SRA INTERNATIONAL INC
Form 10-Q
May 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 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)

Delaware **54-1360804**

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4300 Fair Lakes Court, Fairfax, Virginia	**22033**
(Address of Principal Executive Offices)	**(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. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

As of May 2, 2008, there were 43,409,608 shares outstanding of the registrant s class A common stock and 14,050,736 shares outstanding of the registrant s class B common stock.

SRA INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS

AND NINE MONTHS ENDED MARCH 31, 2008

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Item 1. Financial Statements

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

Assets

	March 31, 2008	June 30, 2007
Current assets:		
Cash and cash equivalents	$ 136,517	$ 212,034
Restricted cash	1,126	
Accounts receivable, net	341,450	262,409
Prepaid expenses and other	21,029	26,370
Deferred income taxes, current	10,764	5,860
Total current assets	510,886	506,673
Property and equipment, net	37,875	36,685
Other assets:		
Goodwill	394,153	256,530
Identified intangibles, net	39,314	30,849
Deferred income taxes, noncurrent	6,266	8,163
Deferred compensation trust	7,650	8,784
Other assets	16,185	
Total other assets	463,568	304,326
Total assets	$ 1,012,329	$ 847,684

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

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share amounts)

Liabilities and Stockholders Equity

	March 31, 2008	June 30, 2007
Current liabilities:		
Accounts payable and accrued expenses	$ 118,699	$ 110,897
Accrued payroll and employee benefits	85,566	81,711
Billings in excess of revenue recognized	14,224	16,980
Total current liabilities	218,489	209,588
Long-term liabilities:		
Long-term debt	80,000	
Other long-term liabilities	26,861	12,641
Total long-term liabilities	106,861	12,641
Total liabilities	325,350	222,229
Commitments and contingencies		
Stockholders equity:		
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; 44,739,842 and 43,576,434 shares issued as of March 31, 2008 and June 30, 2007; 43,284,414 and 42,865,008 shares outstanding as of March 31, 2008 and June 30, 2007	179	174
Class B common stock, par value $0.004 per share; 55,000,000 shares authorized; 14,050,736 and 14,199,828 shares issued and outstanding as of March 31, 2008 and June 30, 2007	56	57
Additional paid-in capital	327,409	302,970
Treasury stock, at cost	(23,397)	(5,996)
Accumulated other comprehensive income	25	
Retained earnings	382,707	328,250
Total stockholders equity	686,979	625,455
Total liabilities and stockholders equity	$ 1,012,329	$ 847,684

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

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except share and per share amounts)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	2008	2007
Revenue	$ 376,002	$ 317,586	$ 1,122,144	$ 942,665
Operating costs and expenses:				
Cost of services	276,708	237,684	837,706	710,485
Selling, general and administrative	63,508	51,588	176,498	148,921
Depreciation and amortization	6,230	5,535	18,821	15,585
Total operating costs and expenses	346,446	294,807	1,033,025	874,991
Operating income	29,556	22,779	89,119	67,674
Interest expense	(611)	(7)	(2,216)	(27)
Interest income	886	1,180	3,374	4,514
Gain on sale of Mantas, Inc.				3,674
Income before taxes	29,831	23,952	90,277	75,835
Provision for income taxes	11,788	8,979	35,784	29,058
Net income	$ 18,043	$ 14,973	$ 54,493	$ 46,777
Earnings per share:				
Basic	$ 0.31	$ 0.26	$ 0.95	$ 0.83
Diluted	$ 0.30	$ 0.26	$ 0.92	$ 0.80
Weighted-average shares:				
Basic	57,852,369	56,696,382	57,600,872	56,299,701
Diluted	59,468,955	58,383,305	59,407,213	58,261,389

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

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	$ 54,493	$ 46,777
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,821	15,585
Stock-based compensation	7,322	8,451
Deferred income taxes	(1,372)	(625)
Gain on sale of Mantas, Inc.		(3,674)
Loss on disposal of property and equipment	744	
Changes in assets and liabilities, net of the effect of acquisitions:		
Accounts receivable	(31,004)	18,382
Prepaid expenses and other	8,437	(15,054)
Accounts payable and accrued expenses	(6,697)	(4,483)
Accrued payroll and employee benefits	(815)	6,666
Billings in excess of revenue recognized	(4,972)	(392)
Other	(3,402)	2,589
Net cash provided by operating activities	41,555	74,222
Cash flows from investing activities:		
Capital expenditures	(6,754)	(10,289)
Sales and maturities of investments		9,749
Proceeds from sale of Mantas, Inc.		3,674
Acquisition of Spectrum Solutions Group, net of cash acquired		(8,000)
Acquisition of RABA Technologies, net of cash required.		(94,237)
Acquisition of Constella Group, LLC, net of cash acquired	(189,714)	
Net cash used in investing activities	(196,468)	(99,103)
Cash flows from financing activities:		
Issuance of common stock	11,916	8,057
Tax benefits of stock option exercises	4,725	6,004
Borrowings (repayments) under credit facility, net of associated financing costs	79,676	
Reissuance of treasury stock	679	1,245
Purchase of treasury stock	(17,600)	(84)
Net cash provided by financing activities	79,396	15,222
Net decrease in cash and cash equivalents	(75,517)	(9,659)
Cash and cash equivalents, beginning of period	212,034	173,564
Cash and cash equivalents, end of period	$ 136,517	$ 163,905
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	$ 1,885	$ 27
Income taxes	$ 40,970	$ 30,820

Cash received during the period:		
Interest	$ 3,670	$ 4,617
Income taxes	$ 757	$ 438

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

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three Months and Nine Months Ended March 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 notes 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 (all of which are of a normal, recurring nature) that are necessary for fair presentation of the periods presented. The results for the three months and nine months ended March 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, 2007.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 provides a new single authoritative definition of fair value and enhanced guidance for measuring the fair value of assets and liabilities. It requires additional disclosures regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The effective date for all nonrecurring fair value measurements of nonfinancial assets and liabilities was delayed until fiscal years beginning after November 15, 2008. The Company is currently evaluating the effect, if any, that adoption of SFAS No. 157 will have on its 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. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect, if any, that adoption of SFAS No. 159 will have on its financial statements.

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, which is intended to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

(minority) interests in subsidiaries as a component of equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the effect, if any, that adoption of SFAS No. 160 will have on its financial statements.

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

Reclassifications

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

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 substantially all of its revenue from services provided to federal government clients. The Company acquired Constella Group, LLC on August 9, 2007. In addition to their federal government clients, Constella conducts business with foreign governments and has domestic and international commercial sales.

Revenue from contracts with federal government agencies was 95 percent and 99 percent of total revenue for the nine months ended March 31, 2008 and 2007, respectively. No client or client group accounted for more than 10 percent of revenue in the periods presented herein.

3. 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 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 is due to the effect of potential future exercises of stock options and vesting of restricted stock shares.

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

Basic and diluted EPS have been calculated using the if-converted method for class A common stock and the two-class method for class B common stock pursuant to SFAS No. 128. The two-class method is an earnings

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

allocation formula that determines EPS for each class of common stock according to the weighted-average of dividends declared, outstanding shares per class and participation rights in undistributed earnings. The computation of EPS by applying the two-class method does not yield a result different from that provided under the if-converted method.

Undistributed earnings are calculated as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	2008	2007
Net income	$ 18,043	$ 14,973	$ 54,493	$ 46,777
Less: dividends				
Undistributed earnings	$ 18,043	$ 14,973	$ 54,493	$ 46,777

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

	Three Months Ended March 31,				Nine Months Ended March 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	43,801	14,051	42,463	14,233	43,463	14,138	41,932	14,368
Assumed conversion of class B shares	14,051		14,233		14,138		14,368	
Effect of potential exercise or vesting of stock-based awards	1,617		1,687		1,806		1,961	
Diluted weighted-average common shares outstanding	59,469	14,051	58,383	14,233	59,407	14,138	58,261	14,368

For the three months ended March 31, 2008 and 2007, options to acquire 1,507,305 and 1,981,602 shares of class A common stock and options to acquire 1,431,729 and 1,760,889 shares of class A common stock for the nine months ended March 31, 2008 and 2007, respectively, were excluded from the computation of diluted weighted-average common shares outstanding as the impact of including them would have been antidilutive.

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2008		2007		2008		2007	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic								
Weighted-average shares outstanding	43,801	14,051	42,463	14,233	43,463	14,138	41,932	14,368
Divided by: Total weighted-average shares outstanding (class A and class B)	57,852	57,852	56,696	56,696	57,601	57,601	56,300	56,300
Multiplied by: Undistributed earnings	$ 18,043	$ 18,043	$ 14,973	$ 14,973	$ 54,493	$ 54,493	$ 46,777	$ 46,777
Subtotal	$ 13,661	$ 4,382	$ 11,214	$ 3,759	$ 41,118	$ 13,375	$ 34,839	$ 11,938
Divided by: Weighted-average shares outstanding	43,801	14,051	42,463	14,233	43,463	14,138	41,932	14,368
Earnings per share	$ 0.31	$ 0.31	$ 0.26	$ 0.26	$ 0.95	$ 0.95	$ 0.83	$ 0.83
Diluted								
Weighted-average shares outstanding	59,469	14,051	58,383	14,233	59,407	14,138	58,261	14,368
Divided by: Total weighted-average shares outstanding (class A and class B)	59,469	59,469	58,383	58,383	59,407	59,407	58,261	58,261
Multiplied by: Undistributed earnings	$ 18,043	$ 18,043	$ 14,973	$ 14,973	$ 54,493	$ 54,493	$ 46,777	$ 46,777
Subtotal	$ 18,043	$ 4,263	$ 14,973	$ 3,650	$ 54,493	$ 12,969	$ 46,777	$ 11,536
Divided by: Weighted-average shares outstanding	59,469	14,051	58,383	14,233	59,407	14,138	58,261	14,368
Earnings per share	$ 0.30	$ 0.30	$ 0.26	$ 0.26	$ 0.92	$ 0.92	$ 0.80	$ 0.80

Comprehensive Income

The Company s comprehensive income was $18.0 million and $54.5 million for the three and nine months ended March 31, 2008, respectively. The Company s comprehensive income includes net earnings of $18.0 million and $54.5 million and foreign currency translation adjustments of less than $0.1 million for both the three and nine months ended March 31, 2008.

4. 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 established new accounting requirements for share-based payment transactions. 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

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

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.

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 $2.4 million and $2.5 million of stock-based compensation expense for the three months ended March 31, 2008 and 2007, respectively, and $7.3 million and $8.5 million of stock-based compensation for the nine months ended March 31, 2008 and 2007, respectively.

As of March 31, 2008, there was $20.7 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be fully amortized in four years, with half of the total amortization cost being recognized within the next 13 months.

Stock Option Activity

During the nine months ended March 31, 2008 and 2007, respectively, the Company granted stock options to purchase 406,052 and 420,802 shares of class A common stock at a weighted-average exercise price of $25.68 and $25.32 per share based on the fair value of class A common stock on the date of grant. The Black-Scholes-Merton weighted-average value of options granted for the nine months ended March 31, 2008 and 2007 was $9.42 and $9.26, respectively. Using the Black Scholes-Merton model, the total value of the options granted for the nine months ended March 31, 2008 and 2007, was $3.3 million and $3.5 million, respectively. The options vest at the rate of 25 percent per year over four years, beginning on the date of grant and expire ten years from the grant date.

The following table summarizes stock option activity for the nine months ended March 31, 2008:

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, July 1, 2007	6,618,797	$ 19.62	$ 51,440
Options granted	406,052	25.68	
Options exercised	(941,069)	11.65	15,082
Options cancelled and expired	(510,924)	29.79	605
Shares under option, March 31, 2008	5,572,856	$ 20.49	$ 34,771
Options exercisable at March 31, 2008	3,944,538	$ 17.49	$ 33,795
Shares reserved for equity awards at March 31, 2008	7,941,787		

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

Information with respect to stock options outstanding and stock options exercisable at March 31, 2008 is presented below:

Range of Exercise Price		Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$ 3.17	$ 5.07	847,383	5.79 years	$ 4.14
$10.85	$16.80	1,338,027	6.90	14.31
$19.39	$25.11	1,555,513	6.49	21.68
$25.30	$35.40	1,831,933	7.73	31.54
		5,572,856		

Range of Exercise Price		Options Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$ 3.17	$ 5.07	847,383	5.79 years	$ 4.14
$10.85	$16.80	1,338,027	6.90	14.31
$19.39	$25.11	1,046,543	6.12	21.18
$25.30	$35.40	712,585	6.74	33.94
		3,944,538		

During the nine months ended March 31, 2008 and 2007, the Company also granted 185,848 and 152,537 nonvested restricted shares at a weighted-average grant date fair market value of $25.62 and $26.21 per share, respectively. These shares vest at the rate of 25 percent per year over four years.

The following table summarizes restricted stock activity for the nine months ended March 31, 2008:

	Number of Shares	Weighted-Average Grant-Date Value
Nonvested restricted shares at July 1, 2007	308,046	$ 26.65
Restricted shares granted	185,848	25.62
Restricted shares vested	(45,324)	25.53
Restricted shares forfeited	(32,961)	25.80
Nonvested restricted shares at March 31, 2008	415,609	$ 26.00

As of March 31, 2008 there were 7,941,787 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 was available to all eligible employees beginning on January 1, 2005. The ESPP permits eligible employees to purchase

class A common stock, through payroll deductions of up to 15% of the employee s compensation, at a price equal to 95% of the average of the high and low price of the class A common stock on the last day of each offering period. Employees purchased 9,430 and 11,609 shares under the ESPP during the three months ended March 31, 2008 and 2007, respectively, and 30,253 and 35,159 shares under the ESPP during the nine months ended March 31, 2008 and 2007, respectively.

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

5. Common Stock Repurchase:

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

The following table summarizes class A common stock repurchase activity under the stock purchase authority for the nine months ended March 31, 2008 (in thousands, except share and per share amounts):

Number of shares repurchased	754,344
Cost of shares repurchased	$ 17,280
Average price per share	$ 22.91

As of March 31, 2008, approximately $22.7 million remained of the $40.0 million authorized repurchase amount.

6. Accounts Receivable:

Accounts receivable, net as of March 31, 2008 and June 30, 2007 consisted of the following (in thousands):

	March 31, 2008	June 30, 2007
Billed and billable, net of allowance of $3,316 as of March 31, 2008 and $2,689 as of June 30, 2007	$ 314,775	$ 240,735
Unbilled:		
Retainages	5,765	4,508
Revenue recorded in excess of milestone billings on fixed-price contracts	12,634	11,585
Revenue recorded in excess of contractual authorization, billable upon receipt of contractual amendments/documents	10,237	7,188
Allowance for unbillable amounts	(1,961)	(1,607)
Total unbilled	26,675	21,674
Total accounts receivable	$ 341,450	$ 262,409

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

Consistent with industry practice, certain receivables related to long-term contracts and programs are classified as current, although a portion of these amounts is not expected to be billed and collected within one year. Unbilled accounts receivable at March 31, 2008 are expected to be billed and collected within one year except for approximately $2.5 million of retainages.

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

7. Commitments and Contingencies:

Government Contracting

Payments to the Company on cost-plus-fee contracts are provisional and are subject to adjustment upon audit by government audit agencies. In the opinion of management, audit adjustments that may result from audits not yet completed are not expected to have a material effect on the Company s financial position, results of operations, or cash flows.

Additionally, 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 penalties. Management believes the Company has complied with all applicable procurement-related statutes and regulations that could have a material adverse effect on the Company s financial position, results of operations, or cash flows.

Litigation

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

8. Acquisition of Constella Group, LLC:

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

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

The Company recorded post-closing net asset adjustments of $11.3 million related to tax liabilities. The Company expects to recover this amount from the selling shareholders of Constella and has, therefore, established a receivable from escrow. This receivable from escrow is included in other long-term assets. Approximately $9.6 million of the escrow receivable relates to the uncertain income tax positions discussed in Note 10. The remaining $1.7 million relates to service taxes. Additional exposure exists with respect to taxes; however, the Company is unable to estimate the possible exposure at this time. Should the actual expense exceed the liability recorded, the purchase agreement provides for the recovery of the additional expense from the selling shareholders of Constella.

Preliminary Purchase Price Allocation

Under the purchase method of accounting, the assets and liabilities of Constella were recorded at their respective fair values as of the date of acquisition. Management s estimates of the fair value of assets acquired

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

and liabilities assumed are based, in part, on third-party valuations. The allocation of the preliminary purchase price is as follows (in thousands):

Cash and cash equivalents	$ 1,582
Restricted cash	667
Accounts receivable, net	48,836
Prepaid expenses and other	3,096
Property and equipment	6,685
Deferred income taxes, noncurrent	1,635
Other assets	154
Accounts payable and accrued expenses	(14,499)
Accrued payroll and employee benefits	(4,670)
Billings in excess of revenue recognized	(2,216)
Other long-term liabilities	(14,681)
Net tangible assets acquired	$ 26,589
Definite-lived intangible assets acquired	15,780
Receivable from escrow	11,304
Goodwill	137,623
Total adjusted purchase price	$ 191,296

The purchase price allocation 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.

Of the total purchase price, $26.6 million has been allocated to net tangible assets acquired, $15.8 million has been allocated to definite-lived intangible assets acquired, and $137.6 million has been allocated to goodwill. Definite-lived intangible assets of $15.8 million consist of the value assigned to Constella s customer relationships and technology.

Intangible Assets

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

	Fair Value	Estimated Useful Life
Customer relationships	$ 15,600	2-8 years
Technology	180	3 years
Total	$ 15,780	

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of SRA and Constella, on a pro forma basis, as though the companies had been combined as of the beginning of

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

Three Months and Nine Months Ended March 31, 2008 and 2007

each of the periods presented. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and borrowings under the credit facility had taken place at the beginning of each of the periods presented. The unaudited pro forma financial information for the nine months ended March 31, 2008 and 2007 combines the historical results for SRA and Constella for those periods and includes the business combination accounting effect of amortization charges from acquired intangible assets, interest expense at the Company s current level of debt, expense related to retention agreements for Constella employees, and the related tax effects (in thousands, except per share amounts).

	Nine Months Ended March 31,	
	2008	2007
Revenue	$ 1,144,097	$ 1,084,875
Operating income	$ 89,043	$ 73,480
Net income	$ 53,890	$ 47,644
Diluted earnings per share (class A and B common stock)	$ 0.91	$ 0.82

9. Debt

On August 9, 2007, the Company entered into a $100 million five-year unsecured revolving credit facility with Citibank, N.A., as administrative agent, issuer, and lender; SunTrust Bank as syndication agent and lender; and Bank of America, N.A., J.P. Morgan Chase Bank, N.A., Wachovia Bank, N.A., Branch Banking and Trust Company, and Fifth Third Bank as lenders. The credit facility terminates on August 9, 2012, at which time all outstanding borrowings under the facility become due. The credit facility has an accordion feature enabling the Company to request that the credit facility be increased up to an additional $100 million, subject to specified conditions and the discretion of the lenders.

Outstanding borrowings under the credit facility bear interest at a rate per annum equal to, at the election of the Company, (i) LIBOR plus an applicable margin ranging from 0.4% to 0.7%, 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 Citibank 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 quarterly.

The Company may prepay borrowings under the credit facility at any time without penalty. The Company may use the proceeds from borrowings under the credit facility for any general corporate purpose. The credit facility contains customary covenants limiting the Company s ability to, among other things, merge or consolidate with others, incur liens, redeem or repurchase Company stock, enter into transactions with affiliates, or dispose of assets. In addition, the credit facility contains financial covenants requiring the Company to maintain a total leverage ratio of not more than 3.0 to 1.0 and an interest coverage ratio of at least 3.0 to 1.0. If the Company does not comply with the various covenants under the credit facility, the lenders may, subject to various customary cure rights, require immediate payment of all amounts outstanding under the facility.

The Company capitalized $0.3 million of debt financing costs associated with the origination of the credit facility during the quarter ended September 30, 2007. These debt financing costs are being amortized on a straight-line basis from the date incurred to the August 9, 2012 expiration date. The unamortized balance of $0.3 million at March 31, 2008 is included in long-term assets.

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

In connection with its acquisition of Constella, the Company borrowed $100 million under the credit facility. During the three months ended September 30, 2007, the Company repaid $50 million of the borrowings. The Company borrowed an additional $30 million during the three months ended March 31, 2008. At March 31, 2008, the Company had $80 million outstanding on the credit facility which is included in long-term liabilities. The average rate of interest on the outstanding borrowings was approximately 5% during the nine months ended March 31, 2008. The Company was in compliance with all debt covenants as of March 31, 2008.

10. Income Taxes:

The Company adopted 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.

As a result of this review process, the Company adjusted the estimated value of its uncertain tax positions by recognizing additional liabilities of approximately $40,000 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 $0.5 million, net of estimated future tax benefits of $0.1 million. The gross liability for uncertain tax positions is included in other long-term liabilities and future tax benefits are included in noncurrent deferred income taxes.

The Company recognizes accrued interest and penalties related to uncertain tax positions in federal and foreign income tax expense. As of July 1, 2007, the Company had accrued approximately $0.1 million for the payment of tax-related interest and penalties. If the Company s positions are sustained by the taxing authority, $0.5 million would reduce the Company s effective tax rate.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Tax years related to material U.S. federal, and various state and foreign jurisdictions remain subject to examination for tax periods ended on or after June 30, 2004.

As a result of the Constella acquisition, the Company assumed additional liability for gross uncertain tax positions of $11.2 million. Of this amount, approximately $7.4 million relates to potential interest and penalties. The Company established a receivable for $11.2 million, less estimated future tax benefits of $1.6 million, under the terms of the equity purchase agreement (see Note 8). Future accrued interest and penalties on this liability will also be recorded as a receivable under the escrow agreement. In the nine months ended March 31, 2008, the Company recorded $0.4 million of accrued interest and penalties to the receivable from escrow. To the extent the Company is unable to collect the tax liabilities, interest, and penalties from the escrow or from the selling shareholders of Constella, the amount would be treated as an adjustment to goodwill.

11. Facility Exit Costs:

During the nine months ended March 31, 2008, the Company reviewed its space utilization and identified excess leased office facilities. To improve the Company s overall cost structure going forward, the Company initiated activities to consolidate certain facilities and sublease excess space. In the nine months ended March 31, 2008, the Company recognized a total facility exit charge of $3.3 million, which was included in selling, general and administrative expenses. Of this total, approximately $3.0 million relates to lease exit costs associated with vacating the facilities and the remainder relates to the write-off of leasehold improvements and unearned rent abatements.

SRA INTERNATIONAL, INC. AND SUBSIDIARIES

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

Three Months and Nine Months Ended March 31, 2008 and 2007

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

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

	Facility Exit Costs
Balance as of October 1, 2007	$
Facility exit costs accrued	3,257
Cash payments	(211)
Non-cash settlement	(236)
Balance as of December 31, 2007	$ 2,810
Cash payments	(815)
Balance as of March 31, 2008	$ 1,995

12. Subsequent Event:

Acquisition of Era Corporation

On April 30, 2008, the Company announced the signing of a definitive agreement to acquire Era Corporation, a privately held provider of advanced surveillance technologies for the air traffic management, airport operations, military and security markets. Era has nearly 300 employees and develops multilateration, Automatic Dependent Surveillance-Broadcast (ADS-B) and other technologies that deliver high-performance, high-reliability surveillance solutions to more than 100 customers in the U.S., Canada, Europe, the Middle East, Africa, South America and Asia. Era is headquartered in Reston, Virginia with production facilities and research development centers in the U.S. and Czech Republic. Closing is expected by June 30, 2008.

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 primarily to the federal government. We offer a broad range of services that spans the information technology life-cycle: strategic consulting; systems design, development, and integration; and outsourcing and managed services. In addition, to address recurring client needs, we develop business solutions for contingency and disaster response planning, information assurance, business intelligence, privacy protection, enterprise architecture, infrastructure management, and wireless integration. We provide services in three target markets: national security, civil government, and health care and public health. Our largest market, national security, includes the Department of Defense, the National Guard, the Department of Homeland Security, the intelligence agencies, and other federal organizations with homeland security missions. The Company also conducts business with foreign governments and has domestic and international commercial sales.

Since our founding in 1978, we have derived substantially all of our revenue from services provided to U.S. federal government clients. Although the federal information technology market is currently facing challenges as a result of a shift in expenditures to pay for the war against terrorism and other international conflicts, we believe that the federal government s spending on information technology will continue to increase over the next several years. According to the *Federal IT Market Forecast, 2007 2012* report published by INPUT, an independent federal government market research firm, the contracted portion of federal government spending on information technology is forecasted to grow at an annual rate of 5.6% from $65.2 billion in federal fiscal year 2007 to $85.6 billion in federal fiscal year 2012.

In the near term, we face some uncertainties due to the current business environment. The Department of Defense continues to divert funding away from certain information technology initiatives to support the war against terrorism and the reconstruction of Iraq. Other government agencies have also experienced funding tightness as a result of the war effort and the federal budget deficit, causing industry growth to slow in recent quarters. Heightened competition for new business, combined with the shortage of experienced contracting staff

among government agencies, has increased the frequency of contract protests, which has in turn caused delays in many new awards. Additionally, it is difficult to hire and retain highly qualified individuals, especially those with security clearances, who have advanced technology and technical services skills and who work well with our clients in a government environment.

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 fixed-price contracts, as compared with cost-plus-fee 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 from services provided either by our employees or subcontractors. To a lesser degree, the revenue we earn includes reimbursable travel and other items to support the contractual effort, and may include third-party hardware and software that we purchase and integrate for customers as part of the solutions that we provide. Thus, once we win new business, our ability to deliver revenue is dependent on 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. It is difficult to hire and retain qualified individuals with appropriate security clearances. Since we earn higher profits from the labor services that our employees provide compared with subcontracted efforts and other reimbursable items such as hardware and software purchases for customers, we seek to optimize our labor content on the contracts we win. The level of hardware and software purchases we make for customers may vary from period to period depending on specific contract and customer requirements.

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

Depreciation and amortization expenses are affected by the level of our annual capital expenditures and the amount of identified intangibles related to acquisitions. We do not presently foresee significant changes in our capital expenditure requirements, which have been approximately 1.0% to 2.0% or less of revenue over the last three fiscal years. As we continue to make selected strategic acquisitions, the amortization of identified intangible assets may increase as a percentage of our revenue.

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

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

SELECTED KEY METRICS EVALUATED BY MANAGEMENT

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

Revenue Growth

Our total year-over-year revenue growth rate was 18.4% and 19.0% for the three and nine months ended March 31, 2008, respectively. This growth was attributable primarily to the acquisitions of RABA Technologies, LLC, or RABA, which was completed on October 26, 2006, and Constella Group, LLC, or Constella, which was completed on August 9, 2007. Our organic revenue growth rate was 2.4% and 3.5% for the three and nine months ended March 31, 2008, respectively.

A part of our growth strategy includes pursuing acquisitions. Through March 31, 2008, we completed the following acquisitions:

Acquisition	Strategic Value	Closing Date	Purchase Price (in millions)
The Marasco Newton Group, Ltd.	Environment	January 4, 2002	$ 16.2
Adroit Systems, Inc.	Command and Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR)	January 31, 2003	38.3
ORION Scientific Systems	Counterterrorism	January 30, 2004	34.7
Touchstone Consulting Group, Inc.	Strategic Consulting	April 21, 2005	37.0
Galaxy Scientific Corporation	Command and Control, Communications, Computers, Intelligence (C4I)	July 1, 2005	98.7
Spectrum Solutions Group, Inc.	Enterprise Resource Planning	November 2, 2005	17.7
Mercomms Unlimited, Inc.	Maritime and Defense Communications	April 10, 2006	0.6
RABA Technologies, LLC	Intelligence	October 26, 2006	95.0
Constella Group, LLC	Health Sciences and International Health and Drug Development	August 9, 2007	190.6

Contract Backlog

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

	March 31, 2008	June 30, 2007
	(in millions)	
Backlog:		
Funded	$ 785.3	$ 600.4
Unfunded	3,105.5	2,809.8
Total backlog	$ 3,890.8	$ 3,410.2

Our total backlog of $3.9 billion as of March 31, 2008 represented a 14.1% increase over the June 30, 2007 backlog. This included $268.1 million of backlog acquired from Constella as of August 9, 2007. We currently expect to recognize revenue during the fourth quarter of fiscal 2008 from approximately 9% of our total backlog as of March 31, 2008.

Our backlog includes orders under contracts that in some cases extend for several years, with the latest expiring during calendar year 2016.

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. Our estimate of the portion of the backlog as of March 31, 2008 from which we expect to recognize revenue in the fourth quarter of fiscal 2008 is likely to be inaccurate because the receipt and timing of any revenue is subject to various contingencies, many of which are beyond our control. In addition, we may never realize revenue from some of the engagements that are included in our backlog, and there is a higher degree of risk in this regard with respect to unfunded backlog. Finally, the amount of revenue we expect to realize under a particular engagement included in backlog may change because a program schedule could change or the program could be cancelled, or a contract could be reduced, modified, or terminated early.

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 March 31,		Nine Months Ended March 31,	
	2008	**2007**	**2008**	**2007**
Cost-plus-fee	39%	41%	41%	45%
Time-and-materials	42	44	42	41
Fixed-price	19	15	17	14

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 7.9% and 7.2% for the nine months ended March 31, 2008 and 2007, respectively. We generated a greater proportion of our revenue from our labor services in the nine months ended March 31, 2008, which increased our 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. The market for highly qualified personnel with security clearances remains very tight. Therefore, we closely monitor hiring success, attrition trends, and direct labor utilization. The following table represents our headcount and our direct labor utilization. The direct labor utilization shown excludes our global drug development business, which does not have a material effect on the overall percentage.

	Three Months Ended March 31, 2008	Year Ended June 30, 2007
Headcount	6,442	5,215
Direct labor utilization	79%	79%

Days Sales Outstanding

Days sales outstanding, or DSO, is a measure of how efficiently we manage the billing and collection of our accounts receivable, our most significant working capital requirement. For the three months ended March 31, 2008, we reported DSO of 79 days, an increase from 75 days reported for the three months ended December 31, 2007. The increase was primarily attributable to the transition associated with the implementation of a new accounting system in our global drug development business in the United Kingdom; however, we expect that the system will help reduce our DSO as we go forward. We have a number of internal process initiatives underway that we believe will enable us to improve our invoicing and collection of accounts receivable.

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 March 31,			Nine Months Ended March 31,		
	2008	2007	% Change	2008	2007	% Change
	(unaudited, in thousands)			(unaudited, in thousands)		
Revenue	$ 376,002	$ 317,586	18.4%	$ 1,122,144	$ 942,665	19.0%
Operating costs and expenses:						
Cost of services	276,708	237,684	16.4	837,706	710,485	17.9
Selling, general and administrative	63,508	51,588	23.1	176,498	148,921	18.5
Depreciation and amortization	6,230	5,535	12.6	18,821	15,585	20.8
Total operating costs and expenses	346,446	294,807	17.5	1,033,025	874,991	18.1
Operating income	29,556	22,779	29.8	89,119	67,674	31.7
Interest expense	(611)	(7)	*	(2,216)	(27)	*
Interest income	886	1,180	(24.9)	3,374	4,514	(25.3)
Gain on sale of Mantas, Inc.					3,674	(100.0)
Income before taxes	29,831	23,952	24.5	90,277	75,835	19.0
Provision for income taxes	11,788	8,979	31.3	35,784	29,058	23.1
Net income	$ 18,043	$ 14,973	20.5%	$ 54,493	$ 46,777	16.5%

	(unaudited, as a percentage of revenue)		(unaudited, as a percentage of revenue)	
Revenue	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of services	73.6	74.8	74.7	75.4
Selling, general and administrative	16.9	16.2	15.7	15.8
Depreciation and amortization	1.7	1.7	1.7	1.7
Total operating costs and expenses	92.1	92.8	92.1	92.8
Operating income	7.9	7.2	7.9	7.2
Interest expense	(0.2)	0.0	(0.2)	0.0
Interest income	0.2	0.3	0.3	0.4
Gain on sale of Mantas, Inc.				0.4
Income before taxes	7.9	7.5	8.0	8.0
Provision for income taxes	3.1	2.8	3.1	3.1
Net income	4.8%	4.7%	4.9%	5.0%

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

THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO THREE MONTHS ENDED MARCH 31, 2007

Revenue

For the three months ended March 31, 2008, our revenue increased 18.4% to $376.0 million, from $317.6 million for the three months ended March 31, 2007. This increase was driven primarily by our August 2007 acquisition of Constella which accounted for approximately $45 million of revenue during the three months ended March 31, 2008.

Cost of Services

For the three months ended March 31, 2008, cost of services increased 16.4% to $276.7 million, from $237.7 million for the three months ended March 31, 2007. This increase in cost of services was due primarily to the volume of services provided under the acquired Constella contracts. As a percentage of revenue, cost of services decreased to 73.6% for the three months ended March 31, 2008 from 74.8% for the three months ended March 31, 2007 due primarily to an increase in our labor services mix relative to third-party materials.

Selling, General and Administrative Expenses

For the three months ended March 31, 2008, selling, general and administrative expenses increased 23.1% to $63.5 million, from $51.6 million for the three months ended March 31, 2007. As a percentage of revenue, selling, general and administrative expenses increased to 16.9% for the three months ended March 31, 2008, from 16.2% for the three months ended March 31, 2007. This increase as a percentage of revenue was primarily attributable to investments in marketing and sales and increased travel, infrastructure and legal compliance costs associated with our international operations.

Depreciation and Amortization

For the three months ended March 31, 2008, depreciation and amortization increased 12.6% to $6.2 million, from $5.5 million for the three months ended March 31, 2007. This increase was due to the amortization of identified intangible assets related to our acquisition of Constella. As a percentage of revenue, depreciation and amortization remained constant at 1.7% for both the three months ended March 31, 2008 and 2007.

Interest Expense

For the three months ended March 31, 2008, interest expense increased to $0.6 million, from $7,000 for the three months ended March 31, 2007. This increase was due to the interest incurred on borrowings under our credit facility.

Interest Income

For the three months ended March 31, 2008, interest income decreased to $0.9 million, from $1.2 million for the three months ended March 31, 2007. This decrease was due to a lower average cash balance in the three months ended March 31, 2008 compared to the three months ended March 31, 2007.

Income Taxes

For the three months ended March 31, 2008, our effective income tax rate increased to 39.5%, from 37.5% for the three months ended March 31, 2007. This increase was due primarily to a decreased proportion of interest income earned from tax-advantaged municipal bond investments and lower benefits from tax credits and refunds in the three months ended March 31, 2008. The estimated effective tax rate is based on current tax law and current income and expense projections. The effective tax rate may be affected by future acquisitions, by changes in interest income from tax-advantaged municipal bond investments, or by the receipt of certain tax credits or refunds.

NINE MONTHS ENDED MARCH 31, 2008 COMPARED TO NINE MONTHS ENDED MARCH 31, 2007

Revenue

For the nine months ended March 31, 2008, our revenue increased 19.0% to $1.1 billion, from $942.7 million for the nine months ended March 31, 2007. The increase in revenue was due primarily to our October

2006 acquisition of RABA and August 2007 acquisition of Constella which together accounted for approximately $148 million of additional revenue during the nine months ended March 31, 2008 compared to the nine months ended March 31, 2007.

Cost of Services

For the nine months ended March 31, 2008, cost of services increased 17.9% to $837.7 million, from $710.5 million for the nine months March 31, 2007. This increase in cost of services was due primarily to the increased volume of services attributable to the acquired RABA and Constella contracts. As a percentage of revenue, cost of services decreased to 74.7% in the nine months ended March 31, 2008, from 75.4% in the nine months ended March 31, 2007, as our labor services mix increased relative to third-party materials.

Selling, General and Administrative Expenses

For the nine months ended March 31, 2008, selling, general and administrative expenses increased 18.5% to $176.5 million, from $148.9 million for the nine months ended March 31, 2007. This increase in selling, general and administrative expenses was due primarily to our acquisitions of RABA and Constella. As a percentage of revenue, selling, general and administrative expenses decreased slightly to 15.7% for the nine months ended March 31, 2008, from 15.8% for the nine months ended March 31, 2007.

Depreciation and Amortization

For the nine months ended March 31, 2008, depreciation and amortization increased 20.8% to $18.8 million, from $15.6 million for the nine months ended March 31, 2007. This increase was due to the amortization of identified intangible assets related to our acquisitions of RABA and Constella. As a percentage of revenue, depreciation and amortization remained constant at 1.7% for both the nine months ended March 30, 2008 and 2007.

Interest Expense

For the nine months ended March 31, 2008, interest expense increased to $2.2 million, from $27,000 for the nine months ended March 31, 2007. This increase was due to the interest incurred on borrowings under our credit facility.

Interest Income

For the nine months ended March 31, 2008, interest income decreased to $3.4 million, from $4.5 million for the nine months ended March 31, 2007. This decrease was due to a general decline in interest rates and lower average cash balance in the nine months ended March 31, 2008 compared to the nine months ended March 31, 2007.

Income Taxes

For the nine months ended March 31, 2008, our effective income tax rate increased to 39.6%, from 38.3% for the nine months ended March 31, 2007. This increase was due primarily to a decreased proportion of interest income earned from tax-advantaged municipal bond investments during the nine months ended March 31, 2008.

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.

Net cash provided by operating activities was $41.6 million for the nine months ended March 31, 2008 compared to $74.2 million for the nine months ended March 31, 2007, or 0.8 and 1.6 times net income for the same periods. The lower cash provided by operating activities was due primarily to an increase in accounts receivable resulting from the implementation of a new accounting system in the United Kingdom and administrative delays in payment by one of our customers. Additionally, year-end incentive compensation payments were made during the nine months ended March 31, 2008, whereas in prior years such payments were made in June. This was partially offset by the timing of certain vendor payments in the nine months ended March 31, 2008 as compared to the nine months ended March 31, 2007.

We used $196.5 million in net cash for investing activities in the nine months ended March 31, 2008, compared to $99.1 million in the nine months ended March 31, 2007. The cash used for investing activities in the nine months ended March 31, 2008 was primarily the result of our acquisition of Constella in August 2007.

Net cash provided by financing activities was $79.4 million in the nine months ended March 31, 2008, compared to $15.2 million in the nine months ended March 31, 2007. The increase resulted primarily from the use of our credit facility to support the acquisition of Constella as well as greater stock option exercises. This was partially offset by cash used to repurchase shares of our common stock during the nine months ended March 31, 2008.

Credit Facility

On August 9, 2007, we entered into a $100 million five-year unsecured revolving credit facility. The credit facility terminates on August 9, 2012, at which time all outstanding borrowings under the facility become due. The credit facility has an accordion feature enabling us to request that the credit facility be increased up to an additional $100 million, subject to specified conditions and the discretion of the lenders. As of March 31, 2008, we had borrowings of $80 million outstanding under the credit facility.

Outstanding borrowings under the credit facility bear interest at a rate per annum equal to, at our election, (i) LIBOR plus an applicable margin ranging from 0.4% 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 Citibank 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 quarterly.

We may prepay borrowings under the credit facility at any time without penalty. 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.

Capital Requirements

We believe the capital resources available to us under the credit facility and cash from our operations are adequate to fund our normal operating liquidity and capital expenditure requirements for at least the next twelve months. We intend to borrow an additional $100 million primarily to fund the acquisition of Era Corporation.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of March 31, 2008 that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make. We did not include amounts already recorded on our balance sheet as liabilities at March 31, 2008.

		Payments due by period			
Contractual obligations:	**Total**	**Less than 1 Year**	**Years 2 and 3**	**Years 4 and 5**	**After 5 Years**
			(in thousands)		
Operating lease obligations, net	$ 190,942	$ 33,767	$ 56,860	$ 45,946	$ 54,369
Total contractual obligations	$ 190,942	$ 33,767	$ 56,860	$ 45,946	$ 54,369

In the normal course of our business, we enter into agreements with subcontractors and vendors to provide products and services that we consume in our operations or that are delivered to our customers. These products and services are not considered unconditional obligations until the products and services are actually delivered, at which time we record a liability for our obligation.

DESCRIPTION OF CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

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

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

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

Contract Cost Accounting

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

among others. As we acquire and integrate new companies, we try to manage our indirect costs by realizing opportunities for cost synergies and integrating the indirect support function of acquired companies into our own.

Accounting for Acquisitions and Asset Impairment

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

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

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

Foreign Currency Translation

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

DESCRIPTION OF STATEMENT OF OPERATIONS ITEMS

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

Revenue

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

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

Cost-plus-fee contracts. Cost-plus-fee contracts provide for reimbursement of allowable costs and the payment of a fee, which is our profit. Cost-plus-fixed-fee contracts specify the contract fee in dollars.

Cost-plus-award-fee contracts may provide for a base fee amount, plus an award fee that varies, within specified limits, based upon the client s assessment of our performance as compared to contractual targets for factors such as cost, quality, schedule, and performance.

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

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

Cost of Services

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

Selling, General and Administrative Expenses

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

Depreciation and Amortization

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

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

Backlog

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

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

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

Days Sales Outstanding

We calculate days sales outstanding, or DSO, by dividing the average of 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.

Organic Growth

We calculate organic growth by comparing our actual reported revenue in the current period, including revenue attributable to acquired companies, with adjusted revenue from the prior-year period. In arriving at prior-year revenue, we include the revenue of acquired companies for the prior-year periods comparable to the current-year periods for which the acquired companies are included in our actual reported revenue. The resulting growth rate is intended to represent our organic, or non-acquisitive, growth year-over-year, including comparable period growth attributable to acquired companies. For illustrative purposes, we compute our three and nine month organic growth rates of 2.4% and 3.5%, respectively, as follows:

	Three Months Ended March 31,		
	2008	**2007**	**% Increase**
Revenue, as reported	$ 376,002	$ 317,586	18.4%
Plus: Revenue from acquired companies for the comparable prior year period		49,604	
Organic Revenue	$ 376,002	$ 367,190	2.4%

	Nine Months Ended March 31,		
	2008	**2007**	**% Increase**
Revenue, as reported	$ 1,122,144	$ 942,665	19.0%
Plus: Revenue from acquired companies for the comparable prior year period		141,845	
Organic Revenue	$ 1,122,144	$ 1,084,510	3.5%

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides a new single authoritative definition of fair value and enhanced guidance for measuring the fair value of assets and liabilities. It requires additional disclosures regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The effective date for all nonrecurring fair value measurements of nonfinancial assets

and liabilities was delayed until fiscal years beginning after November 15, 2008. We are currently evaluating the effect, if any, that adoption of SFAS No. 157 will have 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. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effect, if any, that adoption of SFAS No. 159 will have on our financial statements.

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

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

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

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

The interest rates on our revolving credit facility are affected by changes in market interest rates. Borrowings under our revolving credit facility bear interest at either (i) LIBOR plus and applicable margin ranging from 0.4% 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 Citibank 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 year ended June 30, 2008 by approximately $0.2 million based on our outstanding debt at March 31, 2008.

We invest our excess cash in high credit quality investments, and therefore, we believe that concentrations of credit risk with respect to cash equivalents and investments are limited. Our investment policy requires that investments be in direct obligations of the U.S. government, certain U.S. government sponsored entities,

investments that are secured by direct or sponsored U.S. government obligations, or certain corporate or municipal debt obligations rated at least single-A or A-1/P-1, as applicable, by both Moody s Investor Service and Standard and Poor s. Our policy does not allow investment in any equity securities or the obligations of any entity under review for possible downgrade by a major rating service to a debt rating below single-A.

As of March 31, 2008 and June 30, 2007, the carrying value of financial instruments approximated fair value. These investments consist of corporate and municipal bonds with maturities of 4 months or less that are classified as held-to-maturity.

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

We are exposed to changes in foreign currency rates. Approximately 3% of our total revenue in both the three and nine months ended March 31, 2008 was derived from our international operations, primarily earned in the United Kingdom. At present, we do not utilize any derivative instruments to manage risk associated with currency exchange rate fluctuations. The functional currency of certain foreign operations is the local currency. Our practice in our international operations is to negotiate contracts in the same currency in which the predominant expenses will be incurred, thereby mitigating the exposure to foreign currency exchange fluctuations.

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

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, 2007, except as listed below. Item 1A of our fiscal year 2007 Form 10-K should be read in conjunction with the following updates.

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

Approximately 4% of our revenue for the nine months ended March 31, 2008 was derived from clinical research services. Contracts to provide clinical research services are subject to various risks, including:

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

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

Foreign currency exchange rate fluctuations may adversely affect our business.

The revenue and expenses of our foreign operations are generally denominated in local currencies, primarily the British pound, and then are translated into U.S. dollars for financial reporting purposes. For the nine months ended March 31, 2008, approximately 3% of our revenue was denominated in British pounds and less than 1% of our revenue was denominated in other foreign currencies. Changes in the exchange rates between foreign currencies and the U.S. dollar will affect the translation of foreign results into U.S. dollars for purposes of

reporting our consolidated results. Due to the variability of currency exposure and the potential volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations on future sales and operating results.

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

We maintain a $100 million five-year unsecured revolving credit facility. At March 31, 2008, we had $80 million outstanding under this facility. The credit agreement has an accordion feature enabling us to request an increase in the facility up to an additional $100 million, subject to specified conditions and the discretion of the lenders. The credit facility terminates on August 9, 2012. 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 specified financial ratios. Our ability to satisfy these financial ratios can be affected by events beyond our control, and we cannot assure you that we will meet these ratios. If we do not comply with the various covenants under the credit facility, the lenders may, subject to various customary cure rights, require immediate payment of all amounts outstanding under the facility.

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

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

The failure to win the recompetition of our largest contract could have a material adverse effect on our revenue and operating results.

Our Advanced Information Technology Services contract with the National Guard, which accounted for approximately 6% of our revenue in fiscal year 2007, ends June 30, 2008. The competition for the follow-on contract is currently in process. The government contracting office issued a revised request for proposal in March 2008 and we submitted revised technical and cost proposals during April 2008. Failure to successfully win this recompetition could have a material adverse effect on our future revenue and operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 2, 2007, our Board of Directors authorized a share repurchase program to buy back up to $40 million of our class A common stock. The following table summarizes the repurchases of class A common stock during the three-month period ended March 31, 2008. All shares repurchased under the share repurchase program were purchased in open market transactions.

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan or Program
01/01/2008	01/31/2008	1,578(a)	$ 26.82		$ 40,000,000(c)
02/01/2008	02/29/2008	240(a)	24.71		40,000,000(c)
03/01/2008	03/31/2008	754,364(b)	22.91	754,344	22,720,495(c)
Total		756,182		754,344	

(a) Represents shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock awards.

(b) Includes 20 shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock awards. The remaining shares were purchased under the share repurchase program.

(c) Under the $40 million share repurchase authorization.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
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

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 6th day of May, 2008.

SRA INTERNATIONAL, INC.

By: /s/ STANTON D. SLOANE
Stanton D. Sloane
President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ STEPHEN C. HUGHES
Stephen C. Hughes
Chief Financial Officer and

Executive Vice President, Operations

(Principal Financial and Accounting Officer)