. Approximately 4% of our total revenue in the six months ended December 31, 2008 was derived from our international operations, primarily earned in the United Kingdom and the Czech Republic. 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. We generally attempt to negotiate contracts in the same currency in which the predominant expenses will be incurred, thereby mitigating the exposure to foreign currency exchange fluctuations. However, we do enter into contracts that subject us to foreign exchange risks, particularly to the extent contract revenues are denominated in a currency different than the contract costs.

### **Item 4. 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 December 31, 2008. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 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 December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. RISK FACTORS**

There have been no material changes with respect to the risk factors faced by our business from those included in our Annual Report on Form 10-K for the year ended June 30, 2008, except as listed below. Item 1A of our fiscal year 2008 Form 10-K should be read in conjunction with the following updates.

***Our business could be negatively impacted by security threats and other disruptions.***

As a technology company and U.S. government contractor, we frequently face security threats, particularly to our information infrastructure. These threats require significant management attention and resources, and potentially can disrupt our business and damage our reputation among our customers and the public. A sophisticated virus believed not to be addressed fully by normal commercial antivirus signature files was recently identified on the Company's computer network. Its source is still under investigation, and the Company has been working closely with law enforcement and other U.S. government authorities. While the virus may have allowed the compromise of data, we have not determined that data has been compromised. However, we have notified customers and employees regarding this potential. Our cyber security experts and information technology department are implementing mitigation and remedial actions. We recognize that, because of the nature of our business, we will continue to be subject to sophisticated virus threats and must be vigilant if we are to ensure network security.

***We may not be able to raise additional capital or obtain additional financing if needed.***

The recent downturn in the equity and debt markets, the tightening of the credit markets and the general economic slowdown in the U.S. could make it more difficult for us to raise additional capital or obtain additional financing. We cannot be certain that additional funds will be available if needed and to the extent required or, if available, on acceptable terms. If we cannot raise additional funds on acceptable terms, we may not be able to fund expansion or take advantage of future opportunities.

The prevailing adverse economic conditions also require us to monitor the financial health of our commercial customers, subcontractors and others to whom we have financial exposures. Financial weakness could expose us to credit losses or require us to modify terms.

***The uncertainty of current global economic conditions could adversely affect our revenues and operating results.***

The customer base for our recently acquired Era product business is currently composed primarily of countries in emerging markets. Therefore, our product revenues, in particular, may be adversely affected by the current uncertainty in global market conditions. Our projected product revenues and operating results are based on assumptions concerning levels of customer spending, primarily by foreign governments. Continued weakness or further deterioration of the global economy could delay or decrease purchases of our products by our customers. Additionally, the weakened economy and tightness of the credit markets may result in supplier disruptions, which could reduce our revenues.

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***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, the Czech Koruna and the Euro, and then are translated into U.S. dollars for financial reporting purposes. For the six months ended December 31, 2008, approximately 2% of our revenue was denominated in British pounds and approximately 2% 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. Additionally, while we generally attempt to negotiate contracts in the same currency in which the predominant expenses will be incurred to mitigate the exposure to foreign currency exchange fluctuations, our Era subsidiary has contract revenues that are denominated in a currency different than contract costs. At present, we do not utilize any derivative instruments to manage risk associated with currency exchange rate fluctuations. 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.

***Our fixed price contracts may encounter difficulties that result in additional costs to us, reductions in revenues, claims, disputes and the payment of damages.***

Some of our fixed price contracts may require challenging development and integration of technologies and subsystems and completion of acceptance testing by contractually specified delivery dates. We may experience unforeseen technological difficulties and cost overruns, and if our initial estimates are incorrect, we can lose money on these contracts. Failure to meet contractual requirements may result in additional costs to satisfy contract requirements, reductions in revenue, payment of damages or penalties, or termination of the contract.

***We may face difficulties enforcing our intellectual property rights and may be found to infringe the intellectual property rights of others.***

We sometimes employ patents, copyrights, trademarks, and trade secret laws to establish and maintain proprietary rights in our technology and products. With the acquisitions of Era and ICS, we currently own 27 issued patents in the U.S., and own or have applied for a lesser number in certain other foreign jurisdictions. These patents or other proprietary rights may be challenged, invalidated, or circumvented, and we may not gain competitive advantages from them. We believe that our intellectual property protections have some value, but, because of the nature of our business and these legal rights, the rapidly changing technology needs of our customers and limitations in the legal process, we believe this value is not material, and that instead our future business success will rely primarily upon the expertise and management skills of our employees. SRA leverages its patented technologies in sales of services and customer licenses; the patents themselves are not licensed to any third party, and no revenue is derived directly from the patents. Most of the patent applications were filed after January 2000 and still have a duration of 10 to 15 years. We do not have the same protections in many foreign jurisdictions. In our product sales, it often is not economically practical or in many cases even possible to determine in advance whether our products or their components infringe on the rights of others. Regardless of the merit of intellectual property claims, such claims can be time-consuming and costly, and we may be required to develop a non-infringing technology or enter into license agreements. Our customers may require indemnity for patent infringement and similar intellectual property challenges. If any intellectual property claim made against us is successful, if we are required to indemnify a customer with respect to third party claims, or if we are unable to develop non-infringing technology or license proprietary rights on commercially reasonable terms, our business could be materially and adversely affected.

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*Our operations involving foreign countries and foreign personnel require our compliance with complex U.S. laws, including the Arms Export Control Act, the International Traffic in Arms Regulations, the Export Administration Act, the Export Administration Regulations, the Trading with the Enemy Act, the International Emergency Economic Powers Act, and other similar laws.*

U.S. laws strictly control the manufacture, export or brokering of defense-related articles and services and dual-use goods, software, and technology. Some of the articles and services we and our subsidiaries sell are subject to these restrictions, and violations can lead to civil or criminal penalties. The breadth and complexity of these laws requires that we constantly monitor our operations to ensure compliance. Prior to its acquisition by us, Era voluntarily disclosed to the U.S. Department of State potential brokering activities related to product sales of its Czech subsidiary. Following our acquisition, we engaged an outside law firm to conduct a compliance audit of Era operations and two additional potential violations of the International Traffic in Arms Regulations (ITAR) were identified, one involving a possible brokering violation between U.S. personnel and a foreign country and the second involving use of a U.S.-origin electronic component in a Czech military product exported in potential violation of ITAR export licensing requirements. We disclosed the audit results to the U.S. State Department and recently received notification from the State Department determining that Era had violated ITAR but they are closing the case at this time without imposition of civil penalty. To ensure compliance with restrictions on brokering, we currently operate Era under a sequestration agreement, which gives the Czech managers of Era's Czech subsidiary sole authority to manage the defense-related activities of the subsidiary's military division and prohibits the managerial input of U.S. personnel. This sequestration agreement has not been approved by the U.S. State Department. To ensure compliance with the agreement, a Supervisory Review Board meets periodically, a Technology Control Plan has been put in place, and relevant employees have received training. Recently SRA was registered as a broker with the U.S. Department of State Directorate of Defense Trade Controls (DDTC), permitting SRA brokering activities for defense-related articles in NATO and certain other countries. SRA license applications for defense-related brokering in additional Era markets will be filed for DDTC approval. Our plan is ultimately to withdraw the current sequestration agreement and subject all future Czech defense-related operations fully to U.S. ITAR requirements. This action may limit countries to which we will be permitted to sell our products, reducing potential revenues, and in some cases may delay sales pending governmental approvals.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**  
**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 Board authorized the repurchase of up to an additional \$100 million of our class A common stock on July 31, 2008. We did not repurchase any shares of our common stock during the three months ended December 31, 2008. We have \$84.6 million available under the July authorization as of December 31, 2008.

**Item 3. Defaults Upon Senior Securities**  
None

**Item 4. Submission of Matters to a Vote of Security Holders**

An annual meeting of stockholders was held on October 30, 2008. The following matters were voted upon at the annual meeting:

- |           |  |
|-----------|--|
| Matter 1: | To elect four Class I directors to serve until the 2011 annual meeting of stockholders and until their successors are duly elected and qualified.                                |
| Matter 2: | To ratify the selection by the Audit Committee of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2009. |

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A summary of the voting for each director nominee and matter voted upon at the annual meeting is as follows:

Nominee/Matter	For	Against or Withheld	Abstain	Broker Non-Votes
John W. Barter	180,644,468	416,877		
Larry R. Ellis	180,072,527	988,818		
Miles R. Gilburne	179,771,056	1,290,289		
Gail R. Wilensky	180,065,878	995,467		
Matter 2	181,045,702	12,146	3,497	

**Item 5. Other Information**

None

**Item 6. Exhibits**

Exhibit Number	Description
10.14a *	Amendment to Employment Agreement between SRA International, Inc. and Stanton D. Sloane
10.16 *	Final Separation Agreement of Stephen C. Hughes
21.1	Subsidiaries of the Registrant
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

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

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**SIGNATURES**

Pursuant to the requirements 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 county of Fairfax, Virginia on the 6<sup>th</sup> day of February, 2009.

**SRA INTERNATIONAL, INC.**

By: */s/ STANTON D. SLOANE*  
**Stanton D. Sloane**  
**President and Chief Executive Officer**  
  
**(Principal Executive Officer)**

By: */s/ MELISSA A. BURGUM*  
**Melissa A. Burgum**  
**Acting Chief Financial Officer**  
  
**(Principal Financial and Accounting Officer)**