

Delivering **Value**

About NCI, Inc.

NCI is a leading provider of information technology (IT), engineering, and professional services and solutions to U.S. Federal Government agencies. As an ISO 9001:2000-certified company, NCI's award-winning expertise encompasses areas critical to its customers' mission objectives, including enterprise systems management; network engineering; information assurance and cybersecurity; systems engineering and integration; program management, acquisition, and lifecycle support; engineering and logistics; medical transformation/health IT; and distance learning and training solutions. The company is a member of the Russell 2000 index. Headquartered in Reston, VA, NCI has approximately 2,500 employees and nearly 100 locations worldwide.

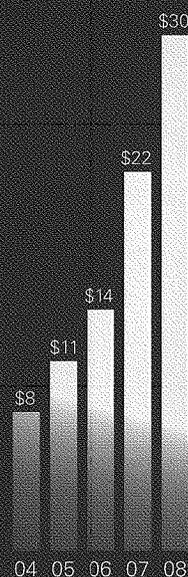
Revenue

(in millions)



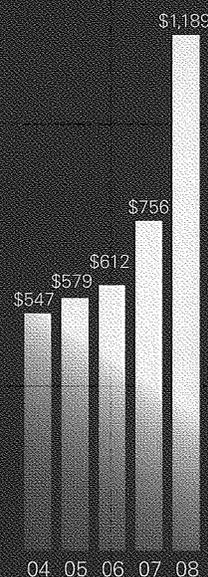
Operating Income

(in millions)



Total Backlog

(in millions)



Financial Highlights

(dollars in thousands, except EPS)

	2004	2005	2006	2007	2008
Operating Results					
Revenue	\$171,253	\$191,319	\$218,340	\$304,420	\$ 390,596
Operating income	7,751	11,229	14,024	22,333	30,384
Net income	6,128	12,315	9,259	12,571	17,040
Pro forma net income*	3,809	6,045			
Basic EPS	0.90	1.53	0.69	0.94	1.28
Diluted EPS	0.82	1.41	0.69	0.93	1.25
Pro forma basic EPS*	0.56	0.75			
Pro forma diluted EPS*	0.53	0.71			
Balance Sheet Summary					
Cash and cash equivalents	40	12,323	13,930	109	1,267
Net working capital	4,653	35,602	46,320	38,563	41,146
Total assets	64,170	90,021	106,799	178,746	200,333
Total debt, including current portion	24,503	480	381	43,318	40,222
Total stockholders' equity	16,043	57,171	66,586	80,241	98,859
Total Backlog	547,000	579,000	612,000	756,000	1,189,000

* Pro forma for C corporation tax rates, as shown on the Consolidated Statements of Operations

Five Core Strengths

Enable Us to Deliver Value

We Possess Deep Understanding of Our Customers' Missions

Since our founding, we have provided mission-critical services and solutions to our customers, enabling us to develop an in-depth understanding of their missions and technical needs. NCI's capabilities are centered on overcoming our customers' challenges to help them meet their critical mission and objectives. We believe our strong relationships result from our in-depth understanding of customer missions, the strength of our technical solutions, and the co-location of a majority of our employees with our customers. Approximately three-quarters of our employees are located at customer sites, giving us valuable strategic insights into customers' ongoing and future program requirements.

We Hold Key Prime Contract Vehicles

As a result of our business development focus on securing key contracts, we are a prime contractor on 16 multi-year Government Wide Acquisition Contracts (GWACs), agency-specific Indefinite Delivery/Indefinite Quantity (IDIQ) contracts, and other Multiple-Award Contracts (MACs) that provide us the opportunity to bid on hundreds of millions of dollars of business against a discrete number of other pre-qualified companies each year. These contracts include the newly awarded GSA Alliant contract with a ceiling of \$50 billion over 10 years, among others. We believe that holding prime positions on these contract vehicles provides us an advantage as we seek to expand the level of services we provide to our customers. We aggressively pursue task orders under these vehicles to maximize our revenue and strengthen our customer relationships.

We Provide High-End IT Services and Solutions

We have expanded our market presence through strategic acquisitions and the growing credentials of our highly qualified management team and staff providing a rich suite of services. Our services include high-end IT capabilities, engineering services, and professional services. We leverage our service offerings across eight core competencies: enterprise systems management; network engineering; information assurance and cybersecurity; systems engineering and integration; program management, acquisition, and lifecycle support; engineering and logistics; medical transformation/health IT; and distance learning and training. Through our comprehensive offerings, we are a full lifecycle capabilities company. We provide full lifecycle IT specialties, complemented by our professional services. We have the agility, position, and determination to focus on expanding market segments within the Federal IT and professional services markets. We have extended our core capabilities in line with key market drivers and are investing in a robust set of business solutions and offerings.

We Demonstrate a Proven Ability to Win Business

We have strong, long-term relationships with our customers, as evidenced by our record of winning and retaining business. During 2008, we were awarded task orders and single-award contracts with a total value in excess of \$610 million. Our success in winning business is based, in part, on our ability to anticipate customers' emerging requirements, which enables us to develop stronger technical proposals. As a result, we are often awarded contracts based on the overall value of our solution rather than its cost. With current budgetary constraints, however, cost is becoming more of a factor in some procurements, and our cost structure allows us to be very cost competitive when necessary.

We Drive Value Through Our Highly Skilled Employees and Management Team

Federal Government agencies are seeking more innovative solutions and technology services in response to increasing pressure to operate more effectively and efficiently. We are able to leverage experience across customer bases to develop cost-effective and efficient technology solutions. We have made significant investments in our management, employees, and infrastructure in support of our growth and profitability strategies. We deliver our services through a highly skilled workforce of approximately 2,500 employees as of December 31, 2008, of which 70% possess at least one Federal Government security clearance, and approximately 29% possess clearance levels of Top Secret or higher. Our senior managers average more than 25 years of experience with Federal Government agencies, the U.S. military, and Federal Government contractors. Members of our management team have experience growing businesses organically, as well as through acquisitions.

Message from **the Chairman and the President**

We are pleased to report that 2008 was another great year for NCI as we continue our drive to build a premier IT and professional services company focused on quality, integrity, and total customer satisfaction. A fundamental tenet of our business strategy is to create and sustain value to customers by providing superior services in fulfilling contractual obligations. We deliver value through our employees, who identify with and are focused on their customers' missions and requirements. The result of these actions directly benefits our stockholders, as indicated by the following achievements:

- Delivered excellent financial performance
- Enhanced the quality of our business base
- Acquired the PEO Soldier business
- Won significant new awards
- Added important new customers
- Expanded our service offerings
- Strengthened our leadership team and professional staff
- Positioned NCI for future growth.

Our 2008 performance strengthened our reputation with customers and employees and supported increased confidence by stockholders in our business plans and in executing our

strategy. While many public companies suffered through the worst stock market performance in more than 60 years, NCI had an outstanding year—as reported in *USA Today* (January 2, 2009), NCI was listed as fifth among NASDAQ's "Best in 2008" with a 70% market price gain.

We believe our success is a direct result of our unwavering commitment to total customer satisfaction and delivering on our promises. Our top priority remains building relationships based on trust, integrity, and performance. Further, we have the business model, leadership experience, and resources to drive us toward even better results in 2009 and beyond. Our business strategy is straightforward:

1. Become a premier Federal Government IT and professional services prime contractor
2. Deliver sustained 10% to 15% annual organic growth
3. Improve margins and profitability by leveraging infrastructure investments
4. Complement organic growth with strategic/accretive acquisitions.

Delivered excellent financial performance.

In 2008, NCI achieved record revenue of \$391 million, up 28% over 2007

with an organic growth of 10.5%. Operating income rose even more impressively to \$30.4 million, 36% better than 2007. Operating margin improved 50 basis points to 7.8% as we continued to leverage indirect costs over our expanded business base. EPS grew 34% to a record \$1.25 per share.

Enhanced the quality of our business base.

We are pleased with the overall quality of our business engagements, especially as it supports our business strategy to build a performance platform designed to deliver sustained organic growth to fuel our drive to a billion-dollar entity. The quality of our business platform is enhanced as we strategically target the right opportunities and key market areas that will promote achievement of our longer-term objectives.

The strength of our performance platform is exemplified in our record backlog, new customer additions, our positioning in emerging key technical areas, the expansion of our professional and technical staff, and in our outstanding portfolio of prime Government Wide Acquisition Contract (GWAC) vehicles. We believe in the long run these focus areas will provide the platform to achieve our growth objectives.

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“We believe our success is a direct result of our unwavering commitment to total customer satisfaction and delivering on our promises. Our top priority remains building relationships based on trust, integrity, and performance.”

Charles K. Narang



Acquired the PEO Soldier Contract.

In March 2008, we acquired the Program Executive Office (PEO) Soldier contract from MTC Technologies. The PEO Soldier contract is a \$238.5 million single-award, IDIQ contract with a ceiling value of \$382 million. The period of performance on the contract extends through April 30, 2012, with an additional option that could extend the program through April 30, 2015.

The PEO Soldier contract added a new and important customer and expanded our service offerings to include: lifecycle logistics support, acquisition management, and professional engineering capabilities. All aspects of this acquisition went as planned. Importantly, the customer was very pleased with the way in which we transitioned the employees to NCI, ensuring that all contract performance was completed without impact to the customers' mission. From a financial perspective, the revenue and profit earned in 2008 exceeded the targets at the time of the acquisition and provide a solid foundation for revenue expansion in 2009 and beyond. We are thrilled with the acquisition and the value it brings to our business portfolio.

While our preference is to grow organically, we continue to look for acquisition opportunities to diversify our customer base and help augment our organic growth. We have a disciplined review and acceptance process for acquisitions that is driven by an experienced senior leadership team and a seasoned board of directors. We look for quality companies that will provide NCI with opportunities for expansion into new markets with new or complementary capabilities and service offerings. As we evaluate potential acquisition targets, our strategy will focus on targets that are accretive, have a culture similar to NCI's, and offer growth potential consistent with our long-term objectives.

Won significant new awards.

The lifeblood of companies in our sector is the ability to target and win new business. In 2008, NCI won record new business awards of \$610 million and generated a book-to-bill ratio of 1.6 times. This ratio provides evidence of our strong business posture as we enter 2009. Our revenue backlog rose to a record \$1.2 billion with a funded backlog of \$234 million—approximately 52% of our 2009 revenue projection.

Central to our business strategy has been our focus on winning important GWACs and agency-specific Indefinite Delivery/Indefinite Quantity (IDIQ) vehicles. These GWACs provide access to customers, open new markets, and provide us opportunity to win business as a prime contractor. Before our IPO in 2005, we had only a few of these contract vehicles. Over the last four years, we have captured more of these contracts; with them we have been able to accelerate our growth, as evidenced by the following business results:

- In 2003, when we had no GWAC vehicles, our revenue was \$136 million, and 55% of our revenue was derived as a prime contractor.
- In 2008, we had 16 prime GWAC contract vehicles with a combined ceiling value of approximately \$86 billion; \$610 million of new business awards; \$391 million of revenue, of which 83% was as the prime contractor.

The bottom line is that our GWAC and agency-specific IDIQ contract vehicles have fueled our growth and have played a major role in our compounded average revenue growth rate of 23% since 2003.



"We continue to build a solid platform for growth and deliver value to our stockholders, customers, and employees. With our exceptionally strong and focused leadership team, we are committed, energized, and positioned to take us to the next level. The best is still yet to come."

Terry W. Glasgow

Winning GWAC vehicles is an important step in our growth, but the return is generated as we win task orders under these vehicles. A proof point in our ability to compete and win task orders is clearly demonstrated on our Army ITES-2S contract where we continue to outpace most of the competition. At the end 2008, NCI ranked in the top four winners of work under the vehicle (among a competitive field of 16 of the largest and best-known defense companies in the world).

Examples of some our 2008 awards include the \$173.4 million Army National Guard Bureau and Air National Guard ITES-2S task order; the TEIS Information Assurance Base Realignment and Closure task order with a total potential value of approximately \$90 million; and the \$94 million ITES-2S task order for the Army Corps of Engineers, Gulf Region District (GRD).

Added important new customers.

We are exceptionally pleased to have substantially increased our customer base in 2008. As mentioned, the PEO Soldier contract added a very important customer—PEO Soldier. Also during 2008, we added other new customers, including the U.S. Marine Corps, U.S. Army Corps of Engineers; U.S. Army 4th Infantry Division at Ft. Carson, CO;

U.S. Army Materiel Command at Ft. Belvoir, VA; and the U.S. Army Network Enterprise Technology Command at Ft. Huachuca, AZ.

Expanded our service offerings.

In 2008, we continued to broaden and expand our service offerings to our customers. NCI has built a strong reputation for its outstanding capabilities in traditional IT services: network engineering, information assurance, enterprise systems management, and systems engineering and integration. One area in particular where we have sharpened our focus is in cybersecurity and information assurance. Information assurance has been one of our corporate differentiating capabilities for a number of years. As has been reported widely, the United States is experiencing a significant increase in cybersecurity attacks. To address these threats and protect our customers and their IT assets, we have invested in critical industry-leading subject-matter experts. Page 9 of this annual report provides further insight into our cybersecurity and information assurance offerings.

In 2008, we also expanded our suite of professional services offerings, including program management, acquisition, and lifecycle support; engineering and logistics; medical

transformation and health IT; and distance learning and training. Our business strategy is to continue to expand these services to help customers meet their full lifecycle mission requirements. The case studies shown on the following pages further illustrate the value of our combined service offerings to our customers.

Strengthened our leadership team and professional staff.

With our new awards, expanded service offerings, and addition of new customers, we also accomplished another aspect of our business strategy—we substantially increased our contract workforce by adding more than 500 high-end technical and management personnel. Providing high-end services helps to create enduring value-added relationships with our customers. It also supports our margin expansion strategy, builds NCI's market reputation, and reinforces our core service offerings. At the end of 2008, we had more than 2,500 total employees or a 27% increase for the year. Our ability to attract key professional staff and execute seamless transitions of new contract awards continues to be a distinguishing NCI attribute.

Equally important is the quality of our aggressive, experienced, and highly respected leadership team. We are very pleased with our program managers, who are trusted and valued by our customers. They continue to execute their responsibilities in an exceptional manner. During 2008, we invested in additional key leaders with extensive mission and technical expertise, including critical technology subject-matter experts. We are confident that our senior leadership team has the experience, ability, and motivation to aggressively prosecute our business strategy and take us to the next level of our corporate growth objectives.

Positioned NCI for future growth.

NCI's 2005 IPO growth plan targeted achieving \$500 million revenue by 2010. That target is within our sights, and we reaffirm our strategy. We will continue to build value to our stockholders by delivering on our growth strategies and will selectively seek acquisitions to position us for equal or greater long-term growth. Our focus remains solely on the Federal Government market. The markets we operate in are large, dynamic, and rewarding and provide us with substantial opportunity for growth and expansion. We will continue our

strategy of progressive engagement customer expansion, which will generate additional new business and help attract employees, partners, and customers to NCI.

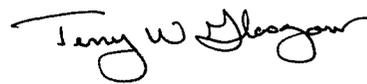
In 2009, we will see changing, but nevertheless favorable market conditions. The change in the administration, while possessing some unknowns, does not in our opinion represent a substantial risk. The new administration is clearly implementing changes and redirecting spending, but we believe the impact of these changes will not take effect until 2010 or later. Even with those changes, we believe our market positioning is favorable for continued growth. Major areas that will be priorities for this administration include: cybersecurity and information assurance, the War on Terrorism, healthcare, intelligence, citizen-centric, and Green IT services in the civilian market area, as well as IT to support President Obama's initiatives to transform Government.

In closing, NCI's hallmark has been to establish enduring relationships with customers, employees, partners, and stockholders. We continue to stress this approach as a tenet of our overall strategic growth strategy. We have the key elements of our strategy in

place as we head into 2009, and we look forward to another prosperous year. We continue to build a solid platform for growth and deliver value to our stockholders, customers, and employees. With our exceptionally strong and focused leadership team, we are committed, energized, and positioned to take us to the next level. The best is still yet to come.



Charles K. Narang
Chairman and Chief Executive Officer



Terry W. Glasgow
President

Capabilities

NCI's capabilities are centered on overcoming our customers' challenges to help them meet their critical mission and objectives. As our comprehensive offerings will demonstrate, we are a full lifecycle capabilities company. We provide full lifecycle IT specialties, complemented by our professional services. Our company capabilities have grown in response to market drivers, which reflect our dedication to meeting our customers' needs.



Business Solutions and Offerings

We believe our success is a direct result of our unwavering commitment and total customer satisfaction and our deeply embedded culture focusing on our customers' missions and delivering on operational objectives. Our strong 2008 performance, with significant year-end successes, established a strong organic growth foundation to build on for 2009. With the additional array of professional services, we have the agility, position, and determination to focus on expanding market segments within the Federal IT and professional services markets. We are extending our core capabilities in line with key market drivers and investing in a robust set of business solutions and offerings, including: IT consolidation/modernization; geospatial search and visualization; information operations/warfare; information assurance and cybersecurity; program management, acquisition, and lifecycle support; sustainment engineering and obsolescence management; medical transformation/health IT; and full-spectrum training.



CASE STUDY: U.S. Department of Housing and Urban Development's (HUD's) Office of the Inspector General (OIG) Distributed Computing Environment (DCE)

"Working collaboratively to support OIG's mission to promote integrity, efficiency, and effectiveness of HUD programs"

NCI's team of technical experts provides a wide array of infrastructure operations, end-user support, security, and network and systems management to OIG. Working in close partnership with the OIG's Information Systems Division, we are at the forefront of key mission-oriented initiatives, including information assurance, technology refresh, wireless infrastructure migration, server facility relocation and modernization, and the Case Management Information System (CMIS).

NCI's dedicated professionals have achieved significant successes, including an enterprise-level, technical refresh at 14 locations nationwide complete with new encryption and backup capabilities, as well as end-user training. We flawlessly executed the relocation of the entire central server facility (150+ servers) to an alternate site with absolutely no downtime, ensuring cost-effective, mission-oriented support to operations. NCI is actively engaged in the architecture, development environment, and prototyping of the CMIS—the lead application in the OIG Solution Set.

Enterprise Systems Management

We design, install, and manage complex, mission-critical enterprise systems for our customers, increasing the reliability, security, and efficiency of their IT operations while meeting stringent mission requirements. As part of our overall network operation and management services, we continually analyze and monitor enterprise system components and create systems that can adapt to rapidly changing needs. We employ a knowledge-centric service delivery assurance methodology designed to keep customer mission-critical systems

at peak performance. This methodology utilizes network and traffic simulations to identify potential changes in performance or possible security issues within a particular network, allowing our engineers to protect customers' systems and data. Our network engineers are trained and certified in the leading commercial enterprise tools and combine that knowledge with our techniques, experience, and processes to deliver solutions to our customers. Our enterprise systems management services include the following:

Infrastructure and Enterprise Systems Management

Infrastructure Operations and Management

Outsourcing and Managed Services

Infrastructure Consolidation and Modernization

Application and Network Management

Application and Business System Performance Measures

Network Design, Implementation, and Migration

Network Monitoring and Performance Evaluation

Network Engineering

We offer a full lifecycle of network engineering services to customers from initial requirements analysis and network design through solutions implementation and testing, including designing disaster recovery contingency plans. Our network engineering capabilities include architecture development, design, implementation, configuration, and operation of Local Area Networks (LANs), Metropolitan

Area Networks (MANs), and Wide Area Networks (WANs). Our extensive experience providing the following network engineering services for Federal Government customers allows us to rapidly identify potential bottlenecks, security threats, and vulnerabilities, as well as address these potential issues with cost-effective solutions:

Architecture Development and Design

Disaster Response Planning and Recovery

Installation, Test, and Evaluation

Network Configuration

Network Security Evaluation

Protocol and Topology Selection

Reliability and Contingency Assessment

Requirements Analysis

Routing Design

Vulnerability Assessment

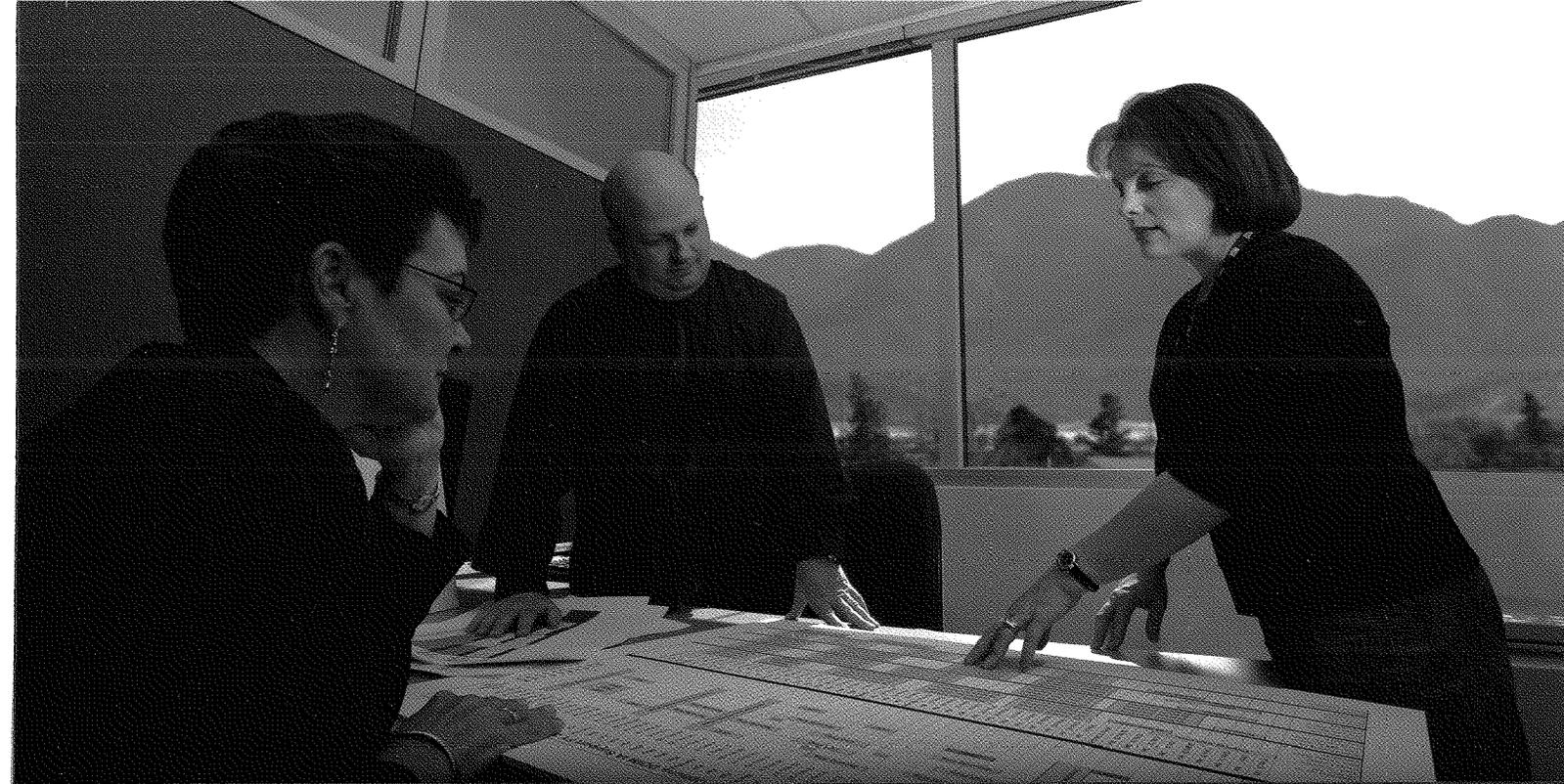
CASE STUDY: Army National Guard (ARNG) and Air National Guard (ANG) National Capital Region (NCR) IT Support

"Partnering with the National Guard to provide critical mission support to vital first-responder and Warfighter responsibilities"

In 2008, ARNG and ANG awarded NCI a task order worth an estimated \$173 million under the ITES-2S contract. NCI has maintained a trusted partnership with National Guard since 1992, and this task order allows us to continue our legacy of supporting both ARNG and ANG and serving their critical missions until 2015. NCI provides comprehensive network engineering and design, customer support, and computer center support for HQ NGB, HQ ARNG, and Joint Staff.

We support more than 5,000 users in five major operational locations in the NCR, including LANs and MANs in both classified and unclassified environments. We provide a wide array of technical services under this contract, including: data communication; voice communication; security management; email, Web services, Active Directory, and other back office support; server and desktop support; video and audio conferencing engineering support; and other IT services. NCI designed, implemented, and maintains the ARNG COOP site.





CASE STUDY: Base Realignment and Closure (BRAC) Information Assurance (IA)

“Delivering full-service information assurance, security engineering, certification, and accreditation support worldwide to support the Warfighter”

In October 2008, the U.S. Army Information Systems Engineering Command (USAISEC), Information Assurance and Security Engineering Directorate (IASSED) located at Fort Huachuca, AZ, awarded NCI a \$90.5 million IDIQ task order under the TEIS contract. NCI provides security engineering support to Department of Defense (DoD) organizations and non-DoD Federal agencies that are relocating, upgrading, or renovating as the Federal Government modernizes and streamlines IT operations.

NCI’s technical cybersecurity experts design, configure, and deploy secure IT systems and network solutions based on security engineering assessments of customer needs and mission objectives. We provide security engineering support, as well as certification preparation and security certification testing to U.S. Army Directorates of Information Management (DOIMs). NCI conducts site security surveys; develops initial security design plans; assists customer with preparing DoD Information Assurance Certification Accreditation Process (DIACAP) documents and artifacts; conducts risk assessments; and recommends countermeasures. We provide security testing and evaluation support, including vulnerability and risk assessments, security test and evaluation plans, DIACAP scorecards, and other validation documentation.

Information Assurance and Cybersecurity

We offer information assurance (IA) and cybersecurity solutions to secure enterprise systems and networks with particular expertise in protecting IT infrastructures for our customers who operate in classified environments. We design, configure, and deploy security architectures based on assessments of our customers’ current and future IT needs, mission objectives, and regulatory requirements, in addition to specific threats from unauthorized users. In connection with implementing tailored architectures, we help define and implement IA policies, procedures, and

guidelines to ensure effective future IT planning. Our highly skilled and accredited employees research and implement security policies, provide technical support, and develop comprehensive security assessment plans. We also identify potential threats and vulnerabilities and design and implement corrective action plans that employ advanced technologies, such as encryption, digital signatures, and firewalls, using both commercial-off-the-shelf (COTS) and custom security and software solutions. Our information assurance and cybersecurity services include the following:

Intrusion Detection System/Intrusion Prevention Development

Certification and Accreditation

Policy and Procedures Development

Products Evaluation and Integration

Public Key Infrastructure (PKI) Implementation

Risk and Threat Assessment

Security Awareness and Training

Security Test and Evaluation



CASE STUDY: Advanced Analytics

"Applying innovative, leading-edge technologies to the mission-oriented challenges of our national security customers"

With a focus on delivering innovative technologies to the complex challenges of our customers, NCI has emerged as a leader in mission-oriented, intelligence-to-operations initiatives. We have significantly improved the intelligence-to-operations lifecycle for key intelligence community customers by leveraging IT innovation and emerging technologies. NCI's technical experts in ontology research, visualization, data modeling, and computational linguistics provide enterprise capabilities to satisfy mission and customer needs. NCI directly supports rapid and relevant discovery, anticipatory intelligence, focused analysis, and persistent surveillance across multiple intelligence security domains and disciplines.

NCI is at the forefront of analytics transformation and modernization. Our work within the intelligence community in information sharing and knowledge management, advanced graph analytics and enrichment services, and high-performance and grid computing resolves the most-complex, high-volume analysis problems our nation faces. We are actively developing "game-changing" technologies to deliver relevant information in near real-time, enabling rapid response to dynamic, counter-terrorism mission needs.

Systems Engineering and Integration

We provide a full range of systems engineering and integration services to our customers. Initially, we leverage our business process reengineering skills to analyze the activities, roles, and objectives of a proposed IT system or solution. Based on this analysis, we integrate advanced technologies with our customers' legacy systems to improve their operational efficiency and increase our customers' returns on IT investments. Our systems engineering and integration services include:

- Database Design**
- Enterprise Portal Implementation**
- Integration, Test, and Evaluation**
- Legacy System Integration**
- Project Planning and Management**
- Requirements Definition**
- Software/Systems Development**
- Data Warehousing/Mining**
- Advanced Graph Analytics**
- Information Sharing and Knowledge Management**
- High Performance and Grid Computing**

Program Management, Acquisition, and Lifecycle Support

NCI provides a full range of program management, acquisition, and lifecycle support services to our customers. As an integral part of our professional services portfolio, we are at the forefront of integrating acquisition, logistics, engineering, and technology disciplines into a comprehensive lifecycle management approach. Our approach strives

to continually improve the process of developing, procuring, and sustaining our customers' systems to achieve their overarching goals of transformation, consolidation, and efficiency. We combine deep functional and technical expertise to deliver full lifecycle support capabilities, including:

- Acquisition Management and Logistics***
- Program and Portfolio Management***
- Test and Evaluation***
- Systems Engineering and Technical Support***
- Studies and Capabilities Analysis***
- Financial Management***
- Security Management***
- Training***
- Risk Management***

CASE STUDY: Product Manager Soldier Survivability (PM SSV)

"Developing and fielding high-tech equipment for enhanced force protection for our Soldiers"

NCI has been providing acquisition, quality assurance, administrative, and technical support to PM SSV since its inception. PM SSV develops and fields high-tech equipment to provide enhanced force protection, and produces state-of-the-art armor protection to defeat ballistic, fragmentation, blast, and flame threats in the theater of war. NCI supports and operates PM SSV's new state-of-the-art non-destructive test and evaluation (NDTE) equipment to assess armor protective equipment integrity.

NCI provides on-site logistics and operational support to CONUS and OCONUS locations to determine quality and operational status of individual protective equipment in Soldiers' hands. We assist in inserting new technology directly into field locations to improve critical equipment and provide equipment management and support for NDTE for individual protective equipment. Skilled trained teams operate the NDTE system in production mode to determine Soldier equipment status and identify equipment that requires replacement. Results contribute to the knowledge base for PM SSV in handling their equipment and the protection afforded to Soldiers.



Engineering and Logistics

We offer a wide array of professional engineering, logistics, and supportability services. We employ experienced, multi-disciplinary engineering and logistics teams to solve some of our customers' most challenging fielded systems problems. By tailoring our engineering and logistics specialties for our customers, NCI reduces customer costs while increasing fielded-system capabilities and improving mission readiness. We offer rapid-prototyping and simulation-based designs to efficiently mitigate obsolescence issues with improved performance. We seamlessly deliver supply chain management (SCM) support and information integration

through statistical demand forecasting, inventory optimization, and comprehensive data-mining capabilities. Our predictive analysis and service-life extension capabilities ensure increased asset readiness and availability with reduced total cost of ownership (TCO). We are actively engaged in extending service life through creative engineering and logistics solutions, playing a vital role in supporting critical aging aircraft (F-4, C-5, T-38, and F-16) readiness and multiple Air Force Space and C3I (Command, Control, Communications, and Intelligence) platforms through Diminishing Manufacturing Sources and Material Shortages (DMSMS) and Operational

Safety, Suitability, and Effectiveness (OSS&E) capabilities. Our engineering and logistics capabilities include:

- Architecture Development and Design**
- Protocol and Topology Selection**
- Disaster Response Planning and Recovery**
- Reliability and Contingency Assessment**
- Installation, Test, and Evaluation**
- Requirements Analysis**
- Network Configuration**
- Routing Design**
- Network Security Evaluation**
- Vulnerability Assessment**

CASE STUDY: QF-4 OSS&E/Avionics

"Supporting F-4 modification and QF-4 drone regeneration efforts for pilot certification and weapon system qualifications"

The F/QF-4 System Program Office (SPO) at Ogden is responsible for the program management of the F-4 aircraft, and in coordinating with Eglin AFB, oversees and manages the QF-4 Full Scale Aerial Target (FSAT) system. NCI's QF-4 OSS&E contract supports the F/QF-4 SPM with various logistics functions. NCI provides expertise to the F-4 SPO in supply chain management, stock control and distribution, technical data research, engineering, program management, data analysis, weapon system modification, and technical data management.

NCI populates a configuration management database that supports the OSS&E certification for the F/QF-4 aircraft system and assists the SPM at Ogden with parts, technical, and engineering support for regenerating the F-4 aircraft from 309th Aerospace Maintenance and Regeneration Group and modifying the aircraft into full-scale drones. The aircraft are then used for pilot certification and weapon system training at Holloman AFB and Tyndall AFB. We provide supply, engineering, and technical support to the F/QF-4 customers in the field, as well as coordinating with and supporting the 691 ARSS Aerial Target program office at Eglin AFB.





CASE STUDY: Western Region Medical Center (WRMC) Informatics Project

“Providing wellness program support to deploying and returning Soldiers to identify health and wellness risks”

NCI has been supporting the Madigan Army Medical Center (MAMC) and the WRMC since 2006. We have provided a broad array of IT services, including network operations, information assurance, software development, and enterprise systems management to improve the quality and timeliness of healthcare services provided to deploying and returning Soldiers. Our support to these customers has placed NCI at the forefront of key transformational health initiatives.

Collaborating with key Personal Health Record (PHR) partners MiCare Portal, Microsoft HealthVault, and Google Health, NCI has applied innovative technologies to improve the timeliness of entry-intensive medical/patient forms and data capture. Our leading-edge support includes new frontiers of collaboration and telemedicine using “Virtual Worlds”—a social networking tool allowing for video and VoIP representing individuals through Avatars in a simulated 3D environment. These technologies provide a new paradigm for collaboration, training, and education—offering real-time, high-fidelity interactions among patients and practitioners. Additionally, our support to the Soldier Wellness Assessment Program (SWAP) applies innovative technologies, identifies health or wellness risks, and enables predictive analysis for potential health issues.

Medical Transformation/Health IT

By combining comprehensive medical business acumen with relevant IT, NCI has become well known in the medical logistics transformation field. We blend deep functional subject-matter expertise with diverse technical talent, including public health experts, health care administrators, network engineers, medical trainers, IT specialists, bioenvironmental engineers, aerospace physiologists, and physicians. Our capabilities and infrastructure support all aspects of medical transformation and health IT, including:

Strategic Planning/Consulting

Access-to-Care

***Data/System Consolidation,
Migration, and Modernization***

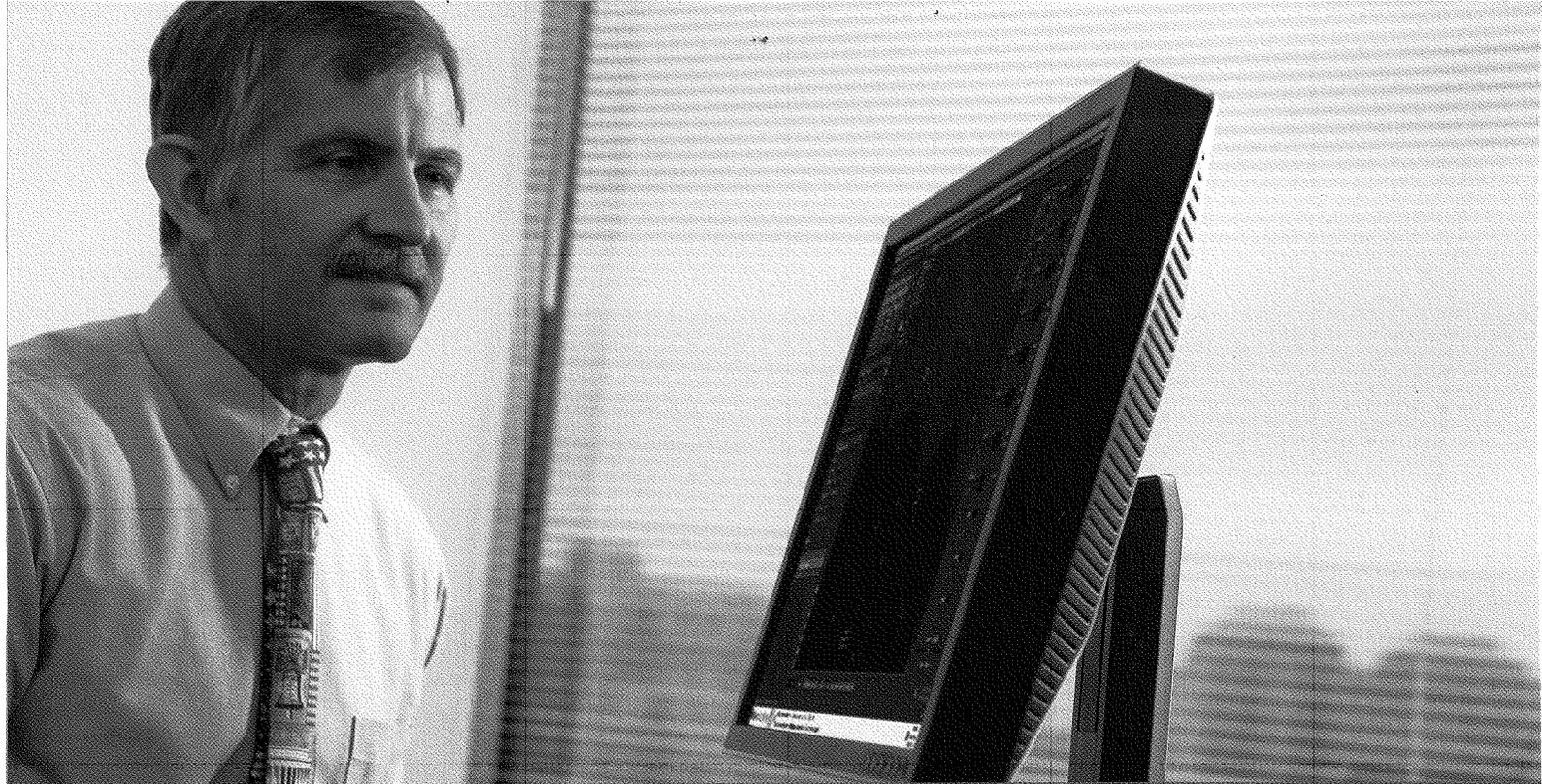
Doctrine/Policy Development

***Occupational, Environmental, and
Population Health Programs***

***Preparedness and
Contingency Planning***

***Aeromedical Evaluation and Combat
Casualty Care***

Medical Education and Training



CASE STUDY: Undergraduate Air Battle Manager Training System (UABMTS)

"Providing highly effective and realistic software for aerial command and control applications"

Providing complete on-site support for the 325th Air Control Squadron, Air Education and Training Command (AETC) at Tyndall AFB, NCI operates, tests, and sustains Distributed Mission Operations- (DMO-) compatible hardware and software systems that compose this complex, Live-Virtual-Constructive (LVC) simulation environment to provide training for aerial combat operations. Within NCI's Defense Security Office- (DSO-) certified secure facility, we have achieved an initial operational capability (IOC) of the Training Systems Support Center (TSSC) and are integrating a modern tactical display interface to provide highly effective and realistic software for aerial command and control applications.

We provide software development and systems integration for upgrading the command and control user interface to a modern, Tactical Display Framework- (TDF-) compliant presentation and modernize voice communications, mission record/replay, and scenario generator subsystems. NCI inserts technology to integrate future DMO network capabilities and to integrate/interface with other network assets, including Full Mission Trainers for F-15 and F-22 aircraft, live data from Aircraft ACMI Pods, radar from eastern and western air defense sectors, and simulated and Live Radio and Link-16 data links.

Distance Learning and Training

By efficiently tailoring comprehensive instructional science, NCI solves our customers' most complex challenges and delivers increased productivity while improving organizational agility. We offer a full range of learning capabilities to increase performance and identify the most cost-effective strategies to meet the unique training needs of our customers. Our solutions leverage our breadth of experience to support customers in transitioning from traditional

classroom courses to e-Learning initiatives. We have a highly talented team of instructional systems designers, graphic artists, and technical programmers for custom courseware development. Our solutions include a Web-based portal for on-demand customer access to project status, training storyboards, and development content, as well as a state-of-the-art Usability Lab for courseware testing and effectiveness. NCI's training services include:

Learning Strategy Consulting

Custom Courseware Development

Distributed Learning Systems

Distance Learning, Training, and Educational Products

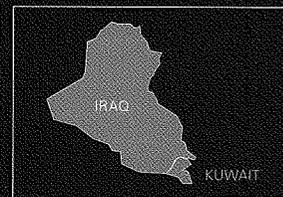
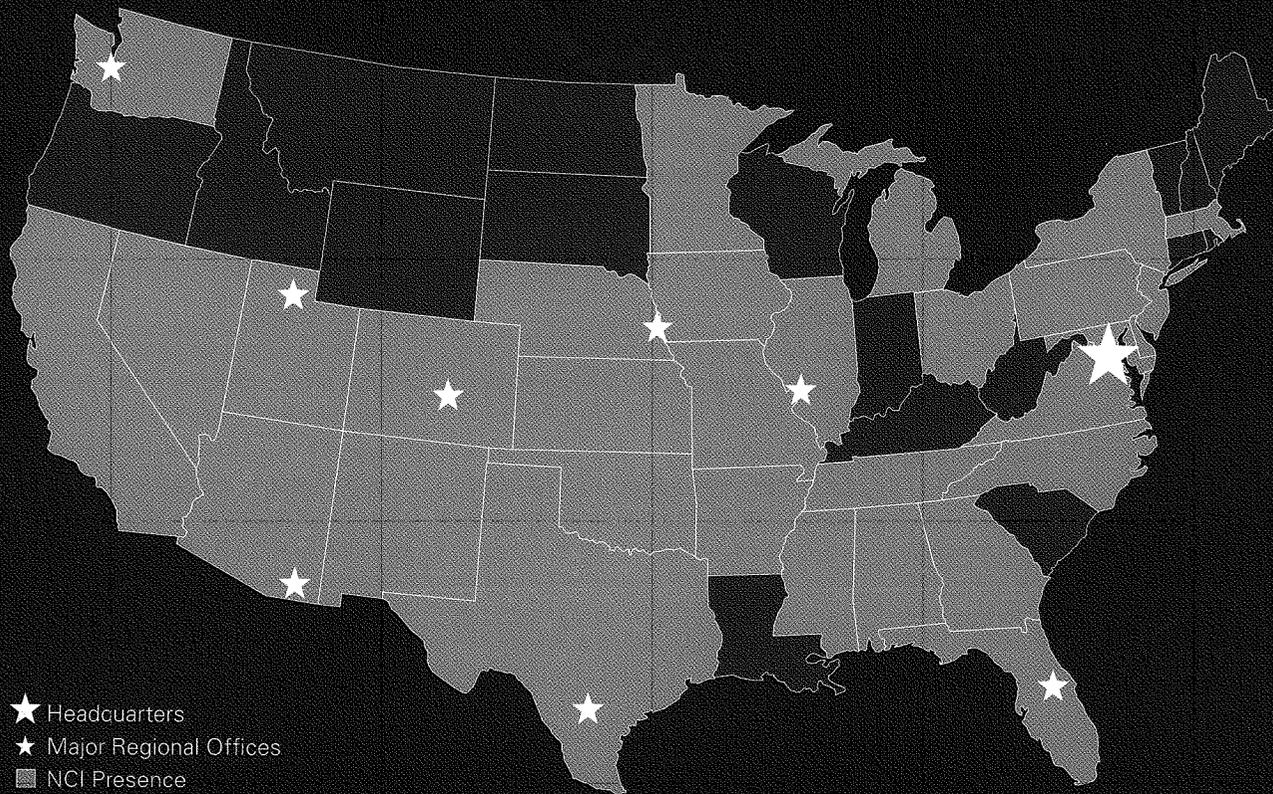
Learning Management Systems

Courseware Standards Compliance

Instructional Systems Design

Certified Information Security Training

On-Site Support and Implementation



NCI Locations

NCI's geographic presence continues to grow worldwide to more than 2,500 employees and nearly 100 locations. We have offices or locations in 32 states; extensive offices, resources, and employees in the Washington, DC, metropolitan area, as well as locations outside the continental United States (OCONUS). In the last year, we have added more than 500 employees. Our geographic presence provides further opportunities for long-term growth, as many of our locations are home to major Army, Air Force, and Intelligence customers. Headquartered in Reston, VA, NCI has nine major regional offices across the United States, as well as additional offices and contract sites.

NCI's Key Prime

GWAC/Agency-Specific IDIQ/MAC Contracts

GWAC contracts continue to be one of the greatest catalysts for growth in our industry. The continued popularity of GWAC contracts allows our customers an efficient and effective mechanism to keep pace with the rapid changes in the IT market. Today, NCI holds a prime position on 16 of the most popular GWAC contract vehicles in our industry with a combined ceiling value of more than \$86 billion. Highlighted below are some of our key GWAC contract vehicles:

ITES-2S

The Army's Information Technology Enterprise Solutions—2 Services (ITES-2S) contract is the procurement cornerstone for Army IT systems. The contract provides IT services and solutions to all military services, DoD agencies, and other Federal agencies. The total ceiling value for the contract is \$20 billion with a period of performance that expires in 2015.

ALLIANT

GSA's premier IT services contract includes a broad array of infrastructure, application, and IT management services. The contract provides integrated services and solutions with the ability to support regional and global IT requirements. This Multiple-Award Contract/Indefinite Delivery/Indefinite Quantity (MAC/IDIQ) is open for use by all Federal departments and agencies. The total ceiling value for the contract is \$50 billion with a period of performance that expires in 2018.

NETCENTS

The Air Force's Networking and Telephony Products and Services (NETCENTS) contract plays a key role in significantly enhancing the Air Force and the entire DoD's capability in the era of net-centric warfare and operations. The contract provides a wide array of engineering, IT, and network services to the Air Force, other DoD agencies, and Federal customers. The total ceiling value for the contract is \$9 billion with a period of performance that expires in 2009.

DESP II

The Air Force's Design and Engineering Support Program (DESP II) contract offers the Air Force community, the Army's Tank-Automotive and Armaments Command, the entire DoD, and other Government agencies rapid, high-quality engineering and technical services support. The total ceiling value for the contract is \$1.9 billion with a period of performance that expires in 2012.

TEIS

The Army's Total Engineering and Integration Services (TEIS) contract provides Army installations and operations worldwide with engineering, information assurance, and systems integration computer services. The total ceiling value for the contract is \$800 million with a period of performance that expires in 2010.

dLETP

The Army's Distributed Learning Education and Training Products (dLETP) contract provides educational training products and services to TRADOC, TRADOC Centers and Schools, and other Army agencies using the Instructional System Design/Systems Approach to Training. The total ceiling value for the contract is \$500 million with a period of performance that expires in 2010.

PEO SOLDIER

The Army's Program Executive Office (PEO) Soldier contract provides professional engineering services and support to manage the development, design, testing, configuration, acquisition, logistics, training, and fielding of equipment for fully integrated Soldier systems. The total ceiling value for the contract is \$382 million with a period of performance that expires in 2015.

OPM TMA

The Office of Personnel Management's Training and Management Assistance (TMA) contract provides Federal Government agencies and some state and local governments customized training/learning solutions to maximize individual, team, and enterprise performance. The total ceiling value for the contract is \$200 million with a period of performance that expires in 2012.

AFMSA IT MODERNIZATION

The Air Force Medical Support Agency (AFMSA) IT Modernization contract provides the Air Force Medical Service support for worldwide medical IT projects, systems implementations, modeling and creation of best practices, technology standards, engineering, operation, modernization, and maintenance. The total ceiling value for the contract is \$75 million with a period of performance that expires in 2011.

2008 **Form 10-K**

NCI, INC.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2008
OR

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

For the transition period from _____ to _____
Commission File No. 000-51579

NCI
NCI, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3211574
(I.R.S. Employer
Identification No.)

11730 Plaza America Drive
Reston, Virginia
(Address of principal executive offices)

20190-4764
(Zip Code)

Registrant's telephone number, including area code: (703) 707-6900

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which Registered</u>
Class A Common Stock, par value \$0.019 per share	Nasdaq Stock Market, LLC
Securities registered pursuant to Section 12(g) of the Act:	
None	

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

The aggregate market value of NCI, Inc. Class A common stock held by non-affiliates of the registrant as of June 30, 2008 was approximately \$173,878,688.

As of February 17, 2009, there were 8,207,026 shares outstanding of the registrant's Class A common stock. In addition, there are 5,200,000 shares outstanding of the registrant's Class B common stock, which are convertible on a one-for-one basis into Class A common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement to be filed with the Securities Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2009 Annual Meeting of Stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K. Such definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

NCI, INC.
FORM 10-K

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding our business, financial condition, results of operations, and prospects. There are statements made herein which may not address historical facts and, therefore, could be interpreted to be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements are based on assumptions and assessments made by the Company’s management in light of its experience and its perception of historical trends, current conditions, expected future developments, and other factors it believes to be appropriate. You can often identify these statements by the use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “should,” “will,” “would,” “expect,” “plan,” “seek,” “continue,” and other similar words or variations on such words.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-K. Subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so. Our actual results may differ materially from those discussed in or implied by any of the forward-looking statements as a result of various factors, including but not limited to those listed in “Risk Factors” and elsewhere in this Form 10-K and those listed in other documents we have filed with the Securities and Exchange Commission.

In this document, unless the context indicates otherwise, the terms “Company,” “NCI,” “we,” “us” and “our” refer to NCI, Inc., a Delaware corporation, and, where appropriate, its subsidiaries.

ITEM 1. BUSINESS

COMPANY OVERVIEW

We are a provider of information technology (IT), engineering, and professional services and solutions to Federal Government agencies. NCI’s capabilities are centered on overcoming our customers’ challenges to help them meet their critical mission and objectives. Through our comprehensive offerings, we are a full lifecycle capabilities company. We provide full lifecycle IT specialties, complemented by our professional services. We have the agility, position, and determination to focus on expanding market segments within the Federal IT and professional services markets. We are extending our core capabilities in line with key market drivers and investing in a robust set of business solutions and offerings. Our core capabilities include: enterprise systems management; network engineering; information assurance and cybersecurity; systems engineering and integration; program management, acquisition, and lifecycle support; engineering and logistics; medical transformation/health IT; and distance learning and training. We provide these services to defense, intelligence, and Federal civilian agencies. The majority of the Company’s revenue was derived from contracts with the Federal Government, directly as a prime contractor or as a subcontractor. We primarily conduct business throughout the United States.

We have strong, long-term relationships with our customers, as evidenced by our record of retaining business. For nearly 20 years, we have provided IT and professional services and solutions to the Federal Government, including customers such as the U.S. Army, U.S. Air Force, U.S. Transportation Command, North American Aerospace Defense Command/U.S. Northern Command (NORAD/USNORTHCOM), National Guard Bureau, Department of Transportation (DOT), Department of Energy (DOE), Department of Housing and Urban Development (HUD), National Aeronautics and Space Administration (NASA), and the intelligence community. We believe our strong relationships result from our in-depth understanding of customer missions, the strength of our technical solutions and the co-location of a majority of our employees with our customers.

We have made significant investments in our management, employees, and infrastructure in support of our growth and profitability strategies. Our senior managers average more than 25 years of experience with Federal Government agencies, the U.S. military and Federal Government contractors. Members of our management team have extensive experience growing businesses organically, as well as through acquisitions. We deliver our services through a highly skilled workforce of approximately 2,500 employees, of whom 70% possess at least one Federal Government security clearance.

Our 2008 revenue was \$391 million, a 28% increase over our 2007 revenue of \$304 million. Our organic growth rate for 2008 as compared to 2007 was 10%, which reflects our increase in revenue from year to year excluding the effect of acquisitions. Since 2003, our revenue, including the effects of our acquisitions, has grown from \$136 million during 2003 to \$391 million during 2008, representing a compound annual growth rate of 23%. Over the same period, our operating income has increased 346%, from \$6.8 million during 2003 to \$30.4 million during 2008. As of December 31, 2008, our total estimated contract backlog was \$1,189 million, of which approximately \$234 million was funded. We define backlog as our estimate of the remaining future revenue from existing signed contracts over the remaining base contract performance period and from the option periods of those contracts, assuming the exercise of all related options. We are focused on continuing to grow organically while improving margins, and intend to expand our capabilities through strategic acquisitions.

MARKET OPPORTUNITY

The Federal Government is among the largest consumers of IT services and solutions in the world. According to INPUT, an independent Federal Government market research firm, the overall market for IT systems and services by the Federal Government is expected to grow from \$81 billion during Federal fiscal year 2008 to \$98 billion during Federal fiscal year 2013. In addition, IT Department of Defense (DoD) budgets continue to grow in the areas related to IT, intelligence, surveillance, reconnaissance, and homeland security due to increased counter-terrorism activities and U.S. deployments overseas. According to INPUT, the DoD's spending on IT services and solutions is expected to increase from \$31 billion during Federal fiscal year 2008 to \$37 billion during Federal fiscal year 2013. Moreover, this data may not fully reflect government spending on classified intelligence programs, operational support services to our armed forces and complementary technical services, which include sophisticated systems engineering. Although spending on intelligence-related activities by the Federal Government remains classified, INPUT estimates total IT spending for U.S. intelligence agencies during Federal fiscal year 2008 at \$11 billion, growing to \$14 billion during Federal fiscal year 2013. We believe there will be significant market opportunities for providers of IT services and solutions to Federal Government agencies, particularly those in the defense and intelligence community, over the next several years because of the trends outlined below.

Focus on Federal Government Transformation

The Federal Government and the DoD in particular, are in the midst of a significant transformation that is driven by the Federal Government's need to flex to the changing economic factors, financial markets, and global threats. A significant aspect of this transformation is the use of IT to increase the Federal Government's effectiveness and efficiency. Government agencies are being asked to do more with less. The result is increased Federal Government spending on IT to upgrade networks and transform the Federal Government from separate, isolated organizations into larger, enterprise-level, network-centric organizations capable of sharing information broadly and quickly. While the transformation initiative is driven by the need to prepare for new world threats, adopting these IT transformation initiatives will also improve efficiency and reduce infrastructure costs across all Federal Government agencies. We believe IT spending in connection with the Federal Government's transformation initiative will continue to be driven by:

Increased Demand for Interoperable and Robust Networks. The Federal Government is focused on enhancing interoperability across its disparate networks and systems to effectively use information to assess and respond to terrorist threats and to transform the military's approach to fulfilling its mission. Such a transformation is necessary to ensure information superiority and foster the development and deployment of the

next generation of IT systems for network-centric warfare, including C4I systems (Command, Control, Communications, Computing and Intelligence) systems. In addition, we believe the convergence of voice, video and data onto the desktop will increase the requirements for more robust networks. We expect these increased requirements to result in greater market opportunities and demand for our core business services.

Increased Demand for Secure Networks and Systems. In response to increased concerns over cyber-attacks and threats to the national information infrastructure, the Federal Government after adopting the Federal Information Security Act (FISMA) of 2002, requiring each agency to develop information security programs and certifications. The 2009 Federal budget now has \$2.15 billion to address cybersecurity as part of the Comprehensive National Cybersecurity Initiative (CNCI), a mostly classified initiative focused on securing the Federal Government's cyber networks and involving all agencies of the Federal Government over the next five to ten years. This commitment recognizes the magnitude of the cyber infrastructure vulnerability and provides funding for solutions to address the threat. Based on recent public comments, it appears that IT security will be a key focal point for the Obama Administration. Within the overall market for cybersecurity services, the majority of the effort is anticipated to be focused on security operations, in activities related to providing computer network defense, monitoring, analysis, and incident response. INPUT estimates that Federal spending for contracted information security initiatives will increase from approximately \$6 billion during Federal fiscal year 2008 to approximately \$7 billion during Federal fiscal year 2013.

Increased Reliance on Professional Services Providers

The Federal Government has increasingly relied on professional services providers, particularly for IT services, in connection with its transformation initiatives. INPUT projects total Federal spending on contracted professional services to grow from \$11 billion during Federal fiscal year 2008 to \$13 billion during Federal fiscal year 2013. We believe two of the primary reasons for the Federal Government's increased reliance on professional services providers are:

Demand for More Innovative Solutions and Technology Services. Federal Government agencies are seeking more innovative solutions and technology services in response to the increasing pressure to operate more effectively and efficiently. Because of their skills and experience, Federal Government agencies are using professional services providers to support transformational mandates, introduce commercial best practices, and leverage commercial technological advances. In addition, professional services providers are able to leverage their recent experiences across their customer base to develop more cost-effective and efficient technology solutions that comply with the latest applicable standards.

Declining Federal Government IT Workforce. According to the Office of Management and Budget (OMB) estimates, approximately 17% of Federal Government IT workers will be eligible to retire over the next five Federal fiscal years. According to INPUT, "Workforce challenges are especially clear in the acquisition management and implementation of technology programs. The IT workforce has only increased 1% and 12% between 2003 and 2007 in DoD and civilian agencies, respectively. The slow growth in IT personnel has not kept pace with the increase in Government technology usage, program complexity, and program size. According to an IT Workforce Capability Assessment conducted by the CIO Council and Office of Personnel Management (OPM), IT Project Management is a major challenge. Specifically, there are capability gaps in capital planning and investment, cost-benefit analysis, earned value management, and Federal/OMB enterprise architecture.

Evolving Procurement Practices

Federal Government procurement practices and policies are expected to continue to evolve as Federal agencies increasingly rely on professional services providers for IT solutions and services. We expect the following trends to continue to shape the Federal Government's procurement practices and policies:

Consolidation of Contracts. With Federal budgets being focused on the Global War on Terrorism, added pressure on operating budgets is being experienced by most Federal agencies. A growing trend by many agencies

is to consolidate IT services. In some cases, services provided by a half a dozen or more contractors are being consolidated into a single contract with one contractor responsible for the full lifecycle of IT infrastructure. The benefits to the Government include: reduced operational cost; improved efficiency; improved services; and reduced agency administrative cost. This trend towards consolidating services will benefit full-service IT companies with a history of successfully transitioning and integrating IT services.

Increased Use of GWACs, Agency-Specific IDIQs, and MACs. As part of its shift in procurement practices aimed at increasing flexibility and responsiveness, the Federal Government continues to expand its use of Government Wide Acquisition Contracts (GWACs), agency-specific Indefinite Delivery/Indefinite Quantity (IDIQ) contracts, and other multiple-award contracts (MACs). Professional services providers compete to be pre-selected under these umbrella contracts, which outline the basic terms and conditions for the procuring services. Once pre-selected, the companies compete only among themselves to provide services under the vehicle. These contracts provide the Federal Government contracting agencies with additional flexibility and responsiveness as projects can be awarded quickly to these preferred providers.

COMPETITIVE STRENGTHS

We believe we are well positioned to meet the rapidly evolving needs of Federal Government agencies for IT and professional services and solutions because we possess the following key business strengths:

In-Depth Understanding of Customers' Missions

Since our founding, we have provided mission-critical services and solutions to our customers, enabling us to develop an in-depth understanding of their missions and technical needs. In addition, approximately three-quarters of our employees are located at customer sites, giving us valuable strategic insights into customers' ongoing and future program requirements. Our in-depth understanding of our customer missions, in conjunction with the strategic location of our employees, enables us to offer technical solutions tailored to our customers' specific requirements and consistent with their evolving mission objectives.

Proven Ability to Win Business

During 2008, we were awarded task orders and single-award contracts with a total value in excess of \$610 million. Our success in winning business is based, in part, on our ability to anticipate customers' emerging requirements, which enables us to develop stronger technical proposals. As a result, we are often awarded contracts based on the overall value of our solution rather than its cost. With current budgetary constraints, however, cost is becoming more of a factor in some procurements, and our cost structure allows us to be very cost competitive when necessary.

Diverse Base of Key Prime Contract Vehicles

As a result of our business development focus on securing key contracts, we are a prime contractor on numerous multi-year GWACs, agency-specific IDIQs, and MACs that provide us the opportunity to bid on hundreds of millions of dollars of business against a discrete number of other pre-qualified companies each year. These contracts include: GSA Alliant* contract with a ceiling of \$50 billion over 10 years; the U.S. Army ITES-2S contract with a ceiling of \$20 billion over nine years; the U.S. Air Force NETCENTS contract with a ceiling of \$9 billion over five years; the Defense Logistics Agency Design and Engineering Support Program II (DESP II) with a ceiling of \$1.9 billion over five years; the U.S. Army TEIS contract with a ceiling of \$800 million over five years; the U.S. Army Distributed Learning and Education Training Program (DLETP) with a ceiling of \$484 million over five years; the Program Executive Office Soldier Equipment contract (PEO Soldier) with a ceiling of \$382 million; the Office of Personnel Management Training and Management Assistance (TMA) with a ceiling of \$200 million; the Air Force Medical Support Agency IT Modernization contract with a

* GSA Alliant contract is currently under reevaluation and no task orders have been awarded to any winning bidder.

ceiling of \$75 million; and the GSA Schedule 70, as well as other GWACs, agency-specific IDIQs, and MACs. While the Federal Government is not obligated to make any awards under these vehicles, we believe that holding prime positions on these contract vehicles provides us an advantage as we seek to expand the level of services we provide to our customers.

Highly Skilled Employees and an Experienced Management Team

We deliver our services through a highly skilled workforce of approximately 2,500 employees as of December 31, 2008, of which 70% possess at least one Federal Government security clearance, and approximately 29% possess clearance levels of Top Secret or higher. Our senior managers average more than 25 years of experience with Federal Government agencies, the U.S. military, and Federal Government contractors. Members of our management team have experience growing businesses organically, as well as through acquisitions.

STRATEGY

Our objective is to grow our business as a provider of IT and professional services and solutions to Federal Government agencies while improving our profitability. To achieve our objective, we intend to:

Accelerate Organic Growth

We intend to accelerate our organic growth rate by capitalizing on our current contract base, expanding services provided to our existing customers, expanding our customer base and offering new, complementary services.

Capitalize on Current Contract Base. Our contract base includes 16 prime GWAC/agency-specific IDIQ/MAC contract vehicles with a total combined budgeted ceiling value in excess of \$86 billion. While the Government is permitted to spend up to the ceiling amount, there is no guarantee that it will do so, or that any particular pre-qualified contractor, including us, will receive awards under that vehicle. We intend to aggressively pursue task orders under these vehicles to maximize our revenue and strengthen our customer relationships, though there is no assurance that the Federal Government will make awards up to the ceiling amounts or that we will be awarded any task orders under these vehicles.

Expand Services Provided to Existing Customers. We intend to expand the services we provide to our current customers by leveraging our strong relationships, technical capabilities, and past performance record. We believe our understanding of customer missions, processes, and needs—in conjunction with our full lifecycle IT offerings—positions us to capture new work from existing customers as the Federal Government continues to increase the volume of services contracted to professional services providers. Moreover, we believe our strong past performance record positions us to expand the level of services we provide to our customers as the Federal Government places greater emphasis on past performance as a criterion for awarding contracts.

Expand Customer Base. We also plan to expand our customer base into areas with significant growth opportunities by leveraging our industry reputation, long-term customer relationships, and diverse contract base. We anticipate this expansion will enable us both to pursue additional higher value work and further diversify our revenue base across the Federal Government. Our long-term relationships with Federal Government agencies, together with our GWAC and agency-specific IDIQ vehicles, give us opportunities to win contracts with new customers within these agencies.

Offer New Complementary Services. We intend to leverage our strong reputation for providing IT and professional services to offer new complementary services. We expect to focus on high value-added services that

are closely aligned with our current offerings. When appropriate, we anticipate selectively identifying and hiring key personnel who possess unique customer, mission, or technical experience to enhance our knowledge of and expertise in the new service offering. We are extending our core capabilities in line with key market drivers and investing in a robust set of business solutions and offerings, including: IT consolidation/modernization; geospatial search and visualization; information operations/warfare; and enterprise information assurance.

Improve Operating Margins

While the overall market is experiencing margin pressure due to increased competition, we believe we still have opportunity to increase our operating margins and improve profitability by capitalizing on our corporate infrastructure investments and concentrating on high value-added services.

Capitalize on Corporate Infrastructure Investments. During the past several years, we have made significant investments in our senior management and corporate infrastructure in anticipation of future revenue growth. These investments included hiring senior executives with significant experience with Federal IT services companies, strengthening our internal control over financial reporting and accounting staff in support of Sarbanes-Oxley compliance and public company reporting requirements, and expanding our Sensitive Compartmented Information Facilities (SCIFs) and other corporate facilities. We therefore anticipate that as our revenue grows, we will be able to leverage this infrastructure base and increase our operating margins.

Concentrate on High Value-Added Services and Increasing our Labor Content. We expect to continue to improve our operating margins as we focus on higher-end value-added IT, engineering, and professional services and less on commoditized IT services, which have become very competitive, resulting in margin pressure. Additionally, we are focused on increasing the percentage of revenue we derive from our own employees, which carries higher margins than subcontracted work and results in better indirect cost absorption, which can also increase margins.

Pursue Strategic Acquisitions

While we are primarily focused on organic growth, we will look to supplement that growth through strategic acquisitions. When pursuing strategic acquisitions, we will look for businesses that will enable us to capture new customers, new service offerings, new capabilities, new contract vehicles, and/or expand market share. We look to take advantage of these acquisitions by leveraging these new service offerings to historical NCI customers, as well as offering historical NCI capabilities to our newly acquired customers.

For example during March 2008, we completed the acquisition of a business from MTC Technologies, Inc. This business included the right to provide services under the Program Executive Office Soldier, Project Manager Soldier Warrior, and Project Manager Soldier Equipment (PEO Soldier) contract. This acquisition fulfilled a number of our acquisition criteria. PEO Soldier gives us access to a single-award, agency-specific IDIQ, with a current contract value of \$239 million and a contract ceiling of \$382 million through Federal fiscal year 2015. The PEO Soldier contract significantly expanded our program management, acquisition, and lifecycle support capabilities.

IT AND PROFESSIONAL SERVICES AND SOLUTIONS

We provide IT and professional services and solutions by leveraging our eight core service offerings: enterprise systems management, network engineering; information assurance and cybersecurity; systems engineering and integration; program management, acquisition, and lifecycle support; engineering and logistics; medical transformation/health IT; and distance learning and training.

Enterprise Systems Management

We design, install, and manage complex, mission-critical enterprise systems for our customers, increasing the reliability, security, and efficiency of their IT operations while meeting stringent mission requirements. As part of our overall network operation and management services, we continually analyze and monitor enterprise system components and create systems that can adapt to rapidly changing needs. We employ a knowledge-centric service delivery assurance methodology designed to keep customer mission-critical systems at peak performance. This methodology utilizes network and traffic simulations to identify potential changes in performance or possible security issues within a particular network, allowing our engineers to protect customers' systems and data. Our network engineers are trained and certified in the leading commercial enterprise tools and combine that knowledge with our techniques, experience, and processes to deliver solutions to our customers. Our enterprise systems management services include the following:

- Infrastructure and Enterprise Systems Management
- Infrastructure Operations and Management
- Outsourcing and Managed Services
- Infrastructure Consolidation and Modernization
- Application and Network Management
- Application and Business System Performance Measures
- Network Design, Implementation, and Migration
- Network Monitoring and Performance Evaluation

Network Engineering

We offer a full lifecycle of network engineering services to our customers from the initial requirements analysis and network design through solutions implementation and testing, including designing disaster recovery contingency plans. Our network engineering capabilities include architecture development, design, implementation, configuration, and operation of Local Area Networks (LANs), metropolitan area networks (MANs), and Wide Area Networks (WANs). Our extensive experience providing the following network engineering services for Federal Government customers allows us to rapidly identify potential bottlenecks, security threats, and vulnerabilities, as well as address these potential issues with cost-effective solutions:

- Architecture Development and Design
- Disaster Response Planning and Recovery
- Installation, Test, and Evaluation
- Network Configuration
- Network Security Evaluation
- Protocol and Topology Selection
- Reliability and Contingency Assessment
- Requirements Analysis
- Routing Design
- Vulnerability Assessment

Information Assurance and Cybersecurity

We offer information assurance (IA) and cybersecurity solutions to secure enterprise systems and networks with particular expertise in protecting IT infrastructures for our customers who operate in classified environments. We design, configure, and deploy security architectures based on assessments of our customers' current and future IT needs, mission objectives, and regulatory requirements, in addition to specific threats from unauthorized users. In connection with implementing tailored architectures, we help define and implement IA

policies, procedures, and guidelines to ensure effective future IT planning. Our highly skilled and accredited employees research and implement security policies, provide technical support, and develop comprehensive security assessment plans. We also identify potential threats and vulnerabilities and design and implement corrective action plans that employ advanced technologies, such as encryption, digital signatures, and firewalls, using both commercial-off-the-shelf (COTS) and custom security and software solutions. Our information assurance and cybersecurity services include the following:

- Intrusion Detection System/Intrusion Prevention Development
- Certification and Accreditation
- Policy and Procedures Development
- Products Evaluation and Integration
- Public Key Infrastructure (PKI) Implementation
- Risk and Threat Assessment
- Security Awareness and Training
- Security Test and Evaluation

Systems Engineering and Integration

We provide a full range of systems engineering and integration services to our customers. Initially, we leverage our business process reengineering skills to analyze the activities, roles, and objectives of a proposed IT system or solution. Based on this analysis, we integrate advanced technologies with our customers' legacy systems to improve their operational efficiency and increase our customers' returns on IT investments. Our systems engineering and integration services include:

- Database Design
- Enterprise Portal Implementation
- Integration, Test, and Evaluation
- Legacy System Integration
- Project Planning and Management
- Requirements Definition

Program Management, Acquisition, and Lifecycle Support

NCI provides a full range of program management, acquisition, and lifecycle support services to our customers. As an integral part of our professional services portfolio, we are at the forefront of integrating acquisition, logistics, engineering, and technology disciplines into a comprehensive lifecycle management approach. Our approach strives to continually improve the process of developing, procuring, and sustaining our customers' systems to achieve their overarching goals of transformation, consolidation, and efficiency. We combine deep functional and technical expertise to deliver full lifecycle support capabilities, including:

- Acquisition Management and Logistics
- Program and Portfolio Management
- Test and Evaluation
- Systems Engineering and Technical Support
- Studies and Capabilities Analysis
- Financial Management
- Security Management
- Training
- Risk Management

Engineering and Logistics

We offer a wide array of professional engineering, logistics, and supportability services. We employ experienced, multi-disciplinary engineering and logistics teams to solve some of our customers' most challenging fielded systems problems. By tailoring our engineering and logistics specialties for our customers, NCI reduces customer costs while increasing fielded-system capabilities and improving mission readiness. We offer rapid-prototyping and simulation-based designs to efficiently mitigate obsolescence issues with improved performance. We seamlessly deliver supply chain management (SCM) support and information integration through statistical demand forecasting, inventory optimization, and comprehensive data-mining capabilities. Our predictive analysis and service-life extension capabilities ensure increased asset readiness and availability with reduced total cost of ownership (TCO). We are actively engaged in extending service life through creative engineering and logistics solutions, playing a vital role in supporting critical aging aircraft (F-4, C-5, T-38, and F-16) readiness and

multiple Air Force Space and C3I (Command, Control, Communications, and Intelligence) platforms through Diminishing Manufacturing Sources and Material Shortages (DMSMS) and Operational Safety, Suitability, and Effectiveness (OSS&E) capabilities. Our engineering and logistics capabilities include:

- Engineering—mechanical, electrical, software, research and development, and hard engineering specialties
- Supply Chain Management—DMSMS, obsolescence resolution, and material management and sourcing
- Product Support—acquisition planning, systems engineering, maintenance management, OSS&E, and technical data management

Medical Transformation/Health IT

By combining comprehensive medical business acumen with relevant IT, NCI has become well known in the medical logistics transformation field. We blend deep functional subject-matter expertise with diverse technical talent, including public health experts, health care administrators, network engineers, medical trainers, IT specialists, bioenvironmental engineers, aerospace physiologists, and physicians. Our capabilities and infrastructure support all aspects of medical transformation and health IT, including:

- Strategic Planning/Consulting
- Access-to-Care
- Data/System Consolidation, Migration, and Modernization
- Doctrine/Policy Development
- Occupational, Environmental, and Population Health Programs
- Preparedness and Contingency Planning
- Aeromedical Evaluation and Combat Casualty Care
- Medical Education and Training

Distance Learning and Training

By efficiently tailoring comprehensive instructional science, NCI solves our customers' most complex challenges and delivers increased productivity while improving organizational agility. We offer a full range of learning capabilities to increase performance and identify the most cost-effective strategies to meet the unique training needs of our customers. Our solutions leverage our breadth of experience to support customers in transitioning from traditional classroom courses to e-Learning initiatives. We have a highly talented team of instructional systems designers, graphic artists, and technical programmers for custom courseware development. Our solutions include a Web-based portal for on-demand customer access to project status, training storyboards, and development content, as well as a state-of-the-art Usability Lab for courseware testing and effectiveness. NCI's training services include:

- Learning Strategy Consulting
- Custom Courseware Development
- Distributed Learning Systems
- Distance Learning, Training, and Educational Products
- Learning Management Systems
- Courseware Standards Compliance
- Instructional Systems Design
- Certified Information Security Training
- On-Site Support and Implementation

CUSTOMERS

Our customers include a diverse base of Federal Government defense, intelligence, and civilian agencies. For the year ended December 31, 2008, approximately 81% of our revenue was generated from DoD and intelligence agency customers, approximately 16% of our revenue was generated from Federal civilian agency customers, and approximately 3% of revenue was from commercial customers. We believe our risk from adverse budgetary changes is reduced by the mission-critical nature of the IT work we perform for our customers. We also believe our diverse customer base within the Federal Government mitigates the impact of annual fluctuations in our customers' budgets.

The following is a representative list of our customers for the year ended December 31, 2008. Due to the sensitive nature of our work with the intelligence community, we are precluded from providing detailed information regarding specific intelligence agency customers.

Department of Defense

- U.S. Strategic Command (STRATCOM)
- U.S. Northern Command (NORTHCOM)
- U.S. Transportation Command (TRANSCOM)
- U.S. Special Operations Command (SOCOM)
- U.S. Army Materiel Command (AMC)
- U.S. Army Network Enterprise Technology Command (NETCOM)
- U.S. Army Training and Doctrine Command (TRADOC)
- U.S. Army Medical Command (MEDCOM)
- National Guard Bureau (NGB)
- U.S. Army National Guard (ARNG)/Air National Guard (ANG)
- U.S. Army Program Executive Office for Simulation, Training, and Instrumentation (PEO STRI)
- U.S. Army Program Executive Office for Enterprise Information Systems (PEO EIS)
- U.S. Army Communications Electronic Lifecycle Management Command (C-E LCMC)
- U.S. Army Tank-Automotive and Armaments Command (TACOM LCMC)
- U.S. Army Program Executive Office Soldier (PEO Soldier)
- U.S. Army Ft. Lewis, Washington
- U.S. Army Ft. Carson, Colorado
- U.S. Air Force Air Education and Training Command (AETC)
- U.S. Air Force Air Mobility Command (AMC)
- U.S. Air Force Warner Robbins, Georgia
- U.S. Air Force Hill AFB, Utah
- U.S. Air Force Maxwell AFB, Alabama
- U.S. Air Force Lackland AFB, Randolph AFB, Kelly AFB, Brooks City-Base, Texas

Federal Civilian

- Department of Energy (DOE)
- Department of Health and Human Services (HHS)
- Department of Housing and Urban Development (HUD)
- Department of State (DOS)
- Department of Veterans Affairs (VA)
- Federal Aviation Administration (FAA)
- General Services Administration (GSA)
- Government Accountability Office (GAO)
- National Aeronautics and Space Agency (NASA)
- National Institutes of Health (NIH)
- Office of Personnel Management (OPM)

CONTRACTS

Our contract terms typically extend from one to seven years, including option years (which may be exercised at the election of the customer). Many of our services are provided under GWAC or agency-specific IDIQ vehicles. Our contract base includes the following prime GWAC vehicles that have an aggregate program ceiling value of \$86 billion, excluding GSA Schedule 70.

<u>Vehicle</u>	<u>Owning agency</u>	<u>Period of performance</u>	<u>Ceiling value*</u>	<u>Number of pre-qualified contractors</u>
GSA Alliant**	General Services Administration	04/2009 – 03/2018	\$50.0 billion	TBD
ITES-2S	U.S. Army	12/2006 – 12/2015	20.0 billion	16
NETCENTS	U.S. Air Force	09/2004 – 09/2009	9.0 billion	8
GITSS	Department of Veterans Affairs	10/2003 – 10/2011	3.0 billion	10
DESP II	U.S. Air Force	06/2005 – 06/2012	1.9 billion	20
TEIS	U.S. Army	11/2005 – 11/2010	0.8 billion	3
DLETP	U.S. Army	12/2005 – 12/2010	0.5 billion	6
PEO Soldier	U.S. Army	05/2007 – 04/2015	0.4 billion	1

* Ceiling value refers to the overall contract ceiling for all contractors, and not NCI’s individual ceiling value.

** The GSA Alliant contract is currently under reevaluation and no task orders have been awarded to any winning bidder. TBD—To be determined.

We believe that these contract vehicles are the preferred method of awarding work by many of our customers because they enable Federal Government agencies to rapidly obtain services through a streamlined process. Under these GWAC vehicles, task orders can only be awarded to a discrete number of pre-qualified companies. Revenue under our prime GWAC, agency-specific IDIQ, MAC, and GSA Schedule 70 task orders accounted for approximately 66% of our total revenue for the year ended December 31, 2008, up from 62% for the year ended December 31, 2007, and 59% for the year ended December 31, 2006. We anticipate that this percentage may continue to increase in the future as we have the opportunity to bid on additional tasks under these contract vehicles as well as pursue new GWAC, agency-specific IDIQ, and MAC vehicles.

The Federal Government's ability to select multiple winners under multiple award contracts, as well as its right to award subsequent task orders among such multiple winners, means that there is no assurance that these multiple award contracts will result in the actual orders equal to the ceiling value, or result in any actual orders. Our failure to compete effectively in this procurement environment could reduce our revenue. While the Government is permitted to spend up to the ceiling amount, there is no guarantee that it will do so, or that any particular pre-qualified contractor, including us, will receive awards under that vehicle.

CONTRACT BACKLOG

Our estimates of funded, unfunded and total backlog as of December 31, 2008 and 2007, are as follows:

<u>As of</u>	<u>Funded backlog</u>	<u>Unfunded backlog</u> (in millions)	<u>Total backlog</u>
December 31, 2008	\$234	\$955	\$1,189
December 31, 2007	\$189	\$567	\$ 756

We expect to realize approximately \$344 million in revenue from backlog during 2009. There can be no assurance that our backlog will result in actual revenue in any particular period, or at all, or that any contract included in backlog will be profitable. There is a higher degree of risk in this regard with respect to unfunded backlog. The actual receipt and timing of any revenue is subject to various contingencies, many of which are beyond our control. The actual receipt of revenue on contracts included in backlog may never occur or may change because a program schedule could change or the program could be canceled, or a contract could be reduced, modified, or terminated early. Our estimates are based on our experience under such contracts and similar contracts.

BUSINESS DEVELOPMENT

Our business development process is closely aligned with our overall business strategy to accelerate our organic growth while improving our operating margins. We are focused on maximizing the work we perform under our GWAC and agency-specific IDIQ vehicles, expanding our work with existing customers, expanding our customer base and offering new, complementary services. Working closely as a team, our business development and operations personnel assess market activities with the objective of identifying, qualifying, and generating capture strategies for contract opportunities consistent with our overall business development focus. Business opportunities are carefully qualified and prioritized based on potential value and win probability. A senior-level executive is assigned responsibility for evaluating and capturing each opportunity.

We have centralized and dedicated staff resources for proposal development, pricing, contracts administration, market research, and recruiting to support these business development activities. We manage our business development activity with an internally developed, automated sales and opportunity tracking tool. The entire process is defined and quality controlled using our ISO 9001:2000 best practices procedures. All major business development opportunities undergo frequent, disciplined reviews with our senior management. In addition, our Chief Executive Officer, President, Chief Operating Officer, and Chief Financial Officer conduct monthly reviews of all opportunities in our pipeline to validate our business development activities and ensure that resources are allocated to maximize the return on these investments.

COMPETITION

We believe that the major competitive factors in our market are strong customer relationships, a record of successful contract performance, a reputation for quality, an experienced management team, employees with a wide range of technical expertise and security clearances, and competitive pricing. We often compete against or team with divisions of large defense and IT services contractors, including Lockheed Martin Corporation, Northrop Grumman Corporation, General Dynamics Corporation, Perot Systems, Harris, BAE Systems, Booz

Allen Hamilton, and Science Applications International Corporation. We also compete against or team with mid-tier Federal contractors such as CACI International and SRA International that have specialized capabilities, as well as numerous non-public companies within the sector. Some of our competitors have significantly longer operating histories and more substantial resources. We expect competition in the Federal Government IT and professional services sector to increase in the future.

EMPLOYEES

As of December 31, 2008, we had approximately 2,500 employees, approximately 70% of whom held at least one Federal Government security clearance and 29% of whom possessed clearance levels of Top Secret or higher. Our employees are located at more than 80 sites worldwide. Over 70% of our staff is located on-site with our customers, allowing us to build long-term relationships. The majority of our technical staff is professionally certified in one or more of the following areas:

- Microsoft Certified Professional (MCP)
- Microsoft Certified Systems Engineer (MCSE)
- Microsoft Certified Systems Administrator (MCSA)
- Cisco Certified Network Associate (CCNA)
- Cisco Certified Network Professional (CCNP)
- Cisco Certified Design Professional (CCDP)
- Cisco Certified Security Professional (CCSP)
- Sun Certified Systems Administrator
- IT Infrastructure Library (ITIL)
- Project Management Professional (PMP)
- CompTIA Certifications (A+, Network +, Security +)
- ISC2 Certifications (CISSP, SCCP, CAP, ISSEP, ISSAP)
- Certified INFOSEC Professional
- COMSEC Certification
- Global Information Assurance Certification
- SANS Institute Certifications (GSEC, GCIA, GCIH, GISF)

We believe we have a professional environment that encourages advanced training to acquire industry-recognized certifications, rewards strong job performance with advancement opportunities and fosters ethical and honest conduct. Only 19 of our employees are represented by a labor union or subject to a collective bargaining agreement. We believe our salary structures, incentive compensation and benefit packages are competitive within our industry.

CORPORATE INFORMATION

We were incorporated as NCI, Inc. in Delaware during July 2005. During September 2005, we completed a merger and share exchange as a result of which NCI Information Systems, Inc., a Virginia corporation which was incorporated during 1989, became a wholly-owned subsidiary. We primarily contract with the Federal Government through our wholly-owned subsidiary, NCI Information Systems, Inc.

WEBSITE ACCESS TO SEC REPORTS

Our internet address is www.nciinc.com. Information contained on our internet website is not part of this report. We make available free of charge on our internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Alternatively, you may access these reports at the SEC's internet website: www.sec.gov.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

We depend on contracts with the Federal Government for the majority of our revenue. If our relationships with Federal Government agencies are harmed, our future revenue and operating profits would decline.

For the years ended December 31, 2008 and 2007, we derived almost all our revenue from Federal Government contracts, either as a prime contractor or a subcontractor, including approximately 81% of our revenue from contracts with the DoD and intelligence agencies during 2008 and 2007. We believe that Federal Government contracts will continue to be the source of the majority of our revenue for the foreseeable future. For this reason, any issue that compromises our relationship with Federal Government agencies in general, or with the DoD and intelligence agencies in particular, would cause our revenue to decline. Among the key factors in maintaining our relationships with Federal Government agencies are our performance on individual contracts and task orders, the strength of our professional reputation and the relationships of our key executives with customer personnel. To the extent that our performance does not meet customer expectations, or our reputation or relationships with one or more key customers are impaired, our revenue and operating results could decline materially.

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

We operate in highly competitive markets and generally encounter intense competition to win contracts from many other firms, including mid-tier Federal contractors with specialized capabilities and large defense and IT services providers. Competition in our markets may increase as a result of a number of factors, such as the entrance of new or larger competitors, including those formed through alliances or consolidation. These competitors may have greater financial, technical, marketing and public relations resources; larger customer bases; and greater brand or name recognition than we do. These competitors could, among other things:

- divert sales from us by winning very large-scale Government contracts, a risk that is enhanced by the recent trend in Government procurement practices to bundle services into larger contracts;
- force us to charge lower prices; or
- adversely affect our relationships with current customers, including our ability to continue to win competitively awarded engagements where we are the incumbent.

If we lose business to our competitors or are forced to lower our prices, our revenue and our operating profits could decline. In addition, we may face competition from our subcontractors who, from time to time, seek to obtain prime contractor status on contracts for which they currently serve as a subcontractor to us. If one or more of our current subcontractors are awarded prime contractor status on such contracts in the future, it could divert sales from us or could force us to charge lower prices, which could cause our margins to suffer.

We cannot guarantee that our estimated contract backlog will result in actual revenue.

As of December 31, 2008, our estimated contract backlog totaled approximately \$1,189 million, of which approximately \$234 million was funded. We expect to realize approximately \$344 million in revenue from backlog during 2009. There can be no assurance that our backlog will result in actual revenue in any particular period, or at all, or that any contract included in backlog will be profitable. There is a higher degree of risk in this regard with respect to unfunded backlog. The actual receipt and timing of any revenue is subject to various contingencies, many of which are beyond our control. The actual receipt of revenue on contracts included in backlog may never occur or may change because a program schedule could change; the program could be canceled; a contract could be reduced, modified or terminated early; or an option that we had assumed could not be exercised. Further, while many of our Federal Government contracts require performance over a period of years, Congress often appropriates funds for these contracts for only one year at a time. Consequently, our

contracts typically are only partially funded at any point during their term, and all or some of the work intended to be performed under the contracts will remain unfunded pending subsequent Congressional appropriations and the obligation of additional funds to the contract by the procuring agency. Our estimates are based on our experience under such contracts and similar contracts. However, there can be no assurances that all, or any, of such estimated contract value will be recognized as revenue.

Our revenue and operating profits could be adversely affected by significant changes in the contracting or fiscal policies of the Federal Government.

We depend on continued Federal Government expenditures on defense, intelligence, and other programs that we support. Accordingly, changes in Federal Government contracting policies could directly affect our financial performance. In addition, the recent change in presidential administrations, including related changes in Federal Government officials, as well as changes in Congressional majorities or in other senior Federal Government officials may negatively affect the rate at which the Federal Government purchases IT services. The overall U.S. defense budget declined from time to time during the late 1980s and the early 1990s. While spending authorizations for defense- and intelligence-related programs by the Federal Government have increased in recent years, future levels of expenditures and authorizations for those programs may decrease, remain constant or shift to programs in areas where we do not currently provide services. Among the factors that could materially adversely affect us are the following:

- budgetary constraints affecting Federal Government spending generally or specific departments or agencies in particular, and changes in fiscal policies or available funding
- changes in Federal Government programs or requirements, including the increased use of small business providers;
- curtailment of the Federal Government's use of professional services providers;
- adoption of new laws or regulations;
- Federal Governmental shutdowns (such as that which occurred during the Federal Government's 1996 fiscal year) and other potential delays in the Government appropriations process;
- delays in the payment of our invoices by Federal Government payment offices due to problems with or upgrades to Federal Government information systems or for other reasons;
- competition and consolidation in the IT industry;
- general economic conditions; and
- a reduction in spending or shift of expenditures from existing programs, and a failure of Congress to pass adequate supplemental appropriations to pay for an international conflict or related reconstruction efforts.

These or other factors could cause Federal Governmental agencies, or prime contractors for which we are acting as a subcontractor, to reduce their purchases under contracts, to exercise their right to terminate contracts, or elect not to exercise options to renew contracts, any of which could cause our revenue and operating profits to decline.

If we fail to attract and retain skilled employees or employees with the necessary security clearances, we might not be able to perform under our contracts or win new business.

The growth of our business and revenue depends in large part upon our ability to attract and retain sufficient numbers of highly qualified individuals who have advanced IT skills. These employees are in great demand and are likely to remain a limited resource in the foreseeable future. Further, obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit and retain employees

who already hold security clearances. If we are unable to recruit and retain a sufficient number of these employees, our ability to maintain and grow our business could be limited. In a tight labor market, our direct labor costs could increase or we may be required to engage large numbers of subcontractor personnel, which could cause our profit margins to suffer. In addition, some of our contracts contain provisions requiring us to staff an engagement with personnel that the customer considers key to our successful performance under the contract. In the event we are unable to provide these key personnel or acceptable substitutions, the customer may terminate the contract and we may lose revenue.

In addition, certain Federal Government contracts require us, and some of our employees, to maintain security clearances. If our employees lose or are unable to obtain security clearances, or if we are unable to hire employees with the appropriate security clearances, the customer may terminate the contract or decide not to renew it upon its expiration. As a result, we may not derive the revenue anticipated from the contract, which if not replaced with revenue from other contracts, could seriously harm our operating results.

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

As a prime contractor, we often rely significantly upon other companies as subcontractors to perform work we are obligated to perform for our customers. As we secure more work under our GWAC and agency-specific IDIQ vehicles, we expect to require an increasing level of support from subcontractors that provide complementary and supplementary services to our offerings. Depending on labor market conditions, we may not be able to identify, hire and retain sufficient numbers of qualified employees to perform the task orders we expect to win. In such cases, we will need to rely on subcontracts with unrelated companies. Moreover, even in favorable labor market conditions, we anticipate entering into more subcontracts in the future as we expand our work under our GWACs. We are responsible for the work performed by our subcontractors, even though in some cases we have limited involvement in that work. If one or more of our subcontractors fail to satisfactorily perform the agreed-upon services on a timely basis or violate Federal Government contracting policies, laws, or regulations, our ability to perform our obligations as a prime contractor or meet our customers' expectations may be compromised. In extreme cases, performance or other deficiencies on the part of our subcontractors could result in a customer terminating our contract for default. A termination for default could expose us to liability, including liability for the agency's costs of recompetition, could damage our reputation, and could hurt our ability to compete for future contracts.

We are a subcontractor to other businesses on a portion of our business. If these businesses were to encounter financial difficulty, they may fail to perform their contractual obligation. Consequently, our contractual performance and reputation, as well as our financial position could be affected.

We are a subcontractor to other businesses, especially a number of small businesses, on some of our contracts or task orders. We are not in a position to control overall contract performance, and our payments are subject to the financial capabilities of the prime, not the Federal Government. If our prime contractor experiences difficulties, it may not have the financial resources to perform its contractual obligations. This failure to perform could harm our reputation and affect our financial position where we have financial exposure. Specifically, we could see an increase in bad debt expense and reserves, which could negatively affect cash flows and earnings.

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

We create, implement, and maintain IT solutions that are often critical to our customers' operations. We have experienced, and may in the future experience, some systems and service failures, schedule or delivery delays, and other problems in connection with our work. If we experience these problems, we may:

- lose revenue due to adverse customer reaction;
- be required to provide additional services to a customer at no charge;

- receive negative publicity, which could damage our reputation and adversely affect our ability to attract or retain customers; and
- suffer claims for substantial damages.

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

While many of our contracts limit our liability for consequential damages that may arise from negligence in rendering services to our customers, we cannot assure you that these contractual provisions will be legally sufficient to protect us if we are sued.

In addition, our errors and omissions and product liability insurance coverage may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, or the insurer may disclaim coverage as to some types of future claims. As we continue to grow and expand our business into new areas, our insurance coverage may not be adequate. The successful assertion of any large claim against us could seriously harm our business. Even if not successful, these claims could result in significant legal and other costs, may be a distraction to our management and may harm our reputation.

Security breaches in sensitive Federal Government systems could result in the loss of customers and negative publicity.

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

Our employees may engage in misconduct or other improper activities, which could cause us to lose contracts.

We are exposed to the risk that employee fraud or other misconduct could occur. Misconduct by employees could include intentionally failing to comply with Federal Government procurement regulations, engaging in unauthorized activities, or falsifying time records. Employee misconduct could also involve the improper use of our customers' sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation and could result in a loss of contracts and a reduction in revenue. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in controlling unknown or unmanaged risks or losses, which could cause us to lose contracts or cause a reduction in revenue.

We may not be successful in identifying acquisition candidates and if we undertake acquisitions, they could increase our costs or liabilities and impair our revenue and operating results.

One of our strategies is to pursue growth through acquisitions. We may not be able to identify suitable acquisition candidates at prices that we consider appropriate. If we do identify an appropriate acquisition candidate, we may not be able to successfully negotiate the terms of the acquisition or finance the acquisition on terms that are satisfactory to us. Negotiations with potential acquisitions and the integration of acquired business operations could disrupt our business by diverting management's attention from day-to-day operations. Acquisitions of businesses or other material operations may require additional debt or equity financing, resulting in additional leverage or dilution of ownership. We may encounter increased competition for acquisitions, which may increase the price of our acquisitions.

If we are unable to successfully integrate companies we may acquire in the future, our revenue and operating results could suffer. Integrating such businesses into our operations may result in unforeseen operating difficulties (including incompatible accounting and information management systems), may absorb significant management attention and may require significant financial resources that would otherwise be available for the ongoing development or expansion of our business. These difficulties of integration may require us to coordinate geographically dispersed organizations, integrate personnel with disparate business backgrounds, and reconcile different corporate cultures. In certain acquisitions, Federal Acquisition Regulations may require us to enter into Government novation agreements, a potentially time-consuming process. In addition, we may not be successful in achieving the anticipated synergies from these acquisitions, including our strategy of offering our services to customers of acquired companies to increase our revenue. We may experience increased attrition, including, but not limited to key employees of the acquired companies during and following the integration of acquired companies that could reduce our future revenue. In addition, we may need to record write-downs from future impairments of identified intangible assets and goodwill, which could reduce our future reported earnings. Acquired companies may have liabilities or adverse operating issues that we fail to discover through due diligence before the acquisition. In particular, to the extent that prior owners of any acquired businesses or properties failed to comply with or otherwise violated applicable laws or regulations, or failed to fulfill their contractual obligations to the Federal Government or other customers, we, as the successor owner, may be financially responsible for these violations and failures and may suffer reputational harm or otherwise be adversely affected. The discovery of any material liabilities associated with our acquisitions could cause us to incur additional expenses and cause a reduction in our operating profits.

Our acquisitions could cause unforeseen Organizational Conflicts of Interest (OCI) which could preclude us from bidding on related projects, thereby making the acquisition not as profitable as originally forecast.

Additionally, the Small Business Administration (SBA) enacted new regulations as of June 30, 2007, which requires small businesses to re-certify their size standard within thirty days of any sale or merger. It is likely that any company we may look to acquire will have some component of small business contracts. These new regulations may affect our ability to retain all the contracts after the acquisition, which, in turn, may affect the value of the acquisition.

Current credit market conditions could affect our access to working capital and our ability to make substantial acquisitions.

A substantial acquisition or acquisitions could cause us to expand or renegotiate our current credit facility. Due to the current credit market crisis, we cannot be certain that additional funds will be available if needed and, if available, that such funds will be available on acceptable terms. Any such funding could require us to incur a significantly higher interest expense. If we cannot raise additional funds on acceptable terms, we may not be able to make future acquisitions.

Our current credit facility is an agreement with three lending institutions which are independent of each other. Should one of the lending institutions not be able to fulfill its commitments, we may not be able to access our entire credit facility, which could affect our access to working capital funding and our ability to make future acquisitions.

The loss of any member of our senior management could impair our relationships with Federal Government customers and disrupt the management of our business.

We believe that the success of our business and our ability to operate profitably depends on the continued contributions of the members of our senior management. We rely on our senior management to generate business and execute programs successfully. In addition, the relationships and reputation that many members of our senior management team have established and maintain with Federal Government personnel contribute to our ability maintain strong customer relationships and identify new business opportunities. We do not have any employment agreements providing for a specific term of employment with any member of our senior management. The loss of any member of our senior management could impair our ability to identify and secure new contracts, maintain good customer relations, and otherwise manage our business.

If we are unable to manage our growth, our business could be adversely affected.

Sustaining our growth has placed significant demands on our management, as well as on our administrative, operational, and financial resources. For us to continue to manage our growth, we must continue to improve our operational, financial and management information systems, as well as, to expand, motivate and manage our workforce. If we are unable to manage our growth while maintaining our quality of service and profit margins, or if new systems that we implement to assist in managing our growth do not produce the expected benefits, our business, prospects, financial condition or operating results could be adversely affected.

We may be harmed by intellectual property infringement claims and our failure to protect our intellectual property could enable competitors to market products and services with similar features.

We may become subject to claims from our employees or third parties who assert that software and other forms of intellectual property that we use in delivering services and solutions to our customers infringe upon intellectual property rights of such employees or third parties. Our employees develop much of the software and other forms of intellectual property that we use to provide our services and solutions to our customers, but we also license technology from other vendors. If our employees, vendors, or other third parties assert claims that we or our customers are infringing on their intellectual property rights, we could incur substantial costs to defend those claims.

In addition, if any of these infringement claims are ultimately successful, we could be required to: cease selling or using products or services that incorporate the challenged software or technology; obtain a license or additional licenses from our employees, vendors, or other third parties; or redesign our products and services that rely on the challenged software or technology.

In addition, if we are unable to protect our intellectual property, our competitors could market services or products similar to our services and products, which could reduce demand for our offerings.

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

The Company has substantial investments in recorded goodwill as a result of prior acquisitions, and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that would reduce the Company's operating income.

As of December 31, 2008, goodwill accounted for approximately \$88 million, or approximately 44%, of the Company's recorded total assets. Under generally accepted accounting principles, the Company reviews its goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. If goodwill becomes impaired, the Company would record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill is determined, which may significantly reduce or eliminate our profits.

Risks Related to Our Industry

Our Federal Government contracts may be terminated by the Federal Government at any time, and if we do not replace them, our revenue and operating profits may be adversely affected.

We derive most of our revenue from Federal Government contracts that typically span one or more base years and one or more option years. The option periods may cover more than half of a contract's potential duration. Federal Government agencies have the right not to exercise these option periods. In addition, our contracts also contain provisions permitting a Federal Government customer to terminate the contract on short notice and for its convenience, as well as for our default. A decision by a Federal Government agency not to exercise option periods or to terminate contracts could result in a reduction of our profitability on these contracts and significant revenue shortfalls.

If the Federal Government terminates a contract for convenience, we may recover only our incurred or committed allowable costs, settlement expenses, and profit on work completed before the termination. We cannot recover anticipated profit on terminated work. If the Federal Government terminates a contract for default, we may not recover even those amounts, and instead may be liable for excess costs incurred by the Federal Government in procuring undelivered items and services from another source.

Federal Government contracts contain other provisions that may be unfavorable to us.

Federal Government contracts contain provisions and are subject to laws and regulations that give the Federal Government rights and remedies not typically found in commercial contracts. These provisions allow the Federal Government to terminate a contract for convenience or decline to exercise an option to renew. They also permit the Federal Government to do the following:

- reduce or modify contracts or subcontracts;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- claim rights in products and systems produced by us; and
- suspend or debar us from doing business with the Federal Government.

If the Federal Government exercises its rights under any of these provisions, our revenue and operating profits could decline.

Many of our Federal Government customers spend their procurement budgets through MACs under which we are required to compete for post-award orders or for which we may not be eligible to compete and could limit our ability to win new contracts and grow revenue.

Budgetary pressures and reforms in the procurement process have caused many Federal Government customers to increasingly purchase goods and services through agency-specific IDIQ contracts, the GSA Schedule 70 task orders, and other multiple-award and/or GWAC vehicles. These contract vehicles have resulted in increased competition and pricing pressure, requiring us to make sustained post-award efforts to realize revenue under the relevant contract vehicle. The Federal Government's ability to select multiple winners under multiple-award schedule contracts, GWACs, blanket purchase agreements and other agency-specific IDIQ contracts, as well as its right to award subsequent task orders among such multiple winners, means that there is no assurance that these multiple-award contracts will result in the actual orders equal to the ceiling value, or result in any actual orders. We are only eligible to compete for work (task orders and delivery orders) as a prime contractor pursuant to GWACs already awarded to us. Our failure to compete effectively in this procurement environment could reduce our revenue. If the Federal Government elects to use a contract vehicle that we do not hold, we will not be able to compete as a prime contractor.

Our business could be adversely affected by delays caused by our competitors protesting major contract awards received by us, resulting in the delay of the initiation of work.

There is an increasing trend in the number and duration of protests of the major contract awards we have received in the last year. The resulting delay in the start up and funding of the work under these contracts may cause our actual results to differ materially and adversely from those anticipated. Specifically, the expense and delay that we may face if our competitors protest or challenge contract awards made to us pursuant to competitive procedures, and the risk that any such protest or challenge could result in the resubmission of offers, or in termination, reduction, or modification of the awarded contract, could result in increased cost and reduced profitability.

In addition, most Federal Government contract awards are subject to protest by competitors. If specified legal requirements are satisfied, these protests require the Federal Government agency to suspend the contractor's performance of the newly awarded contract pending the outcome of the protest. These protests could also result in a requirement to resubmit bids for the contract or in the termination, reduction, or modification of the awarded contract. Additionally, the National Defense Authorization Act for Fiscal Year 2008, which took effect on May 27, 2008, now allows bidders to protest task order awards under GWAC and agency-specific IDIQ contracts more than \$10 million. Previously, many GWAC and agency-specific IDIQ contract vehicles prohibited protests on task order awards. The change will not only potentially increase the number of protests on GWAC and agency-specific IDIQ task orders, but also it removes one of the benefits to our customers for using these vehicles.

Each of our contract types involves the risk that we could underestimate our costs and incur losses.

We enter into three types of Federal Government contracts for our services: time-and-materials, cost-plus and fixed-price. For the year ended December 31, 2008, we derived approximately 45%, 22%, and 33% of our revenue from time-and-materials, cost-plus and fixed-price contracts, respectively. If we acquire other businesses, our contract mix could change significantly, depending on the size and contract mix of the acquired businesses.

Each of these types of contracts, to differing degrees, involves the risk that we could underestimate our cost of performance, which may result in a reduced profit or a loss on the contract for us. Under time-and-materials contracts, we are reimbursed for labor at negotiated hourly billing rates and for certain expenses. We assume minimal financial risk on time-and-materials contracts because we only assume the risk of performing those contracts at negotiated hourly rates. Under cost-plus contracts, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based. To the extent that actual costs incurred in performing a cost-plus contract are within the contract ceiling and allowable under the terms of the contract and applicable regulations, we are entitled to reimbursement of our costs, plus a profit. However, if our costs exceed the ceiling or are not allowable under the terms of the contract or applicable regulations, we may not be able to recover those costs. Under fixed-price contracts, we perform specific tasks for a fixed price. Compared to time-and-materials and cost-plus contracts, fixed-price contracts generally offer higher margin opportunities but involve greater financial risk because we bear the impact of cost overruns. Because we assume the most risk for cost overruns and contingent losses on fixed-price contracts, an increase in the percentage of fixed-price contracts in our contract mix would increase our risk of suffering losses.

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

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

- the Federal Acquisition Regulations, and agency regulations supplemental to the Federal Acquisition Regulations, which comprehensively regulate the formation, administration, and performance of Federal Government contracts;

- the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;
- the Cost Accounting Standards and Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based Federal Government contracts; and
- laws, regulations, and executive orders restricting the use and dissemination of information classified for national security purposes and the export of certain products and technical data.

Moreover, we are subject to industrial security regulations of the DoD and other Federal agencies that are designed to safeguard against foreigners' access to classified information. If we were to come under foreign ownership, control, or influence, our Federal Government customers could terminate or decide not to renew our contracts, and our ability to obtain new contracts could be impaired.

The Federal Government may revise its procurement or other practices in a manner adverse to us.

The Federal Government may revise its procurement practices or adopt new contracting rules and regulations, such as cost accounting standards. It could also adopt new contracting methods relating to GSA contracts, GWACs or other Government-wide contracts, or adopt new standards for contract awards intended to achieve certain social or other policy objectives. In addition, the Federal Government may face restrictions from new legislation or regulations, as well as pressure from Government employees and their unions, on the nature and amount of services the Federal Government may obtain from private contractors. These changes could impair our ability to obtain new contracts or contracts under which we currently perform when those contracts are up for recompetition bids. Any new contracting methods could be costly or administratively difficult for us to implement, and as a result, could harm our operating results.

A preference for minority-owned, small and small-disadvantaged businesses could affect our ability to be a prime contractor on certain governmental procurements.

As a result of the SBA set-aside program, the Federal Government may decide to restrict certain procurements only to bidders that qualify as minority-owned, small or small-disadvantaged businesses. As a result, we would not be eligible to perform as a prime contractor on those programs and would be restricted to a maximum of 49% of the work as a subcontractor on those programs. An increase in the amount of procurements under the SBA set-aside program may affect our ability to bid on new procurements as a prime contractor or restrict our ability to re-compete on incumbent work that is placed in the set-aside program.

We derive significant revenue from contracts awarded through a competitive procurement process, which may require significant upfront bid and proposal costs that could negatively affect our operating results.

We derive significant revenue from Federal Government contracts that are awarded through a competitive procurement process. We expect that most of the Federal Government business we seek in the foreseeable future will be awarded through competitive processes. Competitive procurements impose substantial costs and present a number of risks, including the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may not be awarded to us and could reduce our profitability.

Unfavorable Federal Government audit results could subject us to a variety of penalties and sanctions and could harm our reputation and relationships with our customers and impair our ability to win new contracts.

The Federal Government, including the Defense Contract Audit Agency (DCAA), audits and reviews our performance on contracts, pricing practices, cost structure and compliance with applicable laws, regulations, and standards. The DCAA reviews a contractor's internal control system and policies, including the contractor's purchasing, property, estimating, compensation, and management information systems, and the contractor's compliance with such policies. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. Adverse findings in a DCAA audit could materially affect our competitive position and result in a substantial adjustment to our revenue and profit.

If a Federal Government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with Federal Government agencies. In addition, we could suffer serious harm to our reputation and competitive position if allegations of impropriety were made against us, whether or not true. If our reputation or relationship with Federal Government agencies were impaired, or if the Federal Government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our revenue and operating profit would decline.

Other Risks Related to Our Stock

Our stock price is volatile and could decline.

The stock market in general has been highly volatile. As a result, the market price of our common stock is likely to be similarly volatile, and investors in our Class A common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects. The price of our Class A common stock could be subject to wide fluctuations in response to a number of factors, including those listed in this “Risk Factors” section.

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

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

We expect our revenue and operating results to vary from quarter to quarter. As a result, our operating results may fall below the expectations of securities analysts and investors, which could cause the price of our common stock to decline. Factors that may affect our operating results include those listed in this “Risk Factors” section and others such as:

- fluctuations in revenue recognized on contracts;
- variability in demand for our services and solutions;
- commencement, completion or termination of contracts during any particular quarter;
- timing of award or performance incentive-fee notices;
- timing of significant bid and proposal costs;
- timing of acquisition activities and the expensing of acquisition-related costs;
- variable purchasing patterns under the GSA Schedule 70 task orders, GWACs, blanket purchase agreements, and other agency-specific IDIQ contracts;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, and joint ventures;
- strategic investments or changes in business strategy;
- changes in the extent to which we use subcontractors;
- the volume of product orders placed under our NETCENTS contract or other material related purchases under our contracts;
- seasonal fluctuations in our staff utilization rates; and
- Federal Government shutdowns or temporary facility closings.

Reductions in revenue in a particular quarter could lead to lower profitability during that quarter because a relatively large amount of our expenses is fixed in the short term. We may incur significant operating expenses during the startup and early stages of large contracts and may not be able to recognize corresponding revenue during that same quarter. We also may incur additional expenses when contracts expire, are terminated or are not renewed.

In addition, payments due to us from Federal Government agencies may be delayed due to billing cycles or as a result of failures of Government budgets to gain Congressional and administration approval in a timely manner. The Federal Government's fiscal year ends September 30. If a Federal budget for the next Federal fiscal year has not been approved by that date in each year, our customers may have to suspend engagements that we are working on until a budget has been approved. Any such suspensions may reduce our revenue during the fourth quarter of that year or the first quarter of the subsequent year. The Federal Government's fiscal year-end can also trigger increased purchase requests from customers for equipment and materials. Any increased purchase requests we receive as a result of the Federal Government's fiscal year-end would serve to increase our third- or fourth-quarter revenue but will generally decrease profit margins for that quarter, as these activities generally are not as profitable as our typical offerings.

Mr. Narang, our founder, Chairman and CEO, controls the Company, and his interests may not be aligned with yours.

As of February 17, 2009, Mr. Narang, our founder, Chairman and CEO, through his beneficial ownership of 5,200,000 shares of our Class B common stock and 398,946 shares of our Class A common stock, owns or controls 87% of the combined voting power and 42% of the outstanding shares of the common stock. Accordingly, Mr. Narang will control the vote on all matters submitted to a vote of our stockholders. As long as Mr. Narang beneficially owns the majority of the voting power of our common stock, he will have the ability—without the consent of our public stockholders—to elect all members of our board of directors and to control our management and affairs. Mr. Narang's voting control may have the effect of preventing or discouraging transactions involving a change in control, including proxy contests, tender offers, mergers, or other purchases of the capital stock of the Company, regardless of whether a premium is offered over then-current market prices.

A substantial number of shares of our common stock are eligible for sale by Mr. Narang, which could cause our common stock price to decline significantly.

As of February 17, 2009, Mr. Narang beneficially owns 5,200,000 outstanding shares of Class B common stock and 398,946 shares of Class A common stock. Mr. Narang may, at his discretion, sell these shares in the public market, subject to applicable volume restriction and manner of sale requirements imposed on affiliates under Rule 144 of the Securities Act. The market price of our common stock could drop significantly if Mr. Narang sells them or is perceived by the market as intending to sell them.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease office facilities used in our business. Our executive offices and principal operations are located at 11730 Plaza America Drive, Reston, Virginia, where we occupy space under a lease that expires during 2013. We also lease space located in Alabama, Arizona, Colorado, Georgia, Illinois, Maryland, Ohio, Tennessee, Texas, and Virginia. We have multiple high-level Sensitive Compartmented Information Facilities (SCIFs). The majority of our employees are located in facilities provided by the Federal Government. We do not currently own any real estate used in the performance of ongoing contracts and maintain flexibility in facility occupancy through termination and subleasing options concurrent with contract terms in many of our leases. We believe our facilities meet our current needs and that additional facilities will be available as we expand in the future.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings arising in the ordinary course of business. At this time, the probability is remote that the outcome of any litigation pending will have a material adverse effect on our financial condition and results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since October 24, 2005, our Class A common stock has been quoted on the NASDAQ Stock Market under the symbol "NCIT." The following table sets forth, for the periods indicated, the high and low prices of our shares of common stock, as reported on the NASDAQ Stock Market.

	2008		2007	
	High	Low	High	Low
Quarters				
First	\$20.16	\$13.32	\$16.88	\$12.83
Second	25.98	18.28	17.74	14.41
Third	28.91	21.71	19.17	14.86
Fourth	30.28	18.26	20.88	16.58

There is no established public market for our Class B common stock.

As of February 17, 2009, there were six holders of record of our Class A common stock and one holder of record of our Class B common stock. The number of holders of record of our Class A common stock is not representative of the number of beneficial holders because many of the shares are held by depositories, brokers, or nominees. As of February 17, 2009, the closing price of our Class A common stock was \$29.11.

Dividend Policy

We currently intend to retain all future earnings, if any, for use in the operation, development, and expansion of our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend on then-existing conditions, business prospects, and any other factors our board of directors deems relevant. Our existing credit facility prohibits us from paying a dividend if, after it is paid, we will be in default under our credit agreement. In addition, the terms of any future credit agreement may prevent us from paying any dividends or making any distributions or payments with respect to our capital stock.

All our assets consist of the stock of our subsidiary. We will need to rely upon dividends and other payments from our subsidiary to generate the funds necessary to make dividend payments, if any, on our Class A common stock. However, our subsidiary is legally distinct from us and has no obligation to pay amounts to us. The ability of our subsidiary to make dividend and other payments to us is subject to, among other things, the availability of funds, the terms of our subsidiary's indebtedness and applicable state laws.

Recent Sales of Unregistered Securities

None.

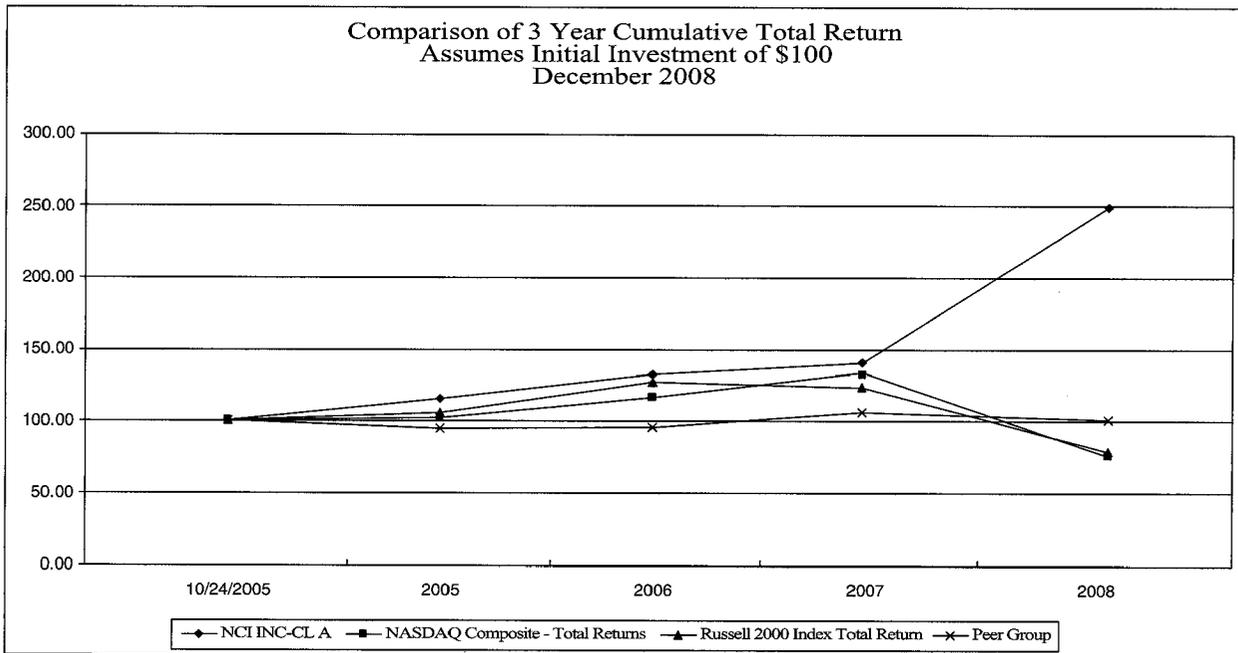
Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Performance Graph

The following graph compares the cumulative total stockholder return on our common stock from October 24, 2005 (the first trading in our Class A common stock), through December 31, 2008, with the cumulative total return on (i) the NASDAQ Composite—Total Returns, (ii) the Russell 2000 stock index, and (iii) a peer group composed of NCI and the following other Federal Government service providers with whom we compete: CACI International Inc., Dynamics Research Corporation, ICF International Inc., ManTech International Corporation, SRA International Inc., and Stanley Inc. During 2008, BAE purchased MTC Technologies, Inc. Because MTC Technologies, Inc. is no longer a stand alone company, we removed MTC Technologies Inc. from our peer group. During 2008, Serco Group PLC purchased SI International, Inc. Because SI International, Inc. is no longer a stand alone company, we removed SI International Inc. from our peer group. The comparison also assumes that all dividends are reinvested and all returns are market-cap weighted. The historical information set forth below is not necessarily indicative of future performance.

**COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG NCI, INC., THE NASDAQ COMPOSITE—TOTAL RETURNS, THE RUSSELL 2000 INDEX
AND FEDERAL GOVERNMENT SERVICES PEER GROUP**



	December 31, 2008
<i>NCI, Inc.</i>	\$248.61
NASDAQ Composite—Total Returns	77.06
Russell 2000 Index	80.32
Federal Government services peer group	102.87

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth the selected consolidated financial data for each of the years during the five-year period ended December 31, 2008. We derived the selected consolidated financial data from our audited consolidated financial statements. Prospective investors should read this selected financial data in conjunction with “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this report.

	Year ended December 31,				
	2008 (a)	2007 (b)	2006	2005	2004
	(in thousands except per share data)				
Statements of Operations Data:					
Revenue	\$390,596	\$304,420	\$218,340	\$191,319	\$171,253
Operating costs and expenses:					
Cost of revenue	336,473	263,679	188,878	162,990	144,146
General and administrative expenses	20,079	15,396	12,852	14,411	16,363
Depreciation and amortization	1,888	1,652	1,629	1,636	1,741
Amortization of intangible assets	1,772	1,360	957	1,053	1,252
Total operating costs and expenses	360,212	282,087	204,316	180,090	163,502
Operating income	30,384	22,333	14,024	11,229	7,751
Interest income	113	544	817	125	26
Interest expense	(2,139)	(1,886)	(89)	(1,464)	(1,373)
Income before income taxes	28,358	20,991	14,752	9,890	6,404
Provision for income taxes (c)	11,318	8,420	5,493	(2,425)	276
Net income	\$ 17,040	\$ 12,571	\$ 9,259	\$ 12,315	\$ 6,128
Earnings per share:					
Basic	\$ 1.28	\$ 0.94	\$ 0.69	\$ 1.53	\$ 0.90
Diluted	\$ 1.25	\$ 0.93	\$ 0.69	\$ 1.41	\$ 0.82
Weighted average shares:					
Basic	13,362	13,335	13,328	8,070	6,779
Diluted	13,633	13,539	13,483	8,730	7,443
Unaudited pro forma net income:					
Income before taxes				\$ 9,890	\$ 6,404
Pro forma provision for income taxes (c)				3,845	2,595
Pro forma net income				\$ 6,045	\$ 3,809
Pro forma earnings per share:					
Basic				\$ 0.75	\$ 0.56
Diluted				\$ 0.71	\$ 0.53
Pro forma weighted average shares:					
Basic				8,070	6,779
Diluted				8,473	7,158

	As of December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Condensed Balance Sheet Data:					
Cash and cash equivalents	\$ 1,267	\$ 109	\$ 13,930	\$ 12,323	\$ 40
Net working capital	41,146	38,563	46,320	35,602	4,653
Total assets	200,333	178,746	106,799	90,021	64,170
Total debt, including current portion	40,220	43,318	381	480	24,503
Total stockholders’ equity	98,859	80,241	66,586	57,171	16,043

Notes to Five-Year Summary

- Effective March 15, 2008, the Company completed the acquisition of a business from MTC Technologies, Inc.
- Effective June 27, 2007, the Company acquired Karta Technologies, Inc. (Karta). Karta added \$29 million in revenue to our 2007 financial results. Effective January 31, 2007, the Company acquired Operational Technologies Services, Inc. (OTS). OTS added \$9 million in revenue to our 2007 financial results.
- For periods prior to October 19, 2005, the Company was treated for tax purposes as an S corporation. The tax provision shown for those periods reflects the taxes associated with various states that do not recognize the S-corporation tax status. The 2005 Provision for income taxes benefit reflects the transition from an S- to a C-corporation and the tax benefit associated with the initial booking of our net deferred tax assets, offset by the provisional taxes associated with the period the Company was a C-corporation. For comparative purposes, we have included a pro forma provision for income taxes assuming we had been taxed as a C-corporation during all periods when our S-corporation election was in effect.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our financial statements and the related notes included elsewhere in this Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions, such as statements of our plans, objectives, expectations, and intentions. Our actual results could differ materially from those anticipated in the forward-looking statements. Factors that could cause or contribute to our actual results differing materially from those anticipated include, but are not limited to, those discussed in Item 1A. Risk Factors and elsewhere in this Form 10-K.

OVERVIEW

We are a provider of information technology (IT), engineering, and professional engineering services and solutions to U.S. Federal Government agencies. Our technology and industry expertise enables us to provide a full spectrum of services and solutions that assist our customers in achieving their program goals. We deliver a wide range of complex services and solutions by leveraging our skills across eight core competencies:

- enterprise systems management;
- network engineering;
- information assurance and cybersecurity;
- systems engineering and integration;
- program management, acquisition, and lifecycle support;
- engineering and logistics;
- medical transformation/health IT; and
- distance learning and training.

We generate the majority of our revenue from Federal Government contracts. We report operating results and financial data as one operating segment in accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131). Revenue from our contracts and task orders is generally linked to trends in Federal Government spending by defense, intelligence, and Federal civilian agencies. The following table shows our revenue from the customer groups listed as a percentage of total revenue for the period shown.

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Department of Defense and intelligence agencies	81.0%	81.5%	82.0%
Federal civilian agencies	16.3	18.0	17.9
Commercial and state & local entities	2.7	0.5	0.1
Total revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

We believe that our contract base is well diversified. As of December 31, 2008, our total contract backlog was approximately \$1,189 million of which approximately \$234 million was funded. We define backlog as our estimate of the remaining future revenue from existing signed contracts over the remaining base contract performance period and from the option periods of those contracts, assuming the exercise of all related options. Our backlog does not include any estimate of future potential delivery orders that might be awarded under our GWAC, agency-specific IDIQ, or other multiple-award contract vehicles. We define funded backlog as 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 agency, less the amount of revenue we have

previously recognized. Our funded backlog does not represent the full potential value of our contracts, as Congress often appropriates funds for a particular program or agency on a quarterly or yearly basis, even though the contract may provide for the provision of services over a number of years. We define unfunded backlog as the total backlog less the funded backlog. Unfunded backlog includes values for contract options that have been priced but not yet funded.

Revenue

The majority of our revenue is derived from services and solutions provided to the Federal Government, primarily by our employees and, to a lesser extent, our subcontractors. In some cases, our revenue includes third-party hardware and software that we purchase on behalf of our customers. The level of hardware and software purchases we make for customers may vary from period to period, depending on specific contract and customer requirements.

Contract Types

Our services and solutions are provided under three types of contracts: time-and-materials; cost-plus; and fixed-price. Our contract mix varies from year to year due to numerous factors including our business strategies and Federal Government procurement objectives.

The following table shows our revenue from each of these types of contracts as a percentage of our total revenue for the periods shown.

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Time-and-materials	45.4%	38.2%	40.1%
Cost-plus	21.9	29.0	28.5
Fixed-price	32.7	32.8	31.4
Total revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The amount of risk and potential reward varies under each type of contract. Under time-and-materials contracts, where we are paid a fixed hourly rate by labor category, to the extent that our actual labor costs vary significantly from the negotiated hourly rates, we may generate more or less than the targeted amount of profit. We are typically reimbursed for other contract direct costs and expenses at our cost, and typically receive no fee on those costs. Under cost-plus-type contracts, there is limited financial risk, because we are reimbursed all our allowable costs, and therefore, the profit margins tend to be lower on cost-plus-type contracts. Under fixed-price contracts, we perform specific tasks or provide specified goods for a predetermined price. Compared to time-and-materials and cost-plus contracts, fixed-price contracts generally offer higher profit margin opportunities but involve greater financial risk because we bear the impact of potential cost overruns in return for the full benefit of any cost savings. The majority of our fixed-price service contracts are fixed-price level-of-effort work, which has a lower risk than fixed-price completion contracts, such as software development. Some of our GWACs include provisions for both services, as well as product (hardware and software) purchases. Fixed-price product sales, such as under our NETCENTS contract, tend to carry lower margins, but with lower risk as well, because our prices from our vendors are fixed.

Operating Expenses

Cost of Revenue

Cost of revenue primarily includes direct costs incurred to provide our services and solutions to customers. The most significant portion of these costs is salaries and wages, plus associated fringe benefits including stock compensation, of our employees directly serving customers, in addition to the related management, facilities, and

infrastructure costs. Cost of revenue also includes the costs of subcontractors and outside consultants, third-party materials, such as hardware or software that we purchase and provide to the customer as part of an integrated solution, and any other related direct costs, such as travel expenses. Because we earn higher profits on our own labor services, we expect the ratio of cost of revenue as a percentage of 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 revenue as a percentage of revenue to increase. Changes in the mix of services and equipment provided under our contracts can result in variability in our contract margins. In addition, 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 and the potential for more third-party hardware and software purchases. While these factors could lead to a higher ratio of cost of revenue as a percentage of revenue, the economics of these larger jobs are nonetheless generally favorable because they increase income, broaden our revenue base, and have a favorable return on invested capital.

General and Administrative Expenses

General and administrative expenses include corporate business development, bid and proposal, contracts administration, finance and accounting, legal, corporate governance, and executive and senior management. The primary items of general and administration expenses are the salaries and wages, plus associated fringe benefits including stock compensation, and the facilities related costs of our employees performing these functions.

Depreciation and Amortization

Depreciation and amortization includes the depreciation of computers, furniture and other equipment, the amortization of third-party software we use internally, and leasehold improvements.

Amortization of Intangible Assets

Amortization of intangible assets includes the amortization of identifiable intangible assets over their estimated useful lives. Non-compete agreements are generally amortized straight-line over the term of the agreement, while contracts and related customer relationships are amortized proportionately against the acquired backlog.

Interest Income and Expense

Interest income is primarily related to earnings on short-term, highly liquid investments of our excess cash. Interest expense is primarily related to interest expense incurred or accrued under our outstanding borrowings and interest on capital leases.

Results of Operations

The following table sets forth certain items from our consolidated statements of operations for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(in thousands)		(as a Percentage of Revenue)	
Revenue	\$390,596	\$304,420	100.0%	100.0%
Operating costs and expenses:				
Cost of revenue	336,473	263,679	86.1	86.6
General and administrative expenses	20,079	15,396	5.1	5.1
Depreciation and amortization	1,888	1,652	0.5	0.6
Amortization of intangible assets	1,772	1,360	0.5	0.4
Total operating costs and expenses	<u>360,212</u>	<u>282,087</u>	<u>92.2</u>	<u>92.7</u>
Operating income	30,384	22,333	7.8	7.3
Interest income	113	544	—	0.2
Interest expense	(2,139)	(1,886)	(0.5)	(0.6)
Income before taxes	28,358	20,991	7.3	6.9
Provision for income taxes	11,318	8,420	2.9	2.8
Net income	<u>\$ 17,040</u>	<u>\$ 12,571</u>	<u>4.4%</u>	<u>4.1%</u>

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue: Revenue for the year ended December 31, 2008, was \$391 million, compared to \$304 million for the year ended December 31, 2007, representing an increase of \$87 million, or 28.3%. Our organic growth, which reflects our increase in revenue from year to year excluding the effect of acquisitions, for the year ended December 31, 2008, was 10.5%. The increase in revenue was due to our acquisitions, new contract awards, and growth on existing contracts. Our acquisitions added approximately \$65 million to our 2008 revenue. New contract awards consisted primarily of numerous new task order awards under our ITES-2S, NETCENTS, and TEIS contracts. Additionally, we saw significant revenue growth on a number of contracts with the Army and National Guard. The additional revenue on these and other contracts was partially offset by a decrease in revenue due to lower product sales under our NETCENTS contract, as well a reduction in revenue from expired contracts or funding reductions under existing contracts.

Cost of revenue: Cost of revenue for the year ended December 31, 2008, was \$336 million, or 86.1% of revenue, compared to \$264 million, or 86.6%, for the year ended December 31, 2007. The increase was due to approximately \$46 million in higher direct labor and associated indirect expenses, such as fringe benefits, and approximately \$27 million in additional subcontractor support, IT product costs, and other direct costs incurred under our contracts. These increases are the result of our acquisitions, new contract awards, and growth on existing contracts. The decrease in cost of revenue as a percentage of revenue is due to an increase in our direct labor as a percentage of revenue, which typically carries higher margins.

General and administrative expenses: General and administrative expenses for the year ended December 31, 2008, were \$20.1 million, or 5.1% of revenue, compared to \$15.4 million, or 5.1% of revenue, for the year ended December 31, 2007. The increase in general and administrative expenses was due to our acquisition of Karta in June 2007 and its associated general and administrative expenses for the full year 2008 versus six months in 2007, an increase in bid and proposal costs of \$1.6 million more in 2008 compared to 2007.

Amortization of intangible assets: Amortization of intangible assets for the year ended December 31, 2008, was \$1.8 million, compared to \$1.4 million for the year ended December 31, 2007. The increase was the result of the amortization associated with the contracts and customer relationships and non-compete intangible assets recorded in connection with our acquisitions.

Operating income: For the year ended December 31, 2008, operating income was \$30.4 million, or 7.8% of revenue, compared to \$22.3 million, or 7.3% for the year ended December 31, 2007. Operating income, as a percent of revenue, increased primarily due to a decrease in cost of revenue as a percentage of revenue. That decrease is the result of increased revenue from our own direct labor compared to revenue from subcontractors and IT product revenue, which typically carries higher margins.

Interest income and interest expense: For the year ended December 31, 2008, net interest expense was \$2.0 million, compared to net interest expense of \$1.3 million for the year ended December 31, 2007. The increase in interest expense was the result of increasing debt in connection with the MTC business acquisition during March 2008 and the Karta acquisition during June 2007.

Income tax: For the year ended December 31, 2008, our income tax expense was 39.9% of our income before tax. This is a decrease from 40.1% for the year ended December 31, 2007.

The following table sets forth certain items from our consolidated statements of operations for the years ended December 31:

	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(in thousands)		(as a Percentage of Revenue)	
Revenue	\$304,420	\$218,340	100.0%	100.0%
Operating costs and expenses:				
Cost of revenue	263,679	188,878	86.6	86.6
General and administrative expenses	15,396	12,852	5.1	5.9
Depreciation and amortization	1,652	1,629	0.6	0.7
Amortization of intangible assets	1,360	957	0.4	0.4
Total operating costs and expenses	<u>282,087</u>	<u>204,316</u>	<u>92.7</u>	<u>93.6</u>
Operating income	22,333	14,024	7.3	6.4
Interest income	544	817	0.2	0.4
Interest expense	(1,886)	(89)	(0.6)	—
Income before taxes	20,991	14,752	6.9	6.8
Provision for income taxes	8,420	5,493	2.8	2.6
Net income	<u>\$ 12,571</u>	<u>\$ 9,259</u>	<u>4.1%</u>	<u>4.2%</u>

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenue: Revenue for the year ended December 31, 2007, was \$304 million, compared to \$218 million for the year ended December 31, 2006, representing an increase of \$86 million, or 39%. The increase in revenue was due to our acquisitions, new contract awards and growth on existing contracts. Our acquisitions added approximately \$38 million to our 2007 revenue. New contract awards consisted primarily of numerous new task order awards under our NETCENTS, DESP II and ITES-2S contracts. Additionally, we saw significant revenue growth on a contract with the intelligence community, as well as on a number of contracts with the Army and National Guard. The additional revenue on these and other contracts was partially offset by a decrease in revenue of approximately \$9 million due to lower product sales under our NETCENTS contract, as well a reduction in revenue from expired contracts or funding reductions under existing contracts, particularly with some of our civilian agency customers.

Cost of revenue: Cost of revenue for the year ended December 31, 2007, was \$264 million, or 86.6% of revenue, compared to \$189 million, or 86.6%, for the year ended December 31, 2006. The increase was due to approximately \$33 million in higher direct labor and associated indirect expenses such as fringe benefits and approximately \$42 million additional subcontractor support and IT product costs under our contracts. These increases are the result of our acquisitions, new contract awards, and growth on existing contracts.

General and administrative expenses: General and administrative expenses for the year ended December 31, 2007, were \$15.4 million, or 5.1% of revenue, compared to \$12.9 million, or 5.9% of revenue, for the year ended December 31, 2006. The increase in general and administrative expenses was primarily due to our acquisition of Karta and its associated general and administrative expenses. There was also an increase in stock option compensation expense, to \$0.5 million for the year ended December 31, 2007, compared to \$0.1 million for the year ended December 31, 2006, due primarily to the acceleration of vesting on some of our outstanding options from the achievement of certain performance targets. General and administrative expenses as a percentage of revenue declined as we continue to leverage our corporate infrastructure expenses over a larger revenue base.

Amortization of intangible assets: Amortization of intangible assets for the year ended December 31, 2007, was \$1.4 million, compared to \$1.0 million for the year ended December 31, 2006. The increase was the result of the amortization associated with the contracts and customer relationships and non-compete intangible assets recorded in connection with the acquisitions of OTS and Karta, which was offset by declining amortization of the intangible assets from the SES acquisition.

Operating income: For the year ended December 31, 2007, operating income was \$22.3 million, or 7.3% of revenue, compared to \$14.0 million, or 6.4% for the year ended December 31, 2006. Operating income, as a percentage of revenue, increased primarily due to a decrease in general and administrative expenses as a percentage of revenue.

Interest income and interest expense: For the year ended December 31, 2007, net interest expense was \$1.3 million, compared to net interest income of \$0.7 million for the year ended December 31, 2006. The decrease in interest income and increase in interest expense was the result of using cash and debt for the acquisitions of OTS and Karta during 2007.

Income tax: For the year ended December 31, 2007, our income tax expense was 40.1% of our income before tax. This is an increase from 37.2% for the year ended December 31, 2006. The income tax expense for 2006 was reduced by a one-time gain of approximately \$0.3 million from finalizing our 2005 income tax returns during 2006. Without this one-time gain, our 2006 tax rate would have been 39.7%.

Effects of Inflation

We generally have been able to price our contracts in a manner to accommodate the rates of inflation experienced in recent years. During 2008, approximately 45% of our revenue was generated under time-and-materials contracts, where labor rates are usually adjusted annually by predetermined escalation factors. Also during 2008, approximately 22% of our revenue was generated under cost-plus contracts, which automatically adjust for changes in cost. The remaining 33% of our revenue was generated under fixed-price contracts, in which we include a predetermined escalation factor and for which we generally have not been adversely affected by inflation.

Liquidity and Capital Resources

Our primary liquidity needs are for financing working capital, investing in capital expenditures, and making selective strategic acquisitions. We expect the combination of current cash on hand, cash flows from operations, and the available borrowing capacity on our credit facility to continue to meet our normal working capital and capital expenditure requirements for at least the next twelve months. As part of our growth strategy, we may pursue acquisitions that could require us to obtain additional debt or issue equity.

During 2008, we borrowed approximately \$15.0 million from our credit facility for the acquisition of a business from MTC. Our other significant use of working capital is for accounts receivables. During 2008, the balance of accounts receivable increased by \$3.7 million to \$92.2 million at the end of the year. Days sales outstanding of accounts receivable (DSO) stood at 83 days as of December 31, 2008. This is a decrease of 9 days as compared to December 31, 2007. This improvement resulted from improved billing and collections processes and the resolution of some Government payment office issues.

The borrowing capacity under our credit facility consists of a revolving credit facility with a principal amount of up to \$90.0 million, which includes a swingline facility with an original principal amount of up to \$5.0 million. The outstanding balance of the facility accrues interest based on LIBOR plus an applicable margin, ranging from 100 to 175 basis points, based on a ratio of funded debt to earnings. The accrued interest is due and payable monthly. The credit facility expires on March 14, 2011.

Funds borrowed under the credit facility will be used to finance possible future acquisitions, to provide for working capital expenditures, and for general corporate uses. As of December 31, 2008, there was approximately \$40 million due under the credit facility, which reflects approximately \$18 million of repayments since our acquisition of a business from MTC during March 2008. During 2009, we plan to continue to use our operating cash flows to reduce our loan balance. As of December 31, 2008, the loan accrued interest at a rate of LIBOR plus 100 basis points, or 1.43% and we were in compliance with all our loan covenants.

The loan interest accrual rate is set monthly at LIBOR plus a set amount (spread). One of the primary factors determining the spread is the ratio of the amount of our outstanding senior debt ratio to Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) adjusted for acquisitions. The lower our ratio, the lower our spread above LIBOR. As of December 31, 2008 our ratio stood at 1.1 to 1 and the spread above LIBOR was 100 basis points. Our spread above LIBOR is based on the following loan covenant.

<u>EBITDA Ratio</u>	<u>Set Amount Above LIBOR</u>
Below 2.0 to 1	100 basis points
Between 2.0 and 2.5 to 1	125 basis points
Between 2.5 and 3.0 to 1	150 basis points
Greater than 3.0 to 1	175 basis points

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2008, that require us to make future cash payments.

	<u>Payments due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
	(in thousands)				
Contractual obligations:					
Bank loan	\$40,000	\$ —	\$40,000	\$ —	\$—
Capital lease obligations	235	131	104	—	—
Operating lease obligations	304	190	114	—	—
Rent on facilities	<u>26,281</u>	<u>7,009</u>	<u>12,170</u>	<u>7,063</u>	<u>39</u>
Total	<u>\$66,820</u>	<u>\$7,330</u>	<u>\$52,388</u>	<u>\$7,063</u>	<u>\$ 39</u>

Critical Accounting Policies

Revenue Recognition

Our revenue recognition policy addresses our three different types of contractual arrangements: time-and-materials contracts, cost-plus contracts, and fixed-price contracts.

Time-and-Materials Contracts: Revenue for time-and-materials contracts are recognized as services are performed, generally, on the basis of contract allowable labor hours worked multiplied by the contract defined billing rates, plus the direct costs and indirect cost burdens associated with materials and other direct expenses used in performance on the contract. Profits on time-and-material contracts result from the difference between the cost of services performed and the contract-defined billing rates for these services.

Cost-Plus Contracts: Revenue on cost-plus contracts is recognized as services are performed, generally, based on the allowable costs incurred during the period, plus any recognizable earned fee. The Company does not recognize award-fee income until the fees are fixed and determinable, generally upon contract notification confirming the award fee. Due to such timing, and to fluctuations in the level of revenue, profit as a percentage of revenue on award-fee contracts will fluctuate period to period.

Fixed-Price Contracts: Revenue recognition methods on fixed-price contracts will vary depending on the nature of the work and the contract terms. Revenue on fixed-price service contracts are recognized as services are performed in accordance with Staff Accounting Bulletin No. 104 (SAB 104). SAB 104 generally requires revenue to be deferred until all of the following have occurred: (1) there is a contract in place, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectibility is reasonably assured. Revenue on fixed-price contracts that require delivery of specific items may be recognized based on a price per unit as units are delivered. Revenue for fixed-price contracts in which the Company is paid a specific amount to provide services for a stated period of time is recognized ratably over the service period. Profits related to contracts that are accounted for under SAB 104 may fluctuate from period to period, particularly in the early phases of the contract. Anticipated losses on SAB 104 contracts are recognized as incurred.

Revenue on certain fixed-price completion contracts that are within the scope of Statement of Position 81-1, *Accounting for Performance of Construction Type and Certain Production-Type Contracts* (SOP 81-1) is recognized on the percentage-of-completion method using costs incurred in relation to total estimated costs, because these contracts require design, engineering, and manufacturing performed to the customer's specifications. Profits on fixed-price contracts result from the difference between the incurred costs and the revenue earned. A portion of the Company's revenue is derived from arrangements that include software developed and/or provided by the Company. The Company recognizes this revenue in accordance with SOP 97-2, *Software Revenue Recognition* (SOP 97-2) as amended by SOP 98-9, *Software Revenue Recognition, With Respect to Certain Transactions* (SOP 98-9), by applying the provisions of SOP 81-1, as appropriate, which is recognized under the percentage-of-completion method.

Contract accounting requires significant judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of the Company's contracts, the estimation of total revenue and cost at completion requires the use of estimates. Contract costs include material, labor and subcontracting costs, as well as an allocation of allowable indirect costs. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. For contract change orders, claims or similar items, the Company applies judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. Estimates of total contract revenue and costs are continuously monitored during the term of the contract and are subject to revision as the contract progresses. Anticipated losses on contracts accounted for under SOP 81-1 are recognized in the period they are deemed probable and can be reasonably estimated.

Our contracts may include the delivery of a combination of one or more of the Company's service offerings. In these situations, we apply the separation criteria in Emerging Issues Task Force (EITF) Issue 00-21, *Revenue Arrangements with Multiple Deliverables*, to determine whether our arrangements with multiple elements should be treated as separate units of accounting with revenue allocated to each element of the arrangement based on the relative fair value of each element.

Goodwill and the Amortization of Intangible Assets

Our accounting policy regarding acquisitions is in accordance with SFAS No. 141, *Business Combinations*, whereby the net tangible and identifiable intangible assets acquired and liabilities assumed are recognized at their estimated fair values at the date of acquisition. At the time of the acquisition, all intangibles including the contracts and related customer relationships and non-compete agreements are reviewed to determine the term of amortization for each intangible asset.

Our accounting policy regarding goodwill and the amortization of intangible assets requires that goodwill be reviewed for impairment no less than annually or when circumstances change that would more likely than not reduce the fair value of goodwill below its carrying amount. Annually on October 1, we perform a fair-value analysis of our reporting unit. If goodwill becomes impaired, the Company would record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill is determined. As of October 1, 2008, the Company determined that its goodwill was not impaired.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*. An impairment loss is recognized if the sum of the long-term undiscounted cash flows is less than the carrying amount of the long-lived asset being evaluated. Any write-downs are treated as permanent reductions in the carrying amount of the assets and will result in a reduction of earnings in the period incurred.

Contract rights are amortized proportionately against the acquired backlog. Non-compete agreements are amortized over their estimated useful lives. Acquired software is amortized over its estimated useful life.

Our acquisitions to date have been treated as asset purchases under the Internal Revenue Code. As such, the goodwill generated from those acquisitions is deductible for tax purposes. For the year ended 2008, the tax deduction was \$5.7 million. At our tax rate of 39.9%, this deduction saved us approximately \$2.3 million in current income tax expenditures. As previously noted, goodwill is not deducted for book purposes. Consequently, as we deduct the goodwill for tax purposes, we are increasing our deferred tax liabilities.

New Accounting Pronouncements

During December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141), which became effective January 1, 2009. The new standard replaces existing guidance and significantly changes accounting and reporting relative to business combinations in consolidated financial statements, including requirements to recognize acquisition-related transaction and post acquisition restructuring costs in the results of operations as incurred.

We adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) effective January 1, 2008 as it relates to financial assets. SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair-value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair-value measurements. The adoption of SFAS No. 157 did not have a material impact on our results of operations, financial position, or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk relates to changes in interest rates for borrowings under our Credit Agreement. For the year ended December 31, 2008, a 1% change in interest rates would have changed our interest expense and cash flows by approximately \$0.5 million. These estimates are based on our average balances for the respective periods.

Additionally, we are subject to credit risks associated with our cash, cash equivalents, and accounts receivable. We believe that the concentration of credit risks with respect to cash equivalents and investments are limited due to the high credit quality of these investments. Our investment policy requires that we invest excess cash in high-quality investments which preserve principal, provide liquidity, and minimize investment risk. We also believe that our credit risk associated with accounts receivable is limited as they are primarily with the Federal Government.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of NCI, Inc. are submitted in this report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has had no disagreements with its auditors on accounting principles, practices, or financial statement disclosure during and through the date of the financial statements included in this Report.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Securities Exchange Act of 1934, such as this Annual Report on Form 10-K, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of management or the Company's Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material adverse effect on the Company's financial statements.

Limitations on the Effectiveness of Controls

Management, including the Company's Chief Executive Officer and Chief Financial Officer, do not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent all errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Assessments

The assessment by the Company's Chief Executive Officer and the Company's Chief Financial Officer of the Company's disclosure controls and procedures and the assessment by our management of our internal control over financial reporting included a review of procedures and discussions with other employees in the Company's organization. In the course of the assessments, management sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. Management used the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to assess the effectiveness of our internal control over financial reporting. The assessments of the Company's disclosure controls and procedures is done on a periodic basis, so the conclusions can be reported each quarter on the Company's Quarterly Reports on Form 10-Q, including the Company's Annual Report on Form 10-K with respect to the fourth quarter. Our internal control over financial reporting is also assessed on an ongoing basis by management and other personnel in the Company's accounting department. We consider the results of these various assessment activities as we monitor our disclosure controls and procedures and internal control over financial reporting and when deciding to make modifications as necessary. Management's intent in this regard is that the disclosure controls and procedures and the internal control over financial reporting will be maintained and updated (including improvements and corrections) as conditions warrant.

Evaluation of the Effectiveness of Disclosure Controls and Procedures

Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2008, the Company's disclosure controls and procedures were effective.

Management's Report on Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate control over financial reporting. Management used the criteria issued by COSO in *Internal Control—Integrated Framework* to assess the effectiveness of our internal control over financial reporting. Based upon the assessments, our management has concluded that as of December 31, 2008, our internal control over financial reporting was effective. Our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal control over financial reporting, which is included elsewhere in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

The Company made no change to its internal control over financial reporting during the three months ended December 31, 2008, that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information concerning our directors and executive officers required by Item 401 of Regulation S-K is included under the captions "Election of Directors" and "Executive Compensation," respectively, in our definitive Proxy Statement to be filed with the SEC in connection with our 2009 Annual Meeting of Stockholders (the "2009 Proxy Statement"), and that information is incorporated by reference in this Form 10-K.

The information required by Item 405 of Regulation S-K concerning compliance with Section 16(a) of the Exchange Act is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our 2009 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

The information required by Item 406 of Regulation S-K concerning the Company's Code of Ethics is included under the caption "Election of Directors" in our 2009 Proxy Statement, and that information is incorporated by referenced in this Form 10-K.

The information required by Item 407(c)(3) of Regulation S-K concerning the procedures by which Company stockholders may recommend nominees to the Company's Board of Directors is included under the caption "Election of Directors" in our 2009 Proxy Statement, and that information is incorporated by referenced in this Form 10-K.

The information required by Item 407(d)(4) of Regulation S-K concerning the Audit Committee is included under the caption "Report of the Audit Committee of the Board of Directors" in our 2009 Proxy Statement, and that information is incorporated by referenced in this Form 10-K.

The information required by Item 407(d)(5) of Regulation S-K concerning the designation of an audit committee financial expert is included under the caption "Report of the Audit Committee of the Board of Directors" in our 2009 Proxy Statement, and that information is incorporated by referenced in this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is included in the text and tables under the caption "Executive Compensation" in our 2009 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

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

The information required by this Item 12 is included under the captions "Beneficial Ownership" and "Equity Compensation Plan Information" in our 2009 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is included under the captions "Election of Directors" and "Certain Relationships and Related Transactions" in our 2009 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is included under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm" in our 2009 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this annual report on Form 10-K:

- (1) All financial statements
- (2) Financial statement Schedule II, Valuation and Qualifying Accounts
- (3) Exhibits required by Item 601 of Regulation S-K:

<u>Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated herein by reference from Exhibit 3.1 to registrant's Registration Statement on Form S-1 (File No. 333-127006), as filed with the Commission on October 4, 2005, as amended).
3.2	Bylaws of the Registrant (incorporated herein by reference from Exhibit 3.2 to registrant's Registration Statement on Form S-1 (File No. 333-127006), as filed with the Commission on July 29, 2005).
4.1	Specimen Class A Common Stock Certificate (incorporated herein by reference from Exhibit 4.1 to registrant's Registration Statement on Form S-1 (File No. 333-127006), as filed with the Commission on October 20, 2005, as amended).
4.2*	NCI, Inc. 2005 Performance Incentive Plan (incorporated herein by reference from Exhibit 4.2 to registrant's Registration Statement on Form S-1 (File No. 333-127006), as filed with the Commission on July 29, 2005).
4.3*	Form of 2005 Performance Incentive Plan Notice of Stock Option Grant and Stock Option Agreement (incorporated herein by reference from Exhibit 4.4 to registrant's Registration Statement on Form S-1 (File No. 333-127006), as filed with the Commission on October 20, 2005, as amended).
4.4*	2005 Incentive Compensation Plan (incorporated herein by reference from Exhibit 4.6 to registrant's Registration Statement on Form S-1 (File No. 333-127006), as filed with the Commission on October 4, 2005, as amended).
10.1*	401(k) Profit Sharing Plan (incorporated herein by reference from Exhibit 10.4 to registrant's Registration Statement on Form S-1 (File No. 333-127006), as filed with the Commission on July 29, 2005).
10.2	Loan and Security Agreement, dated March 14, 2006, by and among NCI, Inc., as the Parent Borrower, each of the Subsidiary Borrowers identified on the signature pages thereto, the several banks and financial institutions from time to time parties to the agreement, and SunTrust Bank as the Administrative Agent. (incorporated by reference from Exhibit 10.1 to registrant's Current Report on Form 8-K dated March 14, 2006 and filed with the Commission on March 17, 2006).
10.3	First Amendment to Loan and Security Agreement, dated August 1, 2006, by and among, NCI, Inc., as the Parent Borrower, each of the Subsidiary Borrowers identified on the signature pages thereto, the several banks and financial institutions from time to time parties to the agreement, and SunTrust Bank as the Administrative Agent (incorporated herein by reference from Exhibit 10.1 to registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2006 (File No. 000-51579), as filed with the Commission on November 7, 2006).

<u>Number</u>	<u>Description</u>
10.4	Second Amendment to Loan and Security Agreement, dated June 27, 2007, by and among, NCI, Inc., as the Parent Borrower, each of the Subsidiary Borrowers identified on the signature pages thereto, the several banks and financial institutions from time to time parties to the agreement, and SunTrust Bank as the Administrative Agent (incorporated herein by reference from Exhibit 10.1 to registrant's Current Report on Form 8-K (File No. 000-51579), as filed with the Commission on June 27, 2007).
10.5	Third Amendment to Loan and Security Agreement, dated March 20, 2008, by and among, NCI, Inc., as the Parent Borrower, each of the Subsidiary Borrowers identified on the signature pages thereto, the several banks and financial institutions from time to time parties to the agreement, and SunTrust Bank as the Administrative Agent (incorporated herein by reference from Exhibit 10.1 to registrant's Quarterly Report on Form 10-Q (File No. 000-51579), as filed with the Commission on August 1, 2008).
21.1‡	Subsidiaries of Registrant.
23.1‡	Consent of Ernst & Young LLP.
23.2‡	Consent of Padgett, Stratemann & Co., L.L.P.
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.

‡ Included with this filing.

* Management Contract or Compensatory Plan or Arrangement.

(b) *Exhibits*. The exhibits required by this Item are listed under Item 15(a)(3).

(c) *Financial Statement Schedule*. The financial statement schedule required by this Item is listed under 15(a)(2). All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NCI, Inc.
Registrant

Date: February 27, 2009

By: /s/ CHARLES K. NARANG

Charles K. Narang
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: February 27, 2009

By: /s/ JUDITH L. BJORNAAS

Judith L. Bjornaas
Executive Vice President
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated. Each person whose signature appears below hereby constitutes and appoints each of Charles K. Narang and Judith L. Bjornaas as his attorney-in-fact and agent, with full power of substitution and resubstitution for him in any and all capacities, to sign, any or all amendments to this report and to file same, with exhibits thereto and other documents in connection therewith, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters and hereby ratifying and confirming all that such attorney-in-fact and agent or his substitutes may do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ TERRY W. GLASGOW</u> Terry W. Glasgow	President and Director	February 27, 2009
<u>/s/ JAMES P. ALLEN</u> James P. Allen	Director	February 27, 2009
<u>/s/ JOHN E. LAWLER</u> John E. Lawler	Director	February 27, 2009
<u>/s/ PAUL V. LOMBARDI</u> Paul V. Lombardi	Director	February 27, 2009
<u>/s/ J. PATRICK McMAHON</u> J. Patrick McMahon	Director	February 27, 2009
<u>/s/ GURVINDER P. SINGH</u> Gurvinder P. Singh	Director	February 27, 2009
<u>/s/ STEPHEN L. WAECHTER</u> Stephen L. Waechter	Director	February 27, 2009
<u>/s/ DANIEL R. YOUNG</u> Daniel R. Young	Director	February 27, 2009

INDEX TO FINANCIAL STATEMENTS

NCI, INC.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of NCI, Inc.

We have audited NCI, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). NCI, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, NCI, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NCI, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations and stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2008, and our report dated February 25, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA
February 25, 2009

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
of NCI, Inc.

We have audited the accompanying consolidated balance sheets of NCI, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NCI, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NCI, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our reported dated February 25, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA
February 25, 2009

NCI, Inc.
Consolidated Balance Sheets
(in thousands, except share amounts)

	As of December 31,	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,267	\$ 109
Accounts receivable, net	92,192	88,493
Deferred tax assets	3,116	1,890
Prepaid expenses and other current assets	1,733	1,244
Total current assets	98,308	91,736
Property and equipment, net	5,378	5,120
Other assets	926	930
Deferred tax assets, net	—	20
Intangible assets, net	7,981	5,448
Goodwill	87,740	75,492
Total assets	\$200,333	\$178,746
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 32,747	\$ 30,803
Accrued salaries and benefits	16,436	12,572
Other accrued expenses/liabilities	5,353	6,641
Deferred revenue	2,626	2,215
Current portion of long-term debt	—	942
Total current liabilities	57,162	53,173
Long-term debt	40,000	42,000
Other liabilities	98	217
Deferred tax liabilities, net	1,691	—
Deferred rent	2,523	3,115
Total liabilities	101,474	98,505
Stockholders' equity:		
Class A common stock, \$0.019 par value—37,500,000 shares authorized; 8,205,711 shares issued and outstanding as of December 31, 2008 and 8,153,416 shares issued and outstanding as of December 31, 2007	156	155
Class B common stock, \$0.019 par value—12,500,000 shares authorized; 5,200,000 shares issued and outstanding as of December 31, 2008 and 2007	99	99
Additional paid-in capital	59,734	58,157
Retained earnings	38,870	21,830
Total stockholders' equity	98,859	80,241
Total liabilities and stockholders' equity	\$200,333	\$178,746

See Notes to Consolidated Financial Statements.

NCI, Inc.

Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year ended December 31,		
	2008	2007	2006
Revenue	\$390,596	\$304,420	\$218,340
Operating costs and expenses:			
Cost of revenue	336,473	263,679	188,878
General and administrative expense	20,079	15,396	12,852
Depreciation and amortization	1,888	1,652	1,629
Amortization of intangible assets	1,772	1,360	957
Total operating costs and expenses	360,212	282,087	204,316
Operating income	30,384	22,333	14,024
Interest income	113	544	817
Interest expense	(2,139)	(1,886)	(89)
Income before taxes	28,358	20,991	14,752
Income tax expense	11,318	8,420	5,493
Net income	\$ 17,040	\$ 12,571	\$ 9,259
Earnings per common and common equivalent share:			
Basic:			
Weighted average shares outstanding	13,362	13,335	13,328
Net income per share	\$ 1.28	\$ 0.94	\$ 0.69
Diluted:			
Weighted average shares and equivalent shares outstanding	13,633	13,539	13,483
Net income per share	\$ 1.25	\$ 0.93	\$ 0.69

See Notes to Consolidated Financial Statements.

NCI, Inc.

Consolidated Statements of Changes in Stockholders' Equity
(in thousands)

	Class A common stock		Class B common stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2005	7,028	\$134	6,300	\$120	\$56,917	\$ —	\$57,171
Net income	—	—	—	—	—	9,259	9,259
Stock compensation expense	—	—	—	—	156	—	156
Balance at December 31, 2006	7,028	\$134	6,300	\$120	\$57,073	\$ 9,259	\$66,586
Net income	—	—	—	—	—	12,571	12,571
Stock compensation expense	—	—	—	—	774	—	774
Exercise of stock options	25	—	—	—	221	—	221
Excess tax benefits of stock option exercises	—	—	—	—	89	—	89
Conversion of Class B stock to Class A stock (see note 2)	1,100	21	(1,100)	(21)	—	—	—
Balance at December 31, 2007	8,153	\$155	5,200	\$ 99	\$58,157	\$21,830	\$80,241
Net income	—	—	—	—	—	17,040	17,040
Stock compensation expense	—	—	—	—	828	—	828
Exercise of stock options	53	1	—	—	405	—	406
Excess tax benefits of stock option exercises	—	—	—	—	344	—	344
Balance at December 31, 2008	<u>8,206</u>	<u>\$156</u>	<u>5,200</u>	<u>\$ 99</u>	<u>\$59,734</u>	<u>\$38,870</u>	<u>\$98,859</u>

See Notes to Consolidated Financial Statements.

NCI, Inc.

Consolidated Statements of Cash Flows
(in thousands)

	Year ended December 31,		
	2008	2007	2006
Cash flows from operating activities			
Net income	\$ 17,040	\$ 12,571	\$ 9,259
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,660	3,012	2,586
Gain on sale and disposal of property and equipment	(8)	(4)	(3)
Non-cash stock compensation expense	828	774	156
Deferred income taxes	485	321	2,834
Changes in operating assets and liabilities:			
Accounts receivable, net	(3,699)	(5,776)	(19,230)
Prepaid expenses and other assets	(484)	306	(839)
Accounts payable	1,945	4,996	13,858
Accrued expenses/other current liabilities	2,584	2,289	(98)
Deferred rent	(522)	(485)	(431)
Net cash provided by operating activities	21,829	18,004	8,092
Cash flows from investing activities			
Purchase of property and equipment	(2,160)	(1,003)	(314)
Proceeds from sale of property and equipment	28	4	6
Cash paid for acquisitions, net of cash acquired	(16,190)	(73,856)	—
Net cash used in investing activities	(18,322)	(74,855)	(308)
Cash flows from financing activities			
Proceeds from exercise of stock options	406	221	—
Excess tax deduction from exercise of stock options	344	89	—
(Payments) proceeds from line of credit, net	(2,942)	42,942	—
Principal payments under capital lease obligations	(157)	(222)	(311)
Distributions to stockholders	—	—	(5,866)
Net cash provided by (used in) financing activities	(2,349)	43,030	(6,177)
Net change in cash and cash equivalents	1,158	(13,821)	1,607
Cash and cash equivalents, beginning of year	109	13,930	12,323
Cash and cash equivalents, end of year	\$ 1,267	\$ 109	\$ 13,930
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	\$ 2,139	\$ 1,886	\$ 89
Income taxes	\$ 9,108	\$ 8,069	\$ 3,061
Supplemental disclosure of noncash activities:			
Equipment acquired under capital leases	\$ —	\$ 216	\$ 213

See Notes to Consolidated Financial Statements.

NCI, Inc.
Notes to Consolidated Financial Statements
December 31, 2008

1. Business Overview

NCI, Inc. (the Company or NCI) was incorporated in Delaware during July 2005.

NCI is a provider of information technology (IT), engineering, and professional services and solutions to Federal Government agencies. NCI's capabilities are centered on overcoming our customers' challenges to help them meet their critical mission and objectives. Through our comprehensive offerings, we are a full lifecycle capabilities company. We provide full lifecycle IT specialties, complemented by our professional services. We have the agility, position, and determination to focus on expanding market segments within the Federal IT and professional services markets. We are extending our core capabilities in line with key market drivers and investing in a robust set of business solutions and offerings. Our core capabilities include: enterprise systems management; network engineering; information assurance and cybersecurity; systems engineering and integration; program management, acquisition, and lifecycle support; engineering and logistics; medical transformation/health IT; and distance learning and training. The Company provides these services to defense, intelligence, and Federal civilian agencies. The majority of the Company's revenue was derived from contracts with the Federal Government, directly as a prime contractor or as a subcontractor. The Company primarily conducts business throughout the United States.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of wholly owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The majority all of the Company's revenue is derived from services and solutions provided to the Federal Government, primarily by Company employees and, to a lesser extent, subcontractors. In some cases, revenue includes third-party hardware and software purchased on behalf of customers. The level of hardware and software purchases made for customers may vary from period to period depending on specific contract and customer requirements. The Company generates its revenue from three different types of contractual arrangements: time-and-materials contracts; cost-plus contracts; and fixed-price contracts.

Revenue for time-and-materials contracts are recognized as services are performed, generally, on the basis of contract allowable labor hours worked multiplied by the contract defined billing rates, plus the direct costs and indirect cost burdens associated with materials and other direct expenses used in performance on the contract. Profits on time-and-material contracts result from the difference between the cost of services performed and the contract-defined billing rates for these services.

NCI, Inc.

Notes to Consolidated Financial Statements—(Continued)
December 31, 2008

Revenue on cost-plus contracts is recognized as services are performed, generally, based on the allowable costs incurred during the period, plus any recognizable earned fee. The Company does not recognize award-fee income until the fees are fixed and determinable, generally upon contract notification confirming the award fee. Due to such timing, and to fluctuations in the level of revenue, profit as a percentage of revenue on award-fee contracts will fluctuate period to period.

Revenue recognition methods on fixed-price contracts will vary depending on the nature of the work and the contract terms. Revenue on fixed-price service contracts are recognized as services are performed in accordance with Staff Accounting Bulletin No. 104 (SAB 104). SAB 104 generally requires revenue to be deferred until all of the following have occurred: (1) there is a contract in place, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectibility is reasonably assured. Revenue on fixed-price contracts that require delivery of specific items may be recognized based on a price per unit as units are delivered. Revenue for fixed-price contracts in which the Company is paid a specific amount to provide services for a stated period of time is recognized ratably over the service period. Profits related to contracts that are accounted for under SAB 104 may fluctuate from period to period, particularly in the early phases of the contract. Anticipated losses on SAB 104 contracts are recognized as incurred.

Revenue on certain fixed-price completion contracts that are within the scope of Statement of Position 81-1 *Accounting for Performance of Construction Type and Certain Production-Type Contracts* (SOP 81-1) is recognized on the percentage-of-completion method using costs incurred in relation to total estimated costs, because these contracts require design, engineering, and manufacturing performed to the customer's specifications. Profits on fixed-price contracts result from the difference between the incurred costs and the revenue earned. A portion of the Company's revenue is derived from arrangements that include software developed and/or provided by the Company. The Company recognizes this revenue in accordance with SOP 97-2, *Software Revenue Recognition* (SOP 97-2) as amended by SOP 98-9, *Software Revenue Recognition, With Respect to Certain Transactions* (SOP 98-9), by applying the provisions of SOP 81-1, as appropriate, which is recognized under the percentage-of-completion method.

Contract accounting requires significant judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of the Company's contracts, the estimation of total revenue and cost at completion requires the use of estimates. Contract costs include material, labor and subcontracting costs, as well as an allocation of allowable indirect costs. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. For contract change orders, claims or similar items, the Company applies judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. Estimates of total contract revenue and costs are continuously monitored during the term of the contract and are subject to revision as the contract progresses. Anticipated losses on contracts accounted for under SOP 81-1 are recognized in the period they are deemed probable and can be reasonably estimated.

Our contracts may include the delivery of a combination of one or more of the Company's service offerings. In these situations, we apply the separation criteria in Emerging Issues Task Force (EITF) Issue 00-21, *Revenue Arrangements with Multiple Deliverables*, to determine whether our arrangements with multiple elements should be treated as separate units of accounting with revenue allocated to each element of the arrangement based on the relative fair value of each element.

NCI, Inc.

Notes to Consolidated Financial Statements—(Continued)
December 31, 2008

Cash and Cash Equivalents

The Company considers cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at face amount, less an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts at an amount that it estimates to be sufficient to cover the risk of collecting less than full payment on receivables. On a quarterly basis the Company reevaluates its receivables, especially receivables that are past due, and reassesses the allowance for doubtful accounts based on specific customer collection issues.

Property and Equipment

Property, equipment, and leasehold improvements are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, which range from two to seven years for property and equipment, over the shorter of the lease term or the useful lives of the leasehold improvements, and over 30 years for real property.

Long-Lived Assets (Excluding Goodwill)

In accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*, a review of long-lived assets for impairment is performed when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to its carrying amount. If the undiscounted future cash flows are less than the carrying amount of the asset, the Company records an impairment loss equal to the excess of the asset's carrying amount over its fair value. Any write-downs are treated as permanent reductions in the carrying amount of the assets. The Company believes there were no indications of impairment of such assets during 2008 or 2007.

Intangible Assets

Intangible assets consist of contract and customer relationships, non-compete agreements, and software acquired. Contract and customer relationships are being amortized over the expected backlog life based on projected cash flows, which are proportionate to acquired backlog. Non-compete agreements are being amortized over their contractual life which is between 3 to 5 years. Software acquired is being amortized over 18 months based on its estimated useful life.

Goodwill

Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), requires that goodwill no longer be amortized against earnings, but instead reviewed periodically for impairment. Annually on October 1, the Company performs a fair value analysis of its reporting unit. The Company has one reporting unit. If goodwill becomes impaired, the Company would record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill is determined. Based on the analysis performed, the Company determined that no impairment existed as of October 1, 2008 or 2007.

NCI, Inc.

Notes to Consolidated Financial Statements—(Continued) December 31, 2008

Common Stock

Holders of Class A common stock are entitled to one vote for each share held of record, and holders of Class B common stock are entitled to ten votes for each share held of record, except with respect to any “going private transaction,” as to which each share of Class A common stock and Class B common stock are both entitled to one vote per share. The Class A common stock and the Class B common stock vote together as a single class on all matters submitted to a vote of stockholders, including the election of directors, except as required by law. Holders of the Company’s common stock do not have cumulative voting rights in the election of directors.

Holders of common stock are entitled to receive, when and if declared by the board of directors from time-to-time, such dividends and other distributions in cash, stock or property from the Company’s assets or funds legally available for such purposes. Each share of Class A common stock and Class B common stock is equal in respect of dividends and other distributions in cash, stock or property, except that in the case of stock dividends, only shares of Class A common stock will be distributed with respect to the Class A common stock and only shares of Class B common stock will be distributed with respect to Class B common stock.

Each share of Class B common stock is convertible into one share of Class A common stock at any time at the option of the Class B stockholder, and in certain other circumstances. During 2007, the Class B common stock holder transferred ownership of 1,100,000 shares of Class B common stock to the control of an unrelated party for estate planning purposes. This transfer resulted in the conversion of the Class B common stock to Class A common stock.

Segment Information

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information* (SFAS No. 131), establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that these enterprises report selected information about operating segments in interim financial reports. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. Management has concluded that the Company operates in one segment based upon the information used by management in evaluating the performance of its business and allocating resources and capital.

Income Taxes

We periodically assess our tax filing exposures related to periods that are open to examination. Based on the latest available information, we evaluate tax positions to determine whether the position will more likely than not be sustained upon examination by the applicable tax authorities. The Company recognizes liabilities for uncertain tax positions on open tax years when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured at the Company’s best estimate of the taxes ultimately expected to be paid. If we determine that the tax position is more likely than not to be sustained, we record the largest amount of benefit that is more likely than not to be realized when the tax position is settled. If we cannot reach that determination, no benefit is recorded. We record interest and penalties related to income taxes as Interest Expense and General and Administrative Expense, respectively.

New Accounting Pronouncements

During December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141), which became effective January 1, 2009. The new standard replaces

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December 31, 2008

existing guidance and significantly changes accounting and reporting relative to business combinations in consolidated financial statements, including requirements to recognize acquisition-related transaction and post acquisition restructuring costs in the results of operations as incurred.

We adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) effective January 1, 2008, as it relates to financial assets. SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair-value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair-value measurements. The adoption of SFAS No. 157 did not have a material impact on our results of operations, financial position, or cash flows.

3. Earnings Per Share

SFAS No. 128, *Earnings Per Share*, requires presentation of basic and diluted earnings per share. Basic earnings per share exclude dilution and are computed by dividing net income by the weighted average number of common shares outstanding for the period. The computation of earnings per share presented is for both Class A and Class B common stock.

Diluted earnings per share reflect potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share include the incremental effect of stock options calculated using the treasury stock method.

The following details the historical computation of basic and diluted earnings per common share (Class A and Class B) for the years ended December 31, 2008, 2007, and 2006.

	Year ended December 31,		
	2008	2007	2006
	(in thousands, except per share data)		
Net Income	\$17,040	\$12,571	\$ 9,259
Weighted average number of basic shares outstanding during the period	13,362	13,335	13,328
Dilutive effect of stock options after application of treasury stock method	271	204	155
Weighted average number of diluted shares outstanding during the period	13,633	13,539	13,483
Basic earnings per share	\$ 1.28	\$ 0.94	\$ 0.69
Diluted earnings per share	\$ 1.25	\$ 0.93	\$ 0.69

4. Major Customers

The Company earned almost all its revenue from the Federal Government for each of the years ended December 31, 2008, 2007, and 2006. Revenue by customer sector for each of the three years ended December 31 was as follows:

	Year ended December 31,					
	2008		2007		2006	
	(dollars in thousands)					
Department of Defense and intelligence agencies ...	\$316,316	81.0%	\$247,949	81.5%	\$179,127	82.0%
Federal civilian agencies	63,827	16.3	54,858	18.0	39,001	17.9
Commercial and state & local entities	10,453	2.7	1,613	0.5	212	0.1
	\$390,596	100.0%	\$304,420	100.0%	\$218,340	100.0%

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Notes to Consolidated Financial Statements—(Continued)
December 31, 2008

5. Accounts Receivable

Accounts receivable consist of billed and unbilled amounts at December 31, 2008 and 2007 as follows:

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(in thousands)	
Billed receivables	\$53,435	\$53,764
Unbilled receivables:		
Billable receivables at end of period	32,464	30,413
Other	7,313	4,901
Total unbilled receivables	<u>39,777</u>	<u>35,314</u>
Total accounts receivable	93,212	89,078
Less: allowance for doubtful accounts	1,020	585
Total accounts receivable, net	<u>\$92,192</u>	<u>\$88,493</u>

Other unbilled receivables primarily consist of fees withheld by the customers in accordance with the contract terms and conditions that will be billed upon contract completion and approval of indirect rates. Substantially all of the other unbilled receivables are expected to be billed and collected within the next 12 months.

6. Property and Equipment

The following table details property and equipment at the end of each period:

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(in thousands)	
Property and equipment		
Furniture and equipment	\$13,996	\$12,276
Leasehold improvements	4,788	4,684
Real property	549	549
	<u>19,333</u>	<u>17,509</u>
Less: Accumulated depreciation and amortization	13,955	12,389
Net property and equipment	<u>\$ 5,378</u>	<u>\$ 5,120</u>

Depreciation expense for the years ended December 31, 2008, 2007, and 2006 was \$1.9 million, \$1.7 million, and \$1.6 million, respectively.

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Notes to Consolidated Financial Statements—(Continued)
December 31, 2008

7. Intangible Assets

The following table details intangible assets at the end of each period:

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(in thousands)	
Contract and customer relationships	\$12,404	\$8,099
Less: Accumulated amortization	4,734	3,116
	<u>7,670</u>	<u>4,983</u>
Non-compete agreements	1,871	1,871
Less: Accumulated amortization	1,560	1,465
	<u>311</u>	<u>406</u>
Software acquired	118	118
Less: Accumulated amortization	118	59
	<u>—</u>	<u>59</u>
Total	<u>\$ 7,981</u>	<u>\$5,448</u>

Amortization expense for the years ended December 31, 2008, 2007, and 2006 was approximately \$1.8 million, \$1.4 million, and \$1.0 million, respectively. Future amortization expense related to intangible assets is expected to be as follows:

<u>For the year ending December 31,</u>	<u>(in thousands)</u>
2009	\$1,792
2010	1,618
2011	1,343
2012	1,023
2013	889
Thereafter	1,316

8. Goodwill

The following table details the balance of goodwill for each acquisition at the end of each period:

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(in thousands)	
Spectrum Systems Services, Inc.	\$ 169	\$ 169
Scientific and Engineering Solutions, Inc.	17,258	17,258
Operational Technology Services, Inc.	5,766	5,120
Karta Technologies, Inc.	53,373	52,945
PEO Soldier	<u>11,174</u>	<u>—</u>
Total	<u>\$87,740</u>	<u>\$75,492</u>

During 2008, NCI finalized its accounting for the Karta Technologies, Inc. (Karta) and added approximately \$428,000 to goodwill pursuant to the provisions of SFAS No. 141, *Business Combinations*.

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Notes to Consolidated Financial Statements—(Continued)
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The definitive agreement for the acquisition of OTS provided for various contingent consideration. During the third quarter of 2008, NCI paid approximately \$656,000 as additional consideration for OTS. Pursuant to the provisions of SFAS No. 141, *Business Combinations*, the payment has been treated as additional cost of the acquisition and added to goodwill.

9. Other Accrued Expenses/Liabilities

Other accrued expenses and liabilities consist of the following:

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(in thousands)	
Accrued health claims	\$2,058	\$2,001
Current portion of capital lease obligation	122	159
Deferred rent, current	616	544
Other accrued expenses	<u>2,557</u>	<u>3,937</u>
Total other accrued expenses/liabilities	<u>\$5,353</u>	<u>\$6,641</u>

10. Leases

The Company has entered into certain capital lease obligations with various expiration dates through December 2010. During October 2003, the Company entered into a lease line of credit to finance various PC and networking equipment. The applicable interest rates on the capital leases range from 1.6% to 12.3%.

The following amounts have been capitalized and are included in property and equipment:

	<u>As of December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(in thousands)	
Telephone equipment	\$ 477	\$ 477
PC and networking equipment	726	953
Office furniture and other equipment	45	45
	<u>1,248</u>	<u>1,475</u>
Less: Accumulated amortization	<u>1,037</u>	<u>1,062</u>
	<u>\$ 211</u>	<u>\$ 413</u>

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Notes to Consolidated Financial Statements—(Continued)
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The annual amortization cost is included as depreciation and amortization expense in the Consolidated Statements of Operations.

The Company leases office space, equipment, and automobiles under operating leases that expire on various dates through December 31, 2013. Several of the leases contain escalation clauses ranging from 2.5% to 5.0% per year, which are reflected in the amounts below.

Minimum lease payments under the non-cancelable operating leases and the capital leases are as follows:

	Capital leases	Operating leases
	(in thousands)	
For the year ending December 31,		
2009	\$131	\$ 7,199
2010	80	6,292
2011	24	5,992
2012	—	5,065
2013	—	1,998
Thereafter	—	39
Total minimum lease payments	235	\$26,585
Amounts representing interest	15	
Present value of net minimum lease payments	\$220	

The Company incurred rent expense, after the impact of the amortization of deferred rent expense, under operating leases of \$5.8 million, \$4.8 million, and \$3.5 million for the years ended December 31, 2008, 2007, and 2006, respectively.

11. Credit Facility

The borrowing capacity under the credit facility consists of a revolving line of credit with a principal amount of up to \$90.0 million, which includes a swingline facility with an original principal amount of up to \$5.0 million. The outstanding balance of the facility accrues interest based on LIBOR plus an applicable margin, ranging from 100 to 175 basis points, based on a ratio of funded debt to earnings. The credit facility expires on March 14, 2011.

The outstanding borrowings are collateralized by a security interest in substantially all of the Company's assets. The lenders also require a direct assignment of all contracts at the lenders' discretion.

The credit facility contains various restrictive covenants that, among other things, restrict the Company's ability to: incur or guarantee additional debt; make certain distributions, investments and other restricted payments, including cash dividends on the Company's outstanding common stock; enter into transactions with certain affiliates; create or permit certain liens; and consolidate, merge, or sell assets. In addition, the credit facility contains certain financial covenants that require the Company to: maintain a minimum tangible net worth; maintain a minimum fixed charge coverage ratio and a ratio of funded debt to earnings; and limit capital expenditures below certain thresholds.

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Notes to Consolidated Financial Statements—(Continued)
December 31, 2008

As of December 31, 2008, the outstanding balance was \$40.0 million and interest accrued at a rate of LIBOR plus 100 basis points, or 1.43%. As of December 31, 2008, NCI was in compliance with all its loan covenants.

12. Acquisitions

PEO Soldier

Effective March 15, 2008, the Company completed the acquisition of a business from MTC Technologies, Inc. This business included the right to provide services under the Program Executive Office Soldier, Project Manager Soldier Warrior, and Project Manager Soldier Equipment (PEO Soldier) contract. The Company paid approximately \$15.0 million in cash at closing, incurred transaction costs of approximately \$0.1 million, and assumed liabilities related to employee vacation balances of approximately \$0.4 million. The acquired assets and liabilities were recorded at fair value under the purchase method of accounting. The acquired identified intangible assets had a fair market value of approximately \$4.3 million. As the cost of the acquisition exceeded the fair value of the assets acquired, goodwill was recorded in the amount of \$11.2 million.

Karta Technologies, Inc.

On June 27, 2007, the Company completed the acquisition of Karta Technologies, Inc. (Karta). Karta generated revenue for calendar year 2006 of approximately \$51 million (unaudited). At the time of the acquisition, Karta had approximately 400 employees located throughout the United States. NCI paid approximately \$67.8 million for Karta. The purchase price includes \$65.0 million for Karta, \$0.2 million for a non-compete agreement, \$1.3 million as a working capital adjustment, and \$1.3 million in transactions costs.

Operational Technologies Services, Inc.

Effective January 31, 2007, the Company completed the acquisition of Operational Technologies Services, Inc. (OTS). OTS generated revenue for calendar year 2006 of approximately \$10 million (unaudited), all derived from contracts with the Federal Aviation Administration. At the time of the acquisition, OTS had approximately 70 employees located primarily within the Greater Washington, DC area. NCI paid approximately \$7.9 million in cash including approximately \$0.2 million in earnout payments, and \$0.4 million of transaction costs.

13. 2005 Performance Incentive Plan

The Board of Directors of the Company has adopted the 2005 Performance Incentive Plan (the Plan) which has been approved by the Company's stockholders. As of December 31, 2008, the Plan has reserved 3,394,736 shares of Class A common stock for issuance, which increases annually by 78,947 shares. The Plan provides for the grant of incentive stock options and non-qualified stock options, and the grant or sale of restricted shares of common stock to the Company's directors, employees, and consultants. The Compensation Committee of the Company administers the Plan.

	As of December 31, 2008
	(in thousands)
Shares reserved under the plan	3,395
Options exercised	1,054
Options outstanding	978
Shares available for future grants	<u>1,363</u>

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Notes to Consolidated Financial Statements—(Continued)
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Stock Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)) using the prospective method. Under this method, compensation costs for all awards granted after the date of adoption and modifications of any previously granted awards outstanding at the date of adoption are measured at estimated fair value and included in operating expenses over the vesting period during which an employee provides service in exchange for the award. The Company uses the Black-Scholes-Merton option pricing model and straight-line amortization of compensation expense over the requisite service period of the grant.

Assumptions Used in Fair Value determination

The following weighted-average assumptions were used for option grants made during the years ended December 31, 2008, 2007, and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Expected Volatility	39%	39%	36%
Expected Term (in years)	5.4	5.5	6.1
Risk-free Interest Rate	2.66%	4.60%	4.80%
Dividend Yield	0%	0%	0%

- *Expected Volatility.* The expected volatility of the Company's shares was estimated based upon the historical volatility of the Company's share price.
- *Expected Term.* Because the Company does not have significant historical data on employee exercise behavior, we are using the "*Simplified Method*" as defined under Staff Accounting Bulletin No. 110 to calculate the expected term. The simplified method is calculated by averaging the vesting period and term of the option. Beginning during 2006, we have generally issued options with a 7 year term where previously we generally issued options with a 10 year term.
- *Risk-free Interest Rate.* The Company bases the risk-free interest rate used in the Black-Scholes-Merton valuation method on the implied yield available on a U.S. Treasury note with a term equal to the expected term of the underlying grants.
- *Dividend Yield.* The Black-Scholes-Merton valuation model calls for a single expected dividend yield as an input. The Company has not paid dividends in the past nor does it expect to pay dividends in the future.

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Notes to Consolidated Financial Statements—(Continued)
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Stock Options Activity

The following table summarizes stock option activity for the period January 1, 2006 through December 31, 2008:

	<u>Options</u> (in thousands)	<u>Weighted Average Exercise Price per Share</u>
Outstanding at January 1, 2006	640	\$ 7.88
Granted	64	13.15
Forfeited/cancelled	(60)	8.46
Outstanding at December 31, 2006	<u>644</u>	<u>\$ 8.35</u>
Granted	345	15.79
Forfeited/cancelled	(129)	11.26
Exercised	(26)	8.43
Outstanding at December 31, 2007	<u>834</u>	<u>\$10.96</u>
Granted	208	20.89
Forfeited/cancelled	(12)	13.08
Exercised	(52)	7.76
Outstanding at December 31, 2008	<u>978</u>	<u>\$13.20</u>

The following table summarizes stock option vesting and unvested options for the period January 1, 2006 through December 31, 2008:

	<u>Options</u> (in thousands)	<u>Weighted Average Fair Value</u>	<u>Aggregate Intrinsic Value on Grant Date</u> (in thousands)
Unvested January 1, 2006	614	\$3.16	\$ 1,245
Granted	64	5.75	—
Vested	(51)	0.33	(7)
Forfeited	(60)	3.68	(114)
Unvested December 31, 2006	<u>567</u>	<u>\$3.49</u>	<u>\$ 1,124</u>
Vested December 31, 2006	<u>77</u>	<u>\$9.10</u>	<u>\$ 63</u>
Granted	345	6.76	—
Vested	(378)	3.99	(1,008)
Forfeited	(129)	4.51	(116)
Unvested December 31, 2007	<u>405</u>	<u>\$5.45</u>	<u>\$ —</u>
Vested December 31, 2007	<u>429</u>	<u>\$3.62</u>	<u>\$ 1,042</u>
Granted	208	8.39	—
Vested	(131)	4.42	—
Forfeited	(11)	5.48	—
Unvested December 31, 2008	<u>471</u>	<u>\$7.04</u>	<u>\$ —</u>
Vested December 31, 2008	<u>507</u>	<u>\$3.79</u>	<u>\$ 914</u>

NCI, Inc.
Notes to Consolidated Financial Statements—(Continued)
December 31, 2008

The following table summarizes stock options outstanding at December 31, 2008:

<u>Range of exercise prices</u>	<u>Number of options</u> (in thousands)	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life</u> (in years)	<u>Options exercisable</u> (in thousands)
\$ 1.00 – \$ 2.00	5	\$ 1.90	4.8	5
\$ 6.00 – \$ 7.00	270	6.65	4.2	270
\$10.00 – \$13.00	180	10.14	5.8	147
\$13.00 – \$19.00	430	16.45	5.6	85
\$21.00 – \$25.00	93	23.78	6.6	—

Stock options granted since 2005 will fully vest over a period of three to five years from the date of grant in accordance with the individual stock option agreement.

Stock Compensation

The following table summarizes stock compensation for the three years ended December 31, 2008, 2007, and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
		(in thousands)	
Cost of Revenue	\$358	\$312	\$ 39
General and Administrative	470	462	117
	<u>\$828</u>	<u>\$774</u>	<u>\$156</u>

We recognized approximately \$321,000, \$301,000, and \$51,000, respectively, of tax benefits from share-based compensation (excluding excess tax benefits recognized upon exercise) during the years ended December 31, 2008, 2007, and 2006 and included those tax benefits in cash from operations in their entirety. As of December 31, 2008, there was approximately \$2.6 million of total unrecognized compensation cost of unvested stock compensation agreements related to options accounted for under SFAS No. 123(R). This cost is expected to be fully amortized over the next four years, with approximately \$1,002,000, \$948,000, \$536,000, and \$129,000 during 2009, 2010, 2011, and 2012, respectively. SFAS No. 123(R) requires that the cost of the options be included in the Company's Statement of Operations before or in conjunction with the vesting of options.

14. Provision for Income Taxes

Significant components of the provision for income taxes are as follows:

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
		(in thousands)	
Current			
Federal	\$ 8,755	\$6,683	\$2,138
State and Local	2,078	1,416	521
Total Current	10,833	8,099	2,659
Deferred			
Federal	498	299	2,298
State and Local	(13)	22	536
Total Deferred	485	321	2,834
Total Income Tax Provision	<u>\$11,318</u>	<u>\$8,420</u>	<u>\$5,493</u>

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The differences between the expense (benefit) from income taxes at the statutory U.S. Federal income tax rate of 35% and those reported in the statements of operations are as follows:

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(in thousands)		
Federal income tax at statutory rates	35.0%	35.0%	35.0%
State income taxes, net of Federal benefit	4.7	4.5	4.7
Other	<u>0.2</u>	<u>0.6</u>	<u>(2.5)</u>
Total income tax expense	<u>39.9%</u>	<u>40.1%</u>	<u>37.2%</u>

Other differences include, among other things, the nondeductible portion of meals and entertainment. The income tax expense for 2006 was reduced by a one-time gain of approximately \$0.3 million from finalizing our 2005 income tax returns during 2006. Without this one-time gain, our 2006 tax rate would have been 39.7%.

Deferred income taxes arise from temporary differences in the recognition of income and expense for income tax purposes and were computed using the liability method reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes.

Components of the Company's deferred tax assets and liabilities are as follows for the years ended December 31:

	<u>2008</u>	<u>2007</u>
	(in thousands)	
Deferred tax assets		
Accrued vacation and compensation	\$2,164	\$1,511
Stock compensation	858	561
Deferred rent	1,229	1,446
Allowance for doubtful accounts	400	164
Self insurance	<u>311</u>	<u>—</u>
Total deferred tax assets	<u>4,962</u>	<u>3,682</u>
Deferred tax liabilities		
Property and equipment	479	523
Intangible assets	<u>3,058</u>	<u>1,249</u>
Total deferred tax liabilities	<u>3,537</u>	<u>1,772</u>
Net deferred tax assets	<u>\$1,425</u>	<u>\$1,910</u>

Although realization is not assured, management believes it is more likely than not that all deferred tax assets will be realized.

We adopted FIN 48, *Accounting for Uncertainty in Income Taxes* (FIN48) effective January 1, 2007. There was no material impact in applying FIN 48 to our opening balance of Retained Earnings during 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). This Interpretation prescribes a

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**Notes to Consolidated Financial Statements—(Continued)
December 31, 2008**

recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company's analysis of uncertain tax positions as required under FIN 48 determined that the Company had no material uncertain tax positions and as such, no liability has been recorded as of December 31, 2008. The Company does not anticipate any material changes in this position in the next 12 months.

The Company is subject to income taxes in the U.S. and various state jurisdictions. Tax statutes and regulations within each jurisdiction are subject to interpretation and require significant judgment to apply. Tax years related to U.S. Federal and various state jurisdictions remain subject to examination for tax periods ended on or after December 31, 2005.

15. Profit Sharing

The Company has a 401(k) profit sharing plan that covers substantially all of NCI employees meeting certain criteria. The plan is a "defined contribution plan" whereby participants have the option of contributing to the plan. The plan provides for the Company to contribute 50 cents for each dollar contributed by the employee, up to the first 5% of their contribution. Participants are 100% vested in their employee contributions immediately. The participants become fully vested in the employer contributions over four years of service.

Karta Technologies, Inc. (Karta) was acquired during June 2007. Karta had a 401(k) profit sharing plan that covered substantially all of Karta employees meeting certain criteria. The plan was a "defined contribution plan" whereby participants had the option of contributing to the plan. The plan provided for the Company to contribute 50 cents for each dollar contributed by the employee, up to the first 6% of their contribution. Participants were 100% vested in their employee contributions immediately. The participants became fully vested in the employer contributions over four years of service. The Karta 401(k) plan was merged with the NCI 401(k) plan on January 1, 2009.

The Company's contributions to both plans for the years ended December 31, 2008, 2007, and 2006 were approximately \$2.2 million, \$1.9 million, and \$1.4 million, respectively.

The Company is also required to contribute to a union pension plan under a Collective Bargaining Agreement with the International Association of Machinists and Aerospace Workers for eligible employees on one of its contracts. The current agreement expires December 31, 2010. For years ended December 31, 2008, 2007, and 2006, the contribution amounts were approximately \$45,000, \$26,000, and \$20,000 respectively.

16. Related Party Transactions

The Company receives support services on an as-needed basis under a subcontract with Net Commerce Corporation, a government contractor wholly-owned by Rajiv Narang, the son of Charles K. Narang, the Chairman and Chief Executive Officer of the Company. The Company purchased services from Net Commerce Corporation of approximately \$552,000, \$88,000, and \$281,000 for the years ended December 31, 2008, 2007, and 2006, respectively. As of December 31, 2008 and 2007, there was approximately \$44,000 and \$42,000 in accounts payable, respectively related to this contract.

The Company rents office space from Gur Parsaad Properties, Ltd. which is controlled by Dr. Gurvinder Pal Singh, a previous stockholder of Karta and who is now a member of the NCI Board of Directors. The lease is for

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approximately 41,000 square feet at approximately \$14.00 per square foot with annual escalation and shared common area operating expenses. The lease expires on June 30, 2012. The lease was negotiated and signed as of June 27, 2007 in conjunction with the purchase of Karta. For the years ended December 31, 2008 and 2007, NCI made approximately \$886,000 and \$382,000, respectively, in lease payments under the office lease.

During June 2007, the Company entered into a Stock Purchase Agreement to purchase 100% of the outstanding shares of Karta Technologies, Inc. This Agreement included certain indemnifications from the selling shareholders. Dr. Gurvinder Pal Singh, a member of the NCI Board of Directors, is one of the selling shareholders of Karta. At the time of the purchase, an escrow account was established to pay for indemnification claims. As of December 31, 2008 and 2007, the Company had no outstanding claims.

17. Contingencies

Government Audits

Payments to the Company on Federal Government contracts are subject to adjustment upon audit by various agencies of the Federal Government. Audits of costs and the related payments have been performed by the various agencies through 2005 for NCI Information Systems, Inc., our primary corporate vehicle for government contracting. In the opinion of management, the final determination of costs and related payments for unaudited years will not have a material effect on the Company's financial position, results of operations, or liquidity.

Litigation

The Company is party to various legal actions, claims, government inquiries, and audits resulting from the normal course of business. The Company believes that the probability is remote that any resulting liability will have a material effect on the Company's financial position, results of operations, or liquidity.

NCI, Inc.

Notes to Consolidated Financial Statements—(Continued)
December 31, 2008

18. Supplemental Quarterly Information (unaudited)

This data is unaudited, but in the opinion of management, includes and reflects all adjustments that are normal and recurring in nature, and necessary, for a fair presentation of the selected data for these interim periods. Quarterly condensed financial operating results of the Company for the years ended December 31, 2008 and 2007 are presented below.

	For the quarter ended							
	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008 (a)	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007 (b)	Mar. 31, 2007 (c)
	(in thousands)							
Statement of Operations Data:								
Revenue	\$101,617	\$101,141	\$96,337	\$91,501	\$88,218	\$85,208	\$66,703	\$64,291
Operating costs and expenses:								
Cost of revenue	86,926	87,632	82,571	79,344	76,092	73,841	58,237	55,509
General and administrative expenses	5,062	4,810	5,461	4,746	4,675	4,063	3,078	3,580
Depreciation and amortization	463	455	489	481	461	465	356	370
Amortization of intangible assets	483	483	483	323	444	516	217	183
Total operating costs and expenses	92,934	93,380	89,004	84,894	81,672	78,885	61,888	59,642
Operating income	8,683	7,761	7,333	6,607	6,546	6,323	4,815	4,649
Interest income	15	24	20	54	87	103	212	142
Interest expense	(454)	(498)	(603)	(584)	(903)	(901)	(58)	(24)
Income before income taxes	8,244	7,287	6,750	6,077	5,730	5,525	4,969	4,767
Provision for income taxes	3,298	2,890	2,684	2,446	2,392	2,185	1,961	1,882
Net income	<u>\$ 4,946</u>	<u>\$ 4,397</u>	<u>\$ 4,066</u>	<u>\$ 3,631</u>	<u>\$ 3,338</u>	<u>\$ 3,340</u>	<u>\$ 3,008</u>	<u>\$ 2,885</u>
Earnings per share								
Basic	\$ 0.37	\$ 0.33	\$ 0.30	\$ 0.27	\$ 0.25	\$ 0.25	\$ 0.23	\$ 0.22
Diluted	\$ 0.36	\$ 0.32	\$ 0.30	\$ 0.27	\$ 0.25	\$ 0.25	\$ 0.22	\$ 0.21

- (a) Effective March 15, 2008, the Company completed the acquisition of a business from MTC Technologies, Inc.
- (b) Effective June 27, 2007, the Company acquired Karta Technologies, Inc. (Karta). Karta added \$29 million in revenue to our 2007 financial results.
- (c) Effective January 31, 2007, the Company acquired Operational Technologies Services, Inc. (OTS). OTS added \$9 million in revenue to our 2007 financial results.

SCHEDULE II—Valuation and Qualifying Accounts

	Year ended December 31,		
	2008	2007	2006
	(in thousands)		
Allowance for doubtful accounts:			
Balance at beginning of period	\$ 585	\$ 790	\$685
Charged to costs and expense	610	412	185
Deductions	(175)	(787)	(80)
Acquired in business combinations	—	170	—
Balance at end of period	<u>\$1,020</u>	<u>\$ 585</u>	<u>\$790</u>

List of Significant Subsidiaries

NCI Information Systems, Inc., Virginia
Karta Technologies, Inc., Texas
Operational Technologies Services, Inc., Virginia
Scientific and Engineering Solutions, Inc., Maryland

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-129168) pertaining to the 2005 Performance Incentive Plan of NCI, Inc. of our reports dated February 25, 2009, with respect to the consolidated financial statements and schedule of NCI, Inc. and the effectiveness of internal control over financial reporting of NCI, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/ Ernst & Young LLP

McLean, VA

February 25, 2009

Consent of Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-129168) pertaining to the 2005 Performance Incentive Plan of NCI, Inc. of our reports dated April 3, 2007, relating to our audits of the consolidated financial statements of Karta Technologies, Inc. and affiliate included in the Current Report on Form 8-K/A filed September 10, 2007 (File No. 000-51579), which is incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 2008.

/s/ Padgett, Stratemann & Co., L.L.P.

San Antonio, Texas

February 25, 2009

CERTIFICATION

Section 302 Certification

I, Charles K. Narang, certify that:

1. I have reviewed this report on Form 10-K of NCI, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

/s/ CHARLES K. NARANG

Charles K. Narang
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

Section 302 Certification

I, Judith L. Bjornaas, certify that:

1. I have reviewed this report on Form 10-K of NCI, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

/s/ JUDITH L. BJORNAAS

Judith L. Bjornaas
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Section 906 Certification

In connection with the report on Form 10-K of NCI, Inc. (the "Company") for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chairman of the Board and Chief Executive Officer of the Company certifies, to the best of his knowledge and belief pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2009

/s/ CHARLES K. NARANG

Charles K. Narang
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

A signed original of the written statement required by Section 906 has been provided to NCI, Inc. and will be retained by NCI, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Section 906 Certification

In connection with the report on Form 10-K of NCI, Inc. (the "Company") for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Executive Vice President and Chief Financial Officer of the Company certifies, to the best of her knowledge and belief pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2009

/s/ JUDITH L. BJORNAAS

Judith L. Bjornaas
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

A signed original of the written statement required by Section 906 has been provided to NCI, Inc. and will be retained by NCI, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Corporate Information

BOARD OF DIRECTORS

Charles K. Narang
Terry W. Glasgow
James P. Allen
John E. Lawler
Paul V. Lombardi
J. Patrick McMahon
Gurvinder P. Singh
Stephen L. Waechter
Daniel R. Young

CORPORATE OFFICERS

Charles K. Narang
Chairman and
Chief Executive Officer

Terry W. Glasgow
President

William M. Parker
Chief Operating Officer

Judith L. Bjornaas
Executive Vice President,
Chief Financial Officer,
and Treasurer

Michele R. Cappello
Senior Vice President,
General Counsel, and Secretary

SENIOR MANAGEMENT TEAM

Christopher M. Bishop
Senior Vice President,
Business Development and
Capture Management

William J. Britton
Senior Vice President
and General Manager,
National Security Group

Michael W. Donaldson
Vice President, Alliant and
GWAC Program Offices

Clarence D. Johnson
Senior Vice President and
General Manager,
Army Programs Group

Karl J. Leatham
Senior Vice President,
Chief Technology Officer

W. Norman Pierce
Senior Vice President,
Human Resources and
Administration

Richard L. Riney, III
Senior Vice President
and General Manager,
Air Force and Technology
Services Sector

Frederic A. Zafran
Senior Vice President
and General Manager,
Civilian Programs Group

EMPLOYMENT

It is NCI's policy to recruit, hire, employ, train, and promote persons in all job classifications without regard to race, color, religion, sex, age, national origin, or disability.

SHAREHOLDER INFORMATION

Transfer Agent

Stockholders may obtain information with respect to share position, transfer requirements, address changes, lost stock certificates, and duplicate mailings by writing or telephoning:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
Attn: Shareholder Services
(800) 937-5449 or (718) 921-8200
www.amstock.com

Annual Meeting

NCI's Annual Meeting will be held on Wednesday, June 10, 2009, at 10:00 a.m. ET at the Westin Reston Heights, Reston, VA.

Class A Common Stock

Stock symbol: NCIT
Listed: NASDAQ

Independent Auditors

Ernst & Young LLP
McLean, VA

Investor Communications

Investors seeking the Form 10-K and additional information about the company may call (703) 707-6900, write to Investors Relations at our corporate headquarters, or send an email to investor@nciinc.com. NCI's earnings announcements, news releases, SEC filings, and other investor information are available in the Investors section of our website.

FORWARD-LOOKING STATEMENT

Statements and assumptions made in this annual report, which do not address historical facts, constitute "forward-looking" statements that NCI believes to be within the definition in the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties, many of which are outside of our control. Words such as "may," "will," "intends," "should," "expects," "plans," "projects," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or "opportunity," or the negative of these terms or words of similar import are intended to identify forward-looking statements.

Although forward-looking statements in this annual report reflect the good faith judgment of management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are subject to known and unknown risks and uncertainties, which could cause actual results to differ materially for those anticipated. The factors that could cause, or contribute to, such difference include but are not limited to, those factors discussed in Item A1 "Risks Factors" in our Annual Report filed on Form 10-K for the period ended December 31, 2008, with the Securities and Exchange Commission, and from time to time in NCI's other filings with the Commission, including its reports on Form 8-K and Form 10-Q.

The forward-looking statements included in this annual report are only made as of the date of this publication and NCI undertakes no obligation to publicly update any of the forward-looking statements.



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