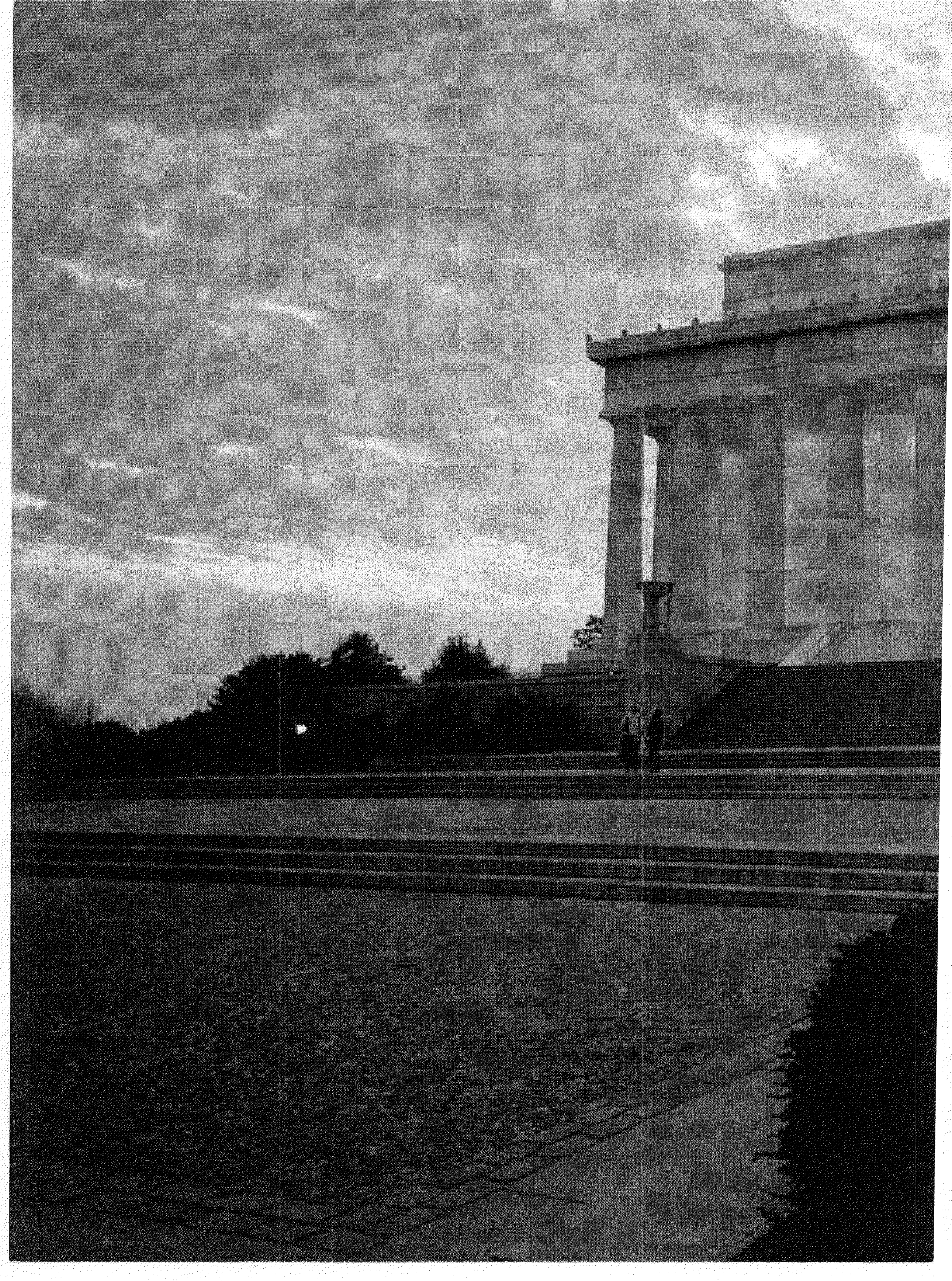
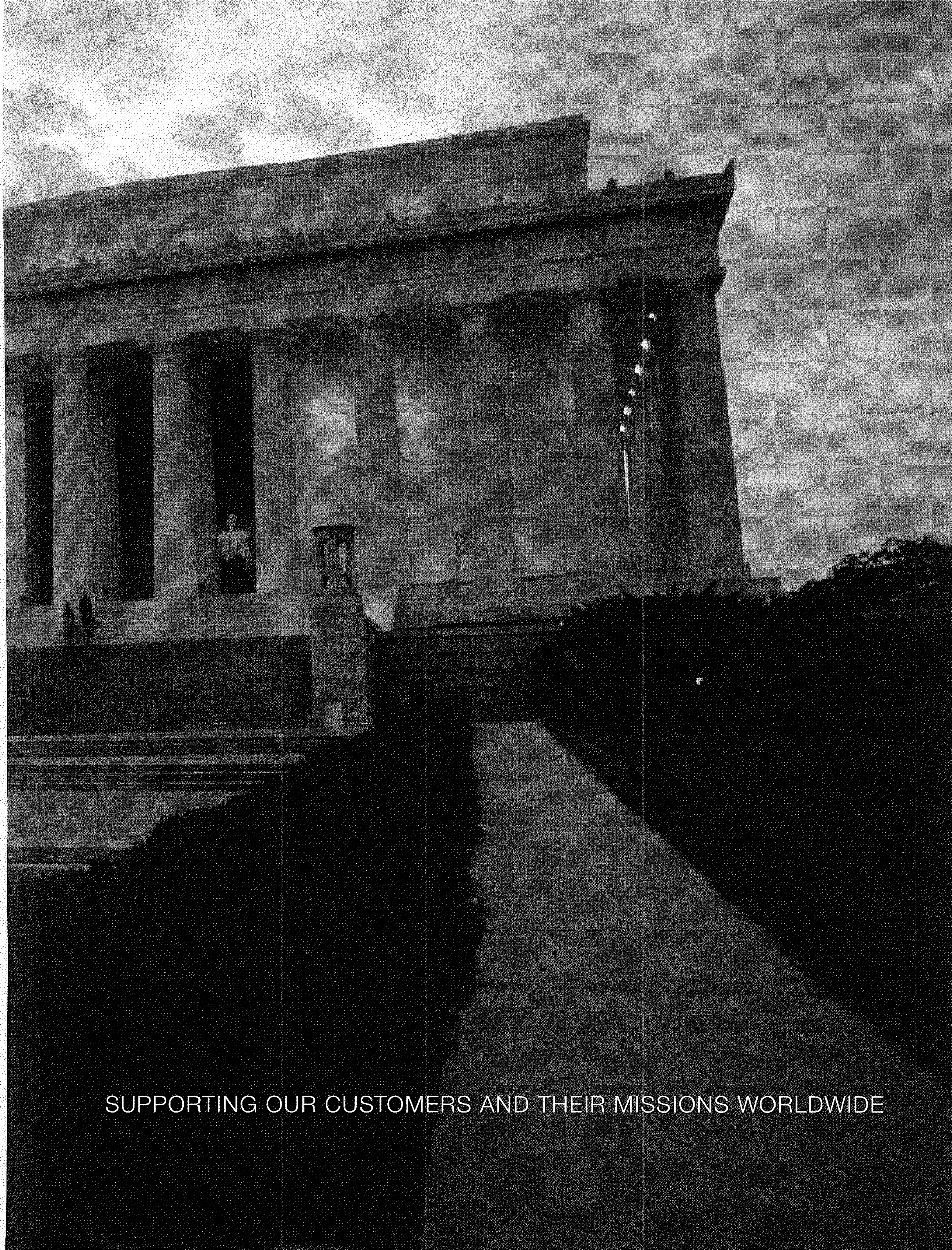
2009 ANNUAL REPORT

STANLEY

COMMITMENT INTEGRITY RESULTS




SUPPORTING OUR CUSTOMERS AND THEIR MISSIONS WORLDWIDE

FELLOW STOCKHOLDERS:

We have all seen examples of the unhealthy ideology known as "growth for growth's sake." In the business world, we see this when companies bulk up with unsuitable acquisitions or deviate from their core competencies, all attuned to the siren song of top-line growth at any cost. Don't get me wrong, growth is good, but healthy growth, quality growth, is our aim at Stanley. And quality growth – both organically and through acquisition – is what defined our story in the 2009 fiscal year. It's also our blueprint for the future.

GREAT NUMBERS, DIFFERENT STORY

Let's first look at the numbers: Last year, Stanley's revenues were $779.7 million, up 29% from $604.3 million in the 2008 fiscal year. Nineteen percent of that growth was "organic," or adjusted for the impact of acquisitions. At the beginning of our 2009 fiscal year, we announced our expectation for organic revenue growth of 10 to 15%, based on our outlook at that time. Our initial revenue guidance included two central assumptions: first, that revenues from our U.S. Passport Services contract would increase significantly in advance of the June 2009 deadline requiring passports for land and sea travel within the western hemisphere. Second, we expected to see increased revenues from new U.S. Army equipment "Reset" awards – contracts where our systems and support services would help the Army manage its repair efforts for equipment previously utilized in Iraq and Afghanistan.

At the time, we thought we had a reasonable basis for our initial revenue guidance based on these two central assumptions; however, neither of these scenarios came to pass. The economic recession that officially began in the fourth calendar quarter of 2007 hit hard in the summer of 2008, with the collapse of the housing and credit markets. Consumer and business spending cratered for both international tourism and commercial travel. In addition, drug-related violence in Mexico – and later the swine flu pandemic – caused many U.S. tourists to cancel or delay trips to that country. Early in the government's 2009 fiscal year, which began on October 1, 2008, the U.S. State Department slashed its estimates for new passport issuances from 18-22 million to 12-14 million for the period ending September 30, 2009. As a result, our Passport Services contract, which accounted for 16% of Stanley's fiscal 2008 revenue – or around $100 million – accounted for just 10% of fiscal 2009 revenue – or slightly more than $80 million.

In the case of U.S. Army equipment Reset, conventional wisdom held that during our 2009 fiscal year the U.S. Army would begin issuing Reset-related task orders under a new contract vehicle set up for that purpose in late calendar year 2007. Stanley won a prime contractor position in this new vehicle – the FIRST contract, a $9 billion Indefinite Delivery/Indefinite Quantity (ID/IQ) procurement – and we expected revenue from FIRST task orders to be a big growth driver for us in our 2009 fiscal year. What no one expected was that the Army would extend on multiple occasions the life of the legacy contract vehicles that FIRST was designed to replace. Although we recognized fairly significant revenues from two FIRST task orders that were awarded in our 2008 fiscal year, these revenues came nowhere close to what we expected Reset revenue would be in the 2009 fiscal year.

A major theme in our business model is to support mission-essential programs for our federal civilian and defense customers.

So what filled the gap? What allowed us to post revenue in our 2009 fiscal year that exceeded the high end of our initial guidance? During the second half of our 2009 fiscal year, especially, we benefited from revenues derived from support for the U.S. Army Central Command's biometrics programs in Iraq and Afghanistan, the provision of IT services for various Department of Defense customers, the support of the Army's Intelligence and Security Command, INSCOM, and network operations and cyber security support to the Marine Corps, all in addition to the Army Reset work I mentioned above.

That we were able to exceed our revenue growth guidance without two of the major ingredients we baked into our initial fiscal year 2009 guidance is, I believe, a testament to the strength and versatility of our growth platform, our entrepreneurial corporate culture, the mission-essential nature of the work that we perform, and our solid customer relationships. A major theme in our business model is to support mission-essential programs for our federal civilian and defense customers. This business model proved especially viable during a time when new awards were at a premium and much of our revenue growth had to come from the ramp-up of recent contract awards, as well as plus-ups to existing contracts.

QUALITY GROWTH: PROFITABLE AND ENERGIZING

But what made our growth in the 2009 fiscal year quality growth? First and foremost, we grew profitably. Our EBITDA margin improved by 80 basis points, to 9.9%; operating margin jumped 60 basis points, to 8.5%; and earnings per share grew by 39% over last fiscal year.

A major factor in this margin improvement was the migration of significant revenue to more profitable time-and-materials (T&M) contracts and away from lower-margin, cost-plus-fixed-fee (CPFF) procurements. In our 2008 fiscal year, CPFF contracts accounted for 46% of revenues and T&M contracts accounted for 36%. By contrast, in our 2009 fiscal year, CPFF contracts accounted for only 30% of revenues, while T&M jumped to 51% of revenues. (The remainder came from fixed-price contracts that provided slightly increased revenue contribution, year over year, from approximately 18% to 19%.)

The acquisition of Oberon was another key factor in Stanley's quality growth in the 2009 fiscal year. First, the Oberon transaction was accretive to our earnings within the first six months of the acquisition. In addition, the acquisition of

Oberon has opened new opportunities in fast-growing markets, including biometrics systems engineering, integration and operational deployment, intelligence community support, communications engineering, and IT and enterprise data management. As the 2009 fiscal year progressed, the Stanley-Oberon combination was winning new business that neither company could have secured previously on its own. We believe the synergies created by our acquisition of Oberon have created a quality growth platform for years to come.

Another hallmark of this quality growth is the profound energizing effect it's having on our corporate culture. In 2009, for the third consecutive year, Stanley was named to Fortune magazine's list of the "100 Best Companies to Work For," moving up 14 places to #70. We also placed seventh on Forbes' list of "America's 200 Best Small Companies." As a provider of services and solutions to the federal government, we are keenly aware that our most valuable assets walk in the door each morning. We believe being recognized as one of the best places to work in the country says a lot about the culture we foster here at Stanley – and the culture we will strive both to preserve and enhance as we continue to grow.

THE ROAD AHEAD

While we are extremely pleased with our fiscal year 2009 results, we are always looking to the future and considering what fiscal year 2010 and beyond will hold for us. We believe that quality growth wears another badge: sustainability. We often hear that the "law of large numbers" begins to take hold as companies approach the billion-dollar revenue milestone; that meaningful growth becomes more difficult to attach to a larger revenue base. This may be true, but we believe Stanley is well-positioned to post continued quality growth – both organically and through acquisitions.

For example, we expect to see continued growth in our intelligence business, specifically in the areas of biometrics and future technologies. With respect to biometrics, we've made great strides in the areas of voice recognition and multi-spectral fingerprint analysis and were awarded nearly $30 million in contracts in fiscal year 2009 to continue this important work. We also have begun work on a recently-awarded contract to apply our biometrics technologies to the Army's detainee management mission.

On the intelligence systems front, our INSCOM FUTURES contract has shown strong growth as we continue to ramp efforts. By way of example, we are in final stages of testing that will lead to an Authority to Operate certification for the Intelligence Community's first true Cross-Domain Multi-Level Secure Database capability.

In addition to intelligence technology, we have been working closely with our customers to support the evolving missions of "overseas contingency operations." As the Obama Administration moves forward with its strategic focus on Afghanistan, we have been working with our customers to ensure that the logistics systems infrastructure we helped establish in Iraq is fully operational and ready for an inflow of forces into Afghanistan. For example, the U.S. Marine Corps have tasked us with ensuring that their deployable logistics command and control, supply accountability, maintenance, and warehousing systems are properly established and supported in Afghanistan. We expect to see similar activity with respect to our intelligence systems in the near future.

On the cyber security and infrastructure protection front, our contract with the Marine Corps Network Operations and Security Command continues to ramp according to plan. We are providing senior engineering staff to support the operations of their secure networks worldwide. Additionally, we have begun the process of ramping up our Joint Strike Fighter network operations program to support the airframes movement through the development process. We also have begun to see an increase in task order flow through the DISA ENCORE contract vehicle, which will provide us with additional opportunities to grow with this key customer.

We began fiscal year 2010 with a record pipeline of new business opportunities. We also will continue to seek out promising acquisition candidates that provide access to new contract vehicles and customers as well as revenue and margin growth that complements or exceeds Stanley's.

On behalf of myself and the Board of Directors, we thank you, our stockholders, for joining us on this exciting ride.

Philip O. Nolan
Chairman, President and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2009

OR

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

Commission File No. 001-33083

STANLEY, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**11-3658790** (I.R.S. Employer Identification No.)
3101 Wilson Boulevard, Suite 700 **Arlington, VA** (Address of principal executive offices)	**22201** (Zip Code)

(703) 684-1125
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ (Do not check if a smaller reporting company) 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 the voting stock held by non-affiliates of the Registrant on September 26, 2008 was approximately $592.5 million (based upon the closing price of $35.76 per share on September 26, 2008, as reported on the New York Stock Exchange). Only for the purpose of this computation, all directors, executive officers and 10% beneficial owners (excluding the Registrant's Employee Stock Ownership Plan) of the Registrant have been treated as affiliates.

As of May 14, 2009, there were 23,910,914 shares of the Registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrant's definitive proxy statement relating to the Registrant's 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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STANLEY, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2009
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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, in particular, statements about our plans, strategies and prospects. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. References to "we," "our" and the "Company" refer to Stanley, Inc., together in each case with our consolidated subsidiaries unless the context suggests otherwise.

The forward-looking statements contained in this Annual Report on Form 10-K are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, including as a result of risks discussed in the section of this Annual Report on Form 10-K entitled "Risk Factors." These forward-looking statements include, but are not limited to, statements relating to:

- our ability to retain customers and contracts, as well as our ability to win new customers and engagements;
- our backlog;
- risks associated with the acquisition and integration of new companies;
- our beliefs about trends in our market, available government contracts and outsourcing to companies like ours;
- expected spending on information technology and other professional services by federal government agencies, including the Department of Defense; and
- other risks discussed in this Annual Report on Form 10-K in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Result of Operations," and in any other documents we file with the Securities and Exchange Commission, or SEC.

We are under no duty to update any of the forward-looking statements after the date of this Annual Report on Form 10-K to conform these statements to actual results, except as required by law.

PART I

ITEM 1. BUSINESS

Company Overview

We provide information technology services and solutions to U.S. defense, intelligence and federal civilian government agencies. We offer our customers solutions and expertise to support their mission-essential needs at any stage of program, product development or business lifecycle through five service areas: systems engineering, enterprise integration, operational logistics, business process outsourcing and advanced engineering and technology. As a systems integrator, we apply these five service areas to enable our customers to achieve interoperability between different business processes and information technology systems.

We were founded in 1966 and have established long-standing, successful relationships with our federal government customers. At March 31, 2009, we had approximately 300 active contractual engagements across 54 federal government agencies. Our customers include all major agencies of the Department of Defense, the Department of State, the Department of Homeland Security, the Department of Transportation, the Department of the Treasury, NASA, the Department of Justice and the Department of Health and Human Services.

For the fiscal year ended March 31, 2009, or fiscal 2009, we derived approximately 72% of our revenues from agencies within the Department of Defense and approximately 28% of our revenues from federal civilian government agencies. For fiscal 2009, our top 10 revenue-generating contracts accounted for approximately 63% of our revenues. Our contract with the Department of State for the provision of passport processing and support services, which is our largest revenue-generating contract, accounted for approximately 10% of our revenues for fiscal 2009. Our contracts with the Department of the Navy for production engineering and integration services under various Space and Naval Warfare Systems Command, or SPAWAR, programs also accounted for approximately 10% of our revenues for fiscal 2009. No other single contract accounted for 10% of our revenues for fiscal 2009. We acted as the prime contractor on contractual engagements that provided approximately 69% of our revenues for fiscal 2009.

From the fiscal year ended March 31, 1999 through fiscal 2009, we increased our revenues at a compound annual growth rate of 32%, and we have been profitable in every year during that period. Our revenues for fiscal 2009 were $779.7 million. At March 31, 2009, our total backlog was $2,024.9 million and our funded backlog was $340.4 million. For a discussion of how we calculate backlog, see "Backlog."

Over the three-year period ended March 31, 2009, we have won 95% of competitively awarded contracts on which we were the incumbent. During fiscal 2009, we achieved an overall win rate, including the incumbent contracts referred to above, of approximately 54%. For a discussion of how we calculate our win rate, see "Business Development."

We emphasize three essential attributes—a commitment to strong partnerships, integrity in all dealings and results for our customers—in order to develop long-term relationships with our customers and achieve the highest quality workforce in our industry. Our senior management team includes a core group of executives who have grown our company over the past two decades. Our team has been supplemented with strategic hires and is supported by a high quality staff of approximately 4,800 employees at March 31, 2009. Several members of our senior management team, including our chief executive officer, have served in the U.S. armed forces, and we believe this experience provides us with significant knowledge of these organizations. At March 31, 2009, approximately 62% of our employees held Secret or Top Secret clearances, which are necessary to work on classified contracts. Additionally, our management team and our employees have a personal stake in our continued growth and success as they own a significant portion of our common stock.

Our Services

As a systems integrator and a provider of information technology services and solutions, our service portfolio is comprised of five areas, each customizable to meet unique customer needs. These areas are systems engineering, enterprise integration, operational logistics, business process outsourcing and advanced engineering and technology. Our end-to-end information technology services provide our customers with solutions throughout the design, build, delivery, and operation and modernization stages of a program. By combining knowledge and successful implementation of best-of-breed processes with intelligent application of emergent technologies, we help our customers meet critical goals and milestones on time and within budget in support of their operational objectives.

Systems Engineering

Our systems engineering services apply formal engineering methods and practices to analyze, design, develop, deploy and modernize information systems providing high-end capability for Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance, or C4ISR, functions, biometrics, operations, logistics and business systems. Systems engineering activities are provided by teams of system, software, data and communications engineers who are supported by cleared personnel, infrastructure and facilities. Our primary software and systems engineering service offerings include:

- systems design and enterprise architecture development;
- software engineering and development;
- security engineering and information assurance;
- Command and Control, or C2, and C4ISR engineering and integration;
- intelligence systems engineering;
- biometrics systems engineering;
- systems production and deployment;
- information and data engineering and development;
- systems engineering and technical assistance; and
- independent verification and validation.

Enterprise Integration

Our enterprise integration services provide interoperability of data, functionality and information management to business processes, users and other information systems in order to support our customers' missions. Enabled by our expert knowledge of commercial-off-the-shelf, or COTS, packages, which include enterprise resource planning, or ERP, and business process management technologies, we integrate new functionality with existing applications and infrastructure to enhance horizontal interoperability across the enterprise. In addition, we design, implement, support and protect both secure and unclassified information technology infrastructures and provide certification and accreditation and offensive and defensive information operations services. Our service offerings that support enterprise integration include:

- business process development and workflow automation;
- COTS software integration;
- enterprise content management;

- enterprise application integration;
- document management;
- e-government and e-business solutions;
- ERP blueprinting, configuration and implementation;
- cyber security and infrastructure protection;
- network and information technology infrastructure engineering; and
- information assurance.

Operational Logistics

Our operational logistics services provide resource, supply chain, maintenance and sustainment planning, management and support to federal government customers, principally to U.S. military operations. Our solution sets include personnel with broad logistics experience, a family of proven logistics business applications and logistics engineers, and support personnel dedicated to our customers' missions. Our operational logistics offering expands beyond the support of logistics systems and operations and includes the fielding and support of intelligence and biometrics systems for our customers both domestically and internationally. Our operational logistics service offerings include:

- logistics engineering;
- logistics business systems;
- system fielding and lifecycle support;
- training program support;
- intelligence systems support;
- intelligence operations;
- biometrics field support;
- supply management and warehouse operations;
- maintenance engineering;
- documentation and e-manual development; and
- large-scale military deployment planning and embarkation support.

Business Process Outsourcing

Our business process outsourcing services offer engineers, analysts and subject matter experts in key business functions, such as requirements analysis, project and program management, operational support, administration and budgeting. Our business process outsourcing team members bring with them proven techniques for process and product improvement, which we believe continue to enhance organizational performance after the contractual engagement's goals have been achieved. Our business process outsourcing service offerings include:

- facility operations;
- business process improvement;
- program and project management;
- functional analysis;

- records management;
- facility management and build-out; and
- developmental and operational test and evaluation.

Advanced Engineering and Technology

Our advanced engineering and technology capabilities deliver expert analysis, design, prototyping and engineering to U.S. defense, intelligence and federal civilian government customers implementing state-of-the-art and emergent technologies to enhance information exchange, interoperability, data-sharing capabilities, C4ISR and weapons systems effectiveness. Our primary advanced engineering and technology offerings include:

- intelligence future technology development;
- biometrics collection, storage and analysis;
- sensor integration;
- service-oriented architectures;
- microsystems design/development;
- fiber/electro-optics;
- microelectronics; and
- domain and situational awareness.

Qualifications

We apply industry-recognized quality control and management processes to ensure repeatable, effective and efficient solution delivery for our customers. Our Quality Management System, or QMS, applies standard methodologies, such as ISO 9001-2000, Lean Six Sigma and CMMI, to our customer engagements as required by contract or as appropriate to the type of product or service provided. We also implement our QMS within key operations support functions such as contract management, human resources, purchasing and security. Our Software Engineering and Integration Division has achieved an SEI CMMI Maturity Level 5 assessment jointly with one of our U.S. Army customer organizations. Our other software engineering units have implemented our QMS at SEI CMMI Maturity Level 3 in support of system integration for the Joint Strike Fighter Program Office, the U.S. Marine Corps, the U.S. Army, the Department of State and other federal civilian government customers. At March 31, 2009, we had eight operating locations registered with the ANSI-ASQ National Accreditation Board for ISO 9000. In addition, we had 30 certified Project Management Professionals, or PMP, on staff accredited by the Project Management Institute, or PMI. The PMI Project Management Body of Knowledge forms the basis for all of our project management processes from planning through completion.

Strategic Acquisitions

We have supplemented our internal growth and expanded our service offerings and customer base through the following six strategic acquisitions since 2000:

Acquired Company	Date of Acquisition
GCI Information Services, Inc.	January 2000
CCI, Incorporated	September 2002
Fuentez Systems Concepts, Inc.	December 2003
Morgan Research Corporation	February 2006
Techrizon, LLC	April 2007
Oberon Associates, Inc.	July 2008

In January 2000, we acquired GCI Information Services, Inc., broadening our electronic records management services and adding the Department of Commerce and Department of the Treasury as customers. In September 2002, we acquired CCI, Incorporated, expanding our operational logistics portfolio and adding a strong presence with the Naval Air Systems Command. In December 2003, we acquired Fuentez Systems Concepts, Inc., providing us with additional systems engineering, production, integration and C4ISR expertise, and adding SPAWAR, the Department of Homeland Security and Department of Defense agencies within the intelligence community as customers.

In February 2006, we completed the acquisition of Morgan Research Corporation, or Morgan. This acquisition provided us with a presence in Huntsville, Alabama, which, as a result of the Department of Defense's Base Realignment and Closure program, or BRAC, will be the new headquarters of the Army Materiel Command and is home to the Army Space and Missile Defense Command and a substantial portion of the Missile Defense Agency. In addition, this acquisition combined the specialized engineering and technology expertise of Morgan with our existing systems integration capabilities, providing us with additional key prime contract vehicles and enabling us to provide complementary information technology and systems engineering services and an expanded suite of solutions to our customers.

In April 2007, we completed the acquisition of Techrizon LLC, or Techrizon. This acquisition combined the specialized expertise of Techrizon with Stanley's proven systems integration capabilities. The two companies provide complementary information technology services and together offer an expanded suite of solutions for our combined customer base. Techrizon provides support to the U.S. Army's Communications-Electronics Life Cycle Management Command and the Fires Center of Excellence. Techrizon has also provided support to the U.S. Army's Field Artillery School since 1976.

In July 2008, we acquired Oberon Associates, Inc., or Oberon. Oberon provides engineering, operational intelligence and information technology support to multiple elements of the U.S. Army, in addition to the U.S. Air Force, Defense Information Systems Agency, Transportation Security Administration and several agencies throughout the intelligence community. Oberon's areas of expertise include biometrics systems engineering, integration and operational deployment; intelligence community support; communications engineering; and information technology and enterprise data management. The acquisition of Oberon expands the range of solutions offered to our customers, bringing biometric applications experts, functional experts within the intelligence community, and expertise in communications and information management systems.

Customers

We have successfully established long-standing relationships with many governmental agencies. At March 31, 2009, we had approximately 300 active contractual engagements across 54 federal government agencies. Our customers include all major agencies of the Department of Defense, the Department of State, the Department of Homeland Security, the Department of Transportation, the

Department of the Treasury, NASA, the Department of Justice and the Department of Health and Human Services. We believe our long-standing relationships are due in large part to our customer-centric account management process, our technical expertise and proven performance on individual contracts.

For fiscal 2009, we derived approximately 72% of our revenues from agencies within the Department of Defense, as compared to 66% in the fiscal year ended March 31, 2008, or fiscal 2008, and 65% in the fiscal year ended March 31, 2007, or fiscal 2007. Approximately 28% of our fiscal 2009 revenues were from federal civilian government agencies. In fiscal 2008 and 2007, approximately 34% and 35%, respectively, of our revenues were from federal civilian government agencies. Our largest customer group is the U.S. Army, which accounted for approximately 44% of revenues for fiscal 2009. In fiscal 2008 and 2007, the U.S. Army accounted for approximately 38% and 35%, respectively, of our revenues. Our contract with the Department of State for the provision of passport processing and support services, which is our largest revenue-generating contract, accounted for approximately 10% of our revenues for fiscal 2009 as compared to 16% in fiscal 2008 and 15% in fiscal 2007. Our contracts with the Department of the Navy for production engineering and integration services under various SPAWAR programs also accounted for approximately 10% of our revenues for fiscal 2009 as compared to 12% in each of fiscal 2008 and fiscal 2007. Contracts for which we acted as the prime contractor represented approximately 69% of our revenues for fiscal 2009, as compared to 77% in fiscal 2008 and 80% in fiscal 2007.

Business Development

We believe our account management process is a highly disciplined, team-based approach to customer relationship management and business development, designed to understand our customers, their organizations and their missions. Our scalable process, modeled after industry best practices and refined over years of application, seeks to identify sales opportunities well in advance of contract competition and guides the lead generation and development process, focusing limited resources on achieving growth objectives while providing the basis for making strategic decisions in meeting both existing and new customer needs and opportunities.

Systems and processes developed in support of our business development activities include a capture management system that aggregates customer data throughout the lead identification process and from previous contractual engagements and third-party sources, ultimately facilitating the bid decision and proposal process. Our systems and processes also provide us with real-time reporting of pipeline and bid status. The business development organization also includes a business intelligence function facilitating program account opportunity reviews, sales training, research and competitive analyses.

Our business development professionals are highly experienced in marketing to our government customers and have extensive knowledge of both the services and solutions we offer, as well as the particular customer's organization, mission, culture and technology initiatives. These professionals also possess a working knowledge of the marketing limitations that are specific to the government arena, including government-funding systems, conflict of interest restrictions, procurement integrity limitations and other pertinent procedural requirements. In fulfilling its mission, the business development organization cooperates closely with the various operations groups and other support organizations.

During fiscal 2009, we achieved an overall win rate of approximately 54%. Overall win rate represents the number of bids won as a percentage of the total number of bids evaluated in that same period. We also measure our win rate with respect to competitively awarded contracts on which we are the incumbent contractor. Over the three-year period ended March 31, 2009, we achieved a win rate of 95% on these contracts.

Seasonality

Our business in general is not seasonal. However, it is not uncommon for federal government agencies to award extra tasks or complete other contract actions in the weeks before the end of the federal government's fiscal year (which is September 30 of each year) in order to avoid the loss of unexpended fiscal year funds. Additionally, in years when the federal government does not complete its budget process before the end of its fiscal year, government operations typically are funded pursuant to a continuing resolution that authorizes agencies of the federal government to continue to operate, but traditionally does not authorize new spending initiatives. When much of the federal government operates under a continuing resolution, delays can occur in procurement of products and services, and such delays can affect our revenue and profit during the period of delay.

Existing Contract Profile

Contract Types

At March 31, 2009, we had approximately 300 active contractual engagements, each employing one of three types of price structures: cost-plus-fee, time-and-materials or fixed-price.

Cost-Plus-Fee Contracts. Cost-plus-fee contracts provide for reimbursement of costs, to the extent that such costs are reasonable, allowable and allocable to the contract, and for the payment of a "fee," which essentially represents the profit negotiated between the contractor and the contracting agency. There are three basic types of cost-plus-fee contracts. Cost-plus-fixed-fee contracts provide for a negotiated fee that is fixed at inception and does not vary with actual costs. Cost-plus-award-fee contracts provide for a fee consisting of a base amount fixed at inception and an award amount that varies based on the federal government's evaluation of contractor performance. Cost-plus-incentive-fee contracts provide for an initially negotiated fee that is adjusted based on a formula that provides, within limits, for increases or decreases based on the relationship of total allowable actual costs to target costs.

Contracts may require completion of defined tasks or performance of a specific number of hours of service. Our total cost incurred on our cost-plus-fee contracts cannot exceed the funded cost ceiling set forth in the contract without the approval of the agency. If a contracted task has not been completed or the specific number of hours of service have not been performed at the time the authorized cost is expended, we may be required to complete the work and be reimbursed for the additional costs with no increase in fee or the fee may be reduced proportionately to the number of hours actually provided. Even though cost-plus-fee contracts are generally thought to involve a relatively low degree of risk, we try to carefully manage our cost-plus-fee contracts to ensure that they are performed within the estimated cost and that the required work is completed and/or the minimum hours are provided.

Time-and-Materials Contracts. Under a time-and-materials contract, our compensation is based on a fixed hourly rate established for specified labor or skill categories. We are paid at the established hourly rates for the hours we expend performing the work specified in the contract. Labor costs, fringe benefits, overhead, general and administrative costs and profit are included in the fixed hourly rate. Materials, subcontractors, travel and other direct costs are reimbursed at actual costs plus an allocation of indirect costs without fee. We make critical pricing assumptions and decisions when developing and proposing time-and-materials labor rates. We risk incurring a loss of profitability if our actual costs exceed the costs assumed in the fixed hourly labor rate.

Fixed-Price Contracts. In a fixed-price contract, we must complete the work to receive the price, which is fixed and is not affected by the cost of performance. Thus, if our costs are greater than the price, we will suffer a loss and if our price is greater than our costs, we will realize a profit. Because we agree to accept the cost risk for the contract, there is greater risk involved with performing this type of contract. However, if work is performed or solutions are developed more efficiently than anticipated, there is the possibility of receiving higher profit margins than those typically recognized on cost-plus-fee and time-and-materials contracts.

The following table summarizes our historical contract mix, measured as a percentage of total revenues, for the periods indicated:

	Fiscal Year Ended March 31,		
	2009	2008	2007
Cost-plus-fee	30%	46%	52%
Time-and-materials	51%	36%	32%
Fixed-price	19%	18%	16%

Because the customer usually specifies the type of contract for a particular contractual engagement, we generally do not influence the choice of contract type. However, where we do have the opportunity to influence the contract type, and where customer requirements are clear, we prefer time-and-materials and fixed-price arrangements rather than cost-plus-fee arrangements because time-and-materials and fixed-price contracts, as compared with cost-plus-fee contracts, generally provide greater opportunity for the customer to mitigate risk and for us to generate higher margins.

Contract Vehicles

We compete for task orders through a variety of arrangements or contract vehicles, including government-wide acquisition contracts, or GWACs, blanket purchase agreements, GSA schedules and agency-specific indefinite delivery/indefinite quantity, or ID/IQ contracts. We hold a number of GWACs, agency-specific ID/IQ contracts and GSA schedule contracts. These are popular contract award methods, offering more flexible, cost-effective and rapid procurement processes.

Backlog

We define backlog as the amount of revenues we expect to realize (i) over the remaining base contract performance period and (ii) from the exercise of option periods that we reasonably believe will be exercised, from signed contracts in existence as of the measurement date. We do not include contract ceiling values under GWAC or multiple-award ID/IQ contracts in our backlog calculation. We also do not include in backlog (i) the expected amount of revenues that would be realized if, and when, we were successful in the re-compete of signed contracts in existence as of the measurement date or (ii) the expected amount of revenues that would be realized from future unidentified growth on signed contracts and task orders in existence as of the measurement date.

We define funded backlog as the portion of our backlog for which funding currently is appropriated and obligated to us under a signed contract or task order by the purchasing agency, or otherwise authorized for payment to us by a customer upon completion of a specified portion of work, less the amount of revenue we have previously recognized under the contract. Our funded backlog does not include the full potential value of our contracts, because Congress often appropriates funds to be used by an agency for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a number of years. As a result, contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under the contracts may remain unfunded unless and until Congress makes subsequent appropriations and the procuring agency allocates funding to the contract.

At March 31, 2009, our total backlog was $2,024.9 million and funded backlog was $340.4 million. At March 31, 2008, our total and funded backlog was $1,784.3 million and $299.3 million, respectively.

Partnering

Strong industry partnerships with leading vendors and other systems integrators provide a valuable source of information regarding new technology trends and techniques. Similar to our approach for managing customer relationships, we designate partnership leads responsible for understanding the product roadmaps of specific technologies and for working closely with our product vendors. We seek to utilize the research and development investments of our partners for our customers' benefit. These partnerships enable us to provide significant additional capabilities to our customers, including technology and software services that are not otherwise available directly from us.

Subcontractors

When we act as a prime contractor, as we often do, we derive revenue either through our own work or through the efforts of our subcontractors. As part of the contract bidding process, we may enter into teaming agreements with subcontractors to enhance our ability to bid on large, complex assignments or to address more completely a particular customer's requirements. Teaming agreements and subcontracting relationships are useful because they permit us, as a prime contractor, to compete more effectively on a wider range of projects. In addition, we may engage a subcontractor to perform a discrete task on an engagement or a subcontractor may approach us because of our position as a prime contractor. When we are a prime contractor on an engagement, we are ultimately responsible for the overall engagement as well as the performance of our subcontractors.

We estimate that revenues derived from work performed by our subcontractors represented approximately 30% of our revenues for fiscal 2009 and approximately 34% of our revenues for fiscal 2008. As discussed further in the section of this report entitled "Risk Factors," if our subcontractors were to fail to perform their contractual obligations, our performance and reputation as a prime contractor and our ability to obtain future business could suffer and as a result our financial condition, results of operations and cash flows could decline.

Competition

Despite consolidation over the past several years, the federal information technology services and solutions industry is comprised of a large number of enterprises ranging from small, niche-oriented companies to multi-billion dollar corporations with significant name recognition and presence throughout the federal government. Because of the diverse requirements of federal government customers and the highly competitive nature of large federal contracting initiatives, corporations frequently form teams to pursue contract opportunities. Prime contractors leading large proposal efforts select team members based on their relevant capabilities and experience particular to each opportunity. As a result of these circumstances, companies that are competitors for one opportunity may be team members for another opportunity. In each of our five service areas, we generally bid against companies of varying sizes and specialties. Our competitors include large defense and information technology prime contractors, as well as a number of smaller federal contractors with specialized capabilities. We compete on the basis of our technical abilities, customer relationships, past performance, cost containment, reputation and ability to provide quality personnel.

Employees

We had approximately 4,800 employees at March 31, 2009, located in 35 states, Washington, D.C. and 10 foreign countries. The depth and breadth of the security clearances held by our employees is instrumental in allowing us to compete for, and work on, classified projects. At March 31, 2009, approximately 62% of our employees held Secret or Top Secret clearances.

We are party to a collective bargaining agreement with the United Electrical, Radio and Machine Workers of America local 1008, which sets forth the wages, benefits and certain working conditions for our approximately 190 employees performing work on an engagement with the U.S. Citizenship and Immigration Services, or USCIS, Department of Homeland Security at its California Service Center in Laguna Nigel, California.

We believe that our relations with our employees are good and that we have successfully created a culture that focuses on developing employees throughout their career and promoting them within our organization. From 2007 through 2009, FORTUNE® magazine has included us on its list of "100 Best Companies to Work For."

Intellectual Property

We currently have six issued patents and 24 pending patent applications outstanding, eight of which are domestic and 16 of which are international. While we believe these patent applications are valid and that these patents will be issued, we do not consider our business to be materially dependent on the issuance or protection of these patents.

We have a number of trade secrets that contribute to our success and competitive position, and we endeavor to protect the secrecy of this proprietary information. While we believe that continuing protection of our trade secrets and confidential information is important, we are not materially dependent on any specific trade secret or group of trade secrets.

Company Website and Information

We maintain an Internet website at *www.stanleyassociates.com*. The website contains information about us and our operations. Through a link to the Investor Relations section of our website, copies of each of our filings with the SEC, on Form 10-K, Form 10-Q and Form 8-K and all amendments to those reports, can be viewed and downloaded free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. In accordance with Section 303A of the New York Stock Exchange Listed Company Manual, copies of our corporate governance guidelines and code of ethics are also available on our website to be viewed and downloaded free of charge.

You may request a copy of the materials identified in the preceding paragraph, at no cost, by writing or telephoning us at: Stanley, Inc., Attention: Investor Relations, 3101 Wilson Boulevard, Suite 700, Arlington, VA 22201, Telephone: (703) 684-1125. We will not send exhibits to these reports, unless the exhibits are specifically requested and you pay a modest fee for duplication and delivery.

In addition, copies of any document we file with or furnish to the SEC may be obtained from the SEC at its public reference room at Headquarters Office, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers that file or furnish such information electronically with the SEC. Our SEC filings are accessible through the Internet at that website.

Certifications

We have included as Exhibits 31 and 32 to this report the certificates of our Chief Executive Officer and Chief Financial Officer filed with the SEC certifying to the quality of our public disclosure. Our Chief Executive Officer has also submitted to the New York Stock Exchange a certificate certifying that he is not aware of any violations by our company of the New York Stock Exchange corporate governance listings standards.

ITEM 1A. RISK FACTORS

Set forth below are risks that we believe are material to investors who purchase or own our common stock. You should consider carefully the following risks, together with the other information contained in and incorporated by reference in this Annual Report on Form 10-K.

Risks Related to Our Business

We depend on contracts with federal government agencies for substantially all of our revenues. If our relationships with these agencies were harmed, our revenues and operating results could decline.

Revenues from federal government contracts, either as a prime contractor or as a subcontractor, accounted for nearly 100% of our revenues for fiscal 2009. We believe that federal government contracts will continue to be the source of substantially all of our revenues for the foreseeable future. For this reason, any issue that compromises our relationship with agencies of the federal government in general, or with the Department of Defense or Department of State in particular, would cause serious harm to our business. Among the key factors in maintaining our relationships with federal government agency customers 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 revenues and operating results could decline.

Changes in the spending policies or budget priorities of the federal government, and the Department of Defense or Department of State in particular, could cause us to lose revenues.

Changes in federal government fiscal or spending policies, or in the Department of Defense or the Department of State budget allocations, could directly affect our financial performance. Among the factors that could harm our business are:

- curtailment of the federal government's use of technology services firms;
- a significant decline in spending generally by the federal government or by specific departments or agencies, such as the Department of Defense or the Department of State;
- reductions in federal government programs or requirements;
- a shift in spending to federal programs and agencies that we do not support or where we currently do not have contracts or key relationships;
- delays in the payment of our invoices by government payment offices;
- federal governmental shutdowns, such as the shutdown that occurred during the federal government's 1996 fiscal year, and other potential delays in the government appropriations process, such as federal agencies having to operate under a continuing funding resolution because of delays in Congressional budget appropriations;
- emergency spending that reduces funds available for other government priorities, such as the emergency spending pursuant to the Economic Recovery and Stimulus Act of 2009, the American Recovery and Reinvestment Act of 2009 and relief for financial and other institutions;
- realignment of funds with changed government priorities under the new President and the Secretary of Defense, including "insourcing" of previously contracted support services and the realignment of funds to other non-defense related programs, which may reduce the amount of funds available to defense-related and other programs in our core service areas; and
- general economic and political conditions, including any event that reduces federal tax receipts or results in a change in spending priorities of the federal government.

These or other factors could cause federal government agencies and departments to reduce their purchases under contracts, to exercise their right to terminate contracts or not to exercise options to renew contracts, any of which could cause us to lose revenues. These or other factors also could adversely affect our operating results in any given fiscal period and cause significant fluctuations in our revenue across fiscal periods.

In particular, revenues earned from contracts with the Department of Defense, including from subcontracts having the Department of Defense as the ultimate purchaser, represented approximately 72% of our revenues for fiscal 2009. In the past, the U.S. defense budget has declined from time to time, resulting in a slowing of new program starts, program delays and program cancellations. These reductions may cause defense-related government contractors to experience declining revenues, increased pressure on operating margins and, in some cases, net losses. Current federal government spending levels on defense-related programs are in part related to the U.S. military operations in Afghanistan and Iraq and may not be sustainable, including as a result of changes in government leadership, policies or priorities. Future levels of expenditures and authorizations for defense-related programs may decrease or shift to programs in areas where we do not provide services. Any such decline or shift in defense-related expenditures could harm our revenues and operating results.

In addition, any limitations imposed on spending by other federal government agencies that result from efforts to reduce the federal deficit or otherwise may limit both the continued funding of our existing contracts and our ability to obtain additional contracts. Our backlog consists exclusively of contracts with federal departments and agencies, and the continuation of these contracts, or the award of additional contracts from these departments or agencies, could be materially harmed by federal government spending reductions or budget cutbacks at these departments or agencies.

We may not realize the full value of our backlog, which may result in lower than expected revenues.

Our total backlog represents the amount of revenues we expect to realize over the remaining base contract performance period and from the exercise of all option periods that we reasonably believe will be exercised, in each case from signed contracts in existence as of the measurement date. We do not include contract ceilings for GWACs or agency-specific multiple-award ID/IQ contracts in our backlog calculation. Congress typically appropriates funds for our federal government customers on an annual basis, even though their contracts with us may call for performance that is expected to take a number of years. As a result, contracts typically are only partially funded at any point during their term and all or some of the work to be performed under the contracts may remain unfunded unless and until Congress makes subsequent appropriations and the procuring agency allocates funding to the contract.

We may never realize some of the revenues that are included in our total backlog, and there is a higher degree of risk in this regard with respect to unfunded backlog. At March 31, 2009, our total backlog was approximately $2,024.9 million, of which only approximately $340.4 million was funded. In addition, there can be no assurance that our backlog will result in actual revenues in any particular period. This is because the actual receipt, timing and amount of revenues under contracts included in backlog are subject to various contingencies, many of which are beyond our control. For example, the actual receipt of revenues from contracts included in backlog may never occur or may be delayed because a program schedule could change or the program could be cancelled, or a contract could be reduced, modified or terminated early, including as a result of a lack of appropriated funds. In addition, the fact that our backlog may translate into revenue does not guarantee that the contracts will be profitable.

Loss of our position as a qualified contractor under one or more General Services Administration schedules, or as a prime contractor on one or more of our contracts would impair our operating results and our ability to win new business.

In recent years, the federal government has increasingly relied on GSA schedules and multi-award ID/IQ contracts for its procurement needs. When using GSA schedules and multiple-award ID/IQ contracts, a procuring officer chooses providers from a pre-selected group of contractors, and contractors that are not part of the group generally will not be notified of, and will not be able to compete for, these contracts or task orders. Accordingly, our ability to maintain our existing business and win new business depends on our ability to maintain our position as a GSA schedule contractor and a prime contractor on multiple-award ID/IQ contracts.

If we were to lose any of our GSA schedules or our prime contractor position on any of our contracts, we could lose revenues, and our ability to win new business and our operating results could decline as a result. Similarly, unless we are successful in expanding our GSA schedule presence and our base of multiple-award ID/IQ contracts, our ability to grow our business may be hindered.

Most of our revenues are earned from contracts with limited initial terms. We may expend significant resources in connection with these contracts that we may not recover if our customers do not exercise their contract extension options.

Our contracts typically have a one or two year initial term, with multiple options that are exercisable by our government customers to extend the contract for one or more additional years. Our customers may not exercise any of their extension options. Moreover, because we believe that our contracts with limited initial terms represent the early portion of longer customer programs, we expend significant financial and personnel resources and expand our operations to be able to fulfill these programs beyond the initial contract term. If our contracts are not extended beyond their initial terms we may be unable to recover all of the costs we incurred and may not be able to recognize anticipated revenues, each of which could negatively impact our cash flow and results of operations.

The loss of one or more members of our senior management team could impair our relationships with government customers and our ability to compete and could disrupt the management of our business.

We believe that our success depends on the continued contributions of the members of our senior management team. Our senior management team has extensive industry experience, and the relationships and reputation that members of our senior management team have established and maintain with government personnel contribute to our ability to maintain good customer relations and to identify new business opportunities. The loss of the services of one or more of our senior executives, none of whom has an employment contract with us, could impair our ability to identify and secure new contracts, to maintain good customer relations and to otherwise manage our business, any of which could harm our business and operating results.

If we fail to attract and retain skilled employees, we might not be able to perform under our contracts and our ability to maintain and grow our business could be limited.

The growth of our business and revenues depends in large part upon our ability to attract and retain sufficient numbers of highly qualified individuals who have advanced information technology skills and appropriate security clearances, and who work well with our defense, intelligence and federal civilian government customers. Competition for such personnel is intense, and recruiting, training and retention costs place significant demands on our resources. If we are unable to recruit and retain a sufficient number of qualified employees, our ability to maintain and grow our business could be limited. Furthermore, we could be required to engage larger numbers of contracted personnel, which could reduce our profit margins. In addition, many of our professional personnel may have specific knowledge of and experience with our federal government customers' operations, and we obtain some of our contracts based on that knowledge and experience. The loss of services of key personnel could impair our ability to perform required services under some of our contracts and to retain such contracts, as well as our ability to win new business.

Negotiations with labor unions and possible work actions could divert management attention and disrupt operations. In addition, new collective bargaining agreements or amendments to agreements could increase our labor costs and operating expenses.

As of March 31, 2009, approximately 4% of our employees were covered by collective bargaining agreements. The outcome of any future negotiations relating to union representation or collective bargaining agreements is uncertain and may not be favorable to us. We may reach agreements in collective bargaining that increase our operating expenses and lower our net income as a result of higher wages or benefit expenses. In addition, negotiations with unions could divert management attention and may disrupt operations, which may adversely affect our results of operations. If we are unable to negotiate acceptable collective bargaining agreements, we may have to address union-initiated work actions, including strikes. Depending on the nature, the type, and the duration of any threatened or actual work action, these actions could disrupt our operations and could adversely affect our operating results.

We may be subject to further unionization, work stoppages, slowdowns or increased labor costs.

From time to time, we may be subject to labor matters in the course of our business and there is no assurance that future issues with labor unions or our employees will be resolved favorably or that we will not encounter future strikes, further unionization efforts or other types of conflicts with labor unions or our employees. Any of these factors may result in demands that may increase our operating expenses and adversely affect our profitability. If any group of our employees were to unionize and we were unable to agree on the terms of a collective bargaining agreement, if we were awarded a government contract that requires us to hire a unionized workforce, or if we were to experience widespread employee dissatisfaction, it is possible that we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting our non-union status. Any of these events could be disruptive to our operations and could have a material adverse effect on our business, operating results and financial condition.

In addition, proposed legislation could make it more difficult to maintain union-free workplaces in our facilities. If certain proposed legislation is passed and if unions target our facilities for unionization, our business could be negatively affected.

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

We operate in highly competitive markets and generally encounter intense competition to win contracts and task orders. For example, we must often discount our GSA schedule rates in order to secure contracts from many of our customers in competitive situations. Many of our competitors have greater financial, technical, marketing and public relations resources, larger customer bases and greater brand or name recognition than we do. We expect that the number of these types of large and financially strong competitors will grow through industry consolidation and the increasing participation in the federal government services market by traditional consulting and outsourcing providers and hardware and software manufacturers that seek to increase their service offerings. These competitors could, among other things:

- divert sales from us by winning very large-scale government contracts due to different or greater technical capabilities, past performance on large-scale contracts, geographic presence, price and the availability of key professional personnel;
- force us to charge lower prices in order to win or maintain contracts; and
- seek to hire our employees.

If we lose business to our competitors or are forced to lower our prices, our revenues and our operating profits could decline and we could suffer a loss of market share.

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 for us. If one or more of our current subcontractors are awarded prime contractor status on such contracts in the future, it would divert sales from us and could force us to charge lower prices in order to ensure that we retain our prime contractor status.

We derive substantially all of our revenues from contracts awarded through competitive procurement processes, which can impose substantial costs upon us and negatively impact our operating results.

We derive substantially all of our revenues from federal government contracts that are awarded through competitive procurement processes. Competitive procurement imposes substantial costs and presents a number of risks to us, including:

- the need to bid on engagements in advance of knowing the complete design or full requirements, which may result in unforeseen difficulties and cost overruns in executing the engagement;
- 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 schedules that may not be used; and
- 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.

The costs we incur in the competitive procurement process may be substantial, and, to the extent we participate in competitive procurements and are unable to win particular contracts, these costs could negatively affect our operating results. In addition, GSA schedule contracts, GWACs, blanket purchase agreements and other ID/IQ contracts do not guarantee more than a minimal amount of work for us, but instead provide us access to work generally through further competitive procedures. The increasing reliance by the federal government on GSA schedules, GWACs and other multi-award ID/IQ contracts for its procurement needs has led to increased competition and pricing pressure, requiring that we make sustained post-award efforts to realize revenues under these contracts. We may not be able to realize revenues or otherwise sell successfully under these contracts. Our failure to compete effectively in this procurement environment could harm our operating results.

We may sustain reduced profits or financial losses on some contracts if we miscalculate the resources we need to perform under the contract.

We provide services to the federal government under contracts with three basic types of price structure: cost-plus-fee, time-and-materials and fixed-price. For fiscal 2009, we derived approximately 30%, 51% and 19% of revenues from cost-plus-fee, time-and-materials and fixed-price contracts, respectively. Each of these types of contracts, to varying degrees, involves the risk that we underestimate our cost of fulfilling the contract, and we occasionally have suffered in the past, and may suffer in the future, reduced profits or financial losses on our contracts, thereby causing our operating results to decline. This risk is greater for fixed-price contracts, where we bear the full impact of cost overruns, and an increase of fixed-price contracts in our contract mix would increase our exposure to this risk.

Our margins and operating results may suffer if we experience unfavorable changes in the proportion of cost-plus-fee, fixed-price or time-and-materials contracts in our total contract mix.

Although fixed-price and time-and-materials contracts entail a greater risk of a reduced profit or financial loss on a contract compared to cost-plus-fee contracts, fixed-price and time-and-materials contracts typically provide higher profit opportunities because we receive the benefit of cost savings. In contrast, cost-plus-fee contracts are subject to statutory limits on profit margins, and generally are the least profitable of our contract types. Our federal government customers typically determine what type of contract we enter into. Cost-plus-fee, fixed-price and time-and-materials contracts accounted for approximately 30%, 19% and 51%, respectively, of our revenues for fiscal 2009, approximately 46%, 18% and 36%, respectively, of our revenues for fiscal 2008, and approximately 52%, 16% and 32%, respectively, of our revenues for fiscal 2007. To the extent that we enter into more cost-plus-fee or less fixed-price and time-and-materials contracts in proportion to our total contract mix in the future, our margins and operating results may suffer.

Our cash flow and profitability could be reduced if expenditures are incurred prior to the final receipt of a contract.

From time to time, in order to ensure that we satisfy our customers' delivery requirements and schedules, we may elect to initiate work in advance of receiving final authorization from the government customer or a prime contractor. If our government or prime contractor customers' requirements change or if the government or the prime contractor directs the anticipated procurement to a contractor other than us, our pre-contract costs might not be recoverable. This could reduce anticipated earnings or result in a loss, negatively affecting our cash flow and profitability.

Failure to maintain strong relationships with other contractors could result in a decline in our revenues.

Revenues derived from contracts in which we acted as a subcontractor to other companies represented approximately 31% of our revenues for fiscal 2009. As a subcontractor, we often lack control over fulfillment of a contract, and poor performance on the contract could tarnish our reputation, even when we perform as required. As a prime contractor, we often rely on other companies to perform some of the work under a contract. We expect to continue to depend on relationships with other contractors for portions of our delivery of services and revenues in the foreseeable future. Our business, prospects, financial condition and operating results could be harmed if other contractors eliminate or reduce their relationships with us, whether because they choose to establish relationships with our competitors or because they choose to directly offer services that compete with our business, or if the government terminates or reduces other prime contractors' programs or does not award them new contracts.

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. We estimate that revenues derived from work performed by our subcontractors represented approximately 30% of our revenues for fiscal 2009. If one or more of our subcontractors fail to perform satisfactorily the agreed-upon services on a timely basis, or violate government contracting policies, laws or regulations, our ability to perform our obligations or meet our customers' expectations as a prime contractor may be compromised. In some cases, we have limited involvement in the work performed by the subcontractors but are nevertheless responsible for the work performed. In extreme cases, performance or other deficiencies on the part of our subcontractors could result in a customer terminating our contract for default. A default termination could expose us to liability for the agency's costs of reprocurement, damage our reputation and hurt our ability to compete for future contracts and task orders.

Unfavorable government audit results could subject us to a variety of penalties and sanctions, and could harm our reputation and relationships with our customers.

We must comply with laws and regulations relating to government contracts and are subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which companies with solely commercial customers are not subject. We are subject to audit and investigation by the Defense Contract Audit Agency, or DCAA, the Defense Contract Management Agency and other government agencies with respect to our compliance with federal laws, regulations and standards. These audits may occur several years after the period to which the audit relates. The DCAA, in particular, also reviews the adequacy of, and our compliance with, our internal control systems and policies, including our purchasing, property, estimating, compensation and management information systems. Any payments received by us from the federal government for allowable direct and indirect costs are subject to adjustment after audit by government auditors and repayment to the government if the payments exceed allowable costs as defined in the government contracts, which could result in a material adjustment of the payments received by us under such contracts. In addition, any costs found to be improperly allocated to a specific contract will not be reimbursed. Our incurred cost submissions have been audited by the DCAA through December 31, 2005 for Techrizon and through March 31, 2006 for Stanley and Morgan. Costs for which Techrizon was reimbursed after December 31, 2005 and costs for which Stanley and Morgan were reimbursed after March 31, 2006 may be subsequently disallowed upon the completion of future audits. Due to a lack of cost-plus-fee type contracts, the DCAA had not required Oberon to submit an incurred cost submission until its fiscal year ended June 30, 2007. The incurred cost submission has been submitted for Oberon's fiscal year ended June 30, 2007, but an audit has not yet been performed by the DCAA. In addition, non-audit reviews by the federal government may still be conducted on all of our current government contracts.

If we are found to be in violation of the law, we may be subject to civil or criminal penalties or administrative sanctions, including contract termination, the assessment of penalties and suspension or debarment from doing business with federal government agencies. For example, many of the contracts we perform for the federal government are subject to the Service Contract Act, which requires hourly employees to be paid certain specified wages and benefits. If the Department of Labor, or DOL, determines that we violated the Service Contract Act or its implementing regulations, we could be liable for back wages or suspended for a period of time from winning new government contracts or renewals of existing contracts. The DOL is currently reviewing our wage and benefit determinations associated with our contract with USCIS and if they were to determine we violated any laws or regulations, our future operating performance could be materially and adversely affected.

Furthermore, our reputation could suffer serious harm if allegations of impropriety were made against us, whether or not true. If we are suspended or prohibited from contracting with the federal government, or any federal government agency, if our reputation or relationship with federal government agencies becomes impaired or if the federal government otherwise ceases doing business with us or significantly decreases the amount of business it does with us, it could materially and adversely affect our operating performance and could result in additional expenses and a loss of revenue.

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

We create, implement and maintain information technology and engineering systems, and provide services that are often critical to our customers' operations, some of which involve classified or other sensitive information, and may be conducted in war-zones or other hazardous environments. We have experienced and may in the future experience some systems or services failures, schedule or delivery delays, and other problems in connection with our work. If our solutions, services, products (including third-party products we may resell to our customers), or other applications have significant defects or errors, are subject to delivery delays or fail to meet our customers' expectations, we may:

- lose revenues due to adverse customer reactions;
- be required to provide additional services to customers at no charge;
- receive negative publicity, which could damage our reputation and harm our ability to attract or retain customers; or
- suffer claims for substantial damages.

The successful assertion of any large claims 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 government systems could result in the loss of customers and negative publicity.

Many of the systems we develop, integrate and maintain involve managing and protecting information involved in intelligence, national security and other sensitive or classified government functions. A security breach in one of these systems could cause serious harm to our business, damage our reputation and prevent us from being eligible for further work on sensitive or classified systems for federal government customers. We could incur losses from such a security breach that could exceed the policy limits under our professional liability insurance program. 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 revenues.

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

Some government contracts require us to maintain facility security clearances and require some of our employees to maintain individual security clearances. 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 our employees lose or are unable to timely obtain security clearances or we lose a facility clearance, the government customer may terminate the contract or decide not to renew it upon its expiration. As a result, to the extent we cannot obtain or maintain the required security clearances for a particular contract, or we fail to obtain them on a timely basis, we may not derive the revenues anticipated from the contract, which could harm our operating results. To the extent we are not able to obtain facility security clearances or engage employees with the required security clearances for a particular contract, we will be unable to perform that contract and we may not be able to compete for or win new awards for similar work.

If we fail to maintain effective internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act, it may have an adverse effect on our business and stock price.

We are subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the applicable SEC rules and regulations that require our management to conduct an annual assessment and to report on the effectiveness of our internal controls over financial reporting. In addition, our independent registered public accounting firm must issue an auditor's report addressing the effectiveness of our internal controls over financial reporting. We cannot be certain as to our ability to continue to comply with the requirements of the Sarbanes-Oxley Act. If we are not able to continue to comply with the requirements of the Sarbanes-Oxley Act in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, including the SEC. In addition, should we identify a material weakness there can be no assurance that we would be able to remediate such material weakness in a timely manner in future periods. Moreover, if we are unable to assert that our internal control over financial reporting is effective in any future period (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, and incur significant expenses to restructure our internal control over financial reporting, which may have an a material adverse effect on our business and operations.

We may be harmed by intellectual property infringement claims.

Many of the services and solutions that we provide to our customers involve extensive use of software and other intellectual property. As a result, we could become subject to claims of third parties who assert that software and other forms of intellectual property that we use in delivering services and solutions infringe upon intellectual property rights of those third parties, and we could incur substantial costs to defend those claims. In addition, if any of these infringement claims are ultimately successful, in addition to paying damages, we could be required to take any of the following actions, each of which could entail significant expenses or result in a significant reduction in revenues:

- cease selling or using services or solutions that incorporate the challenged software or technology;
- obtain a license or additional licenses from third parties; or
- redesign our services and solutions that rely on the challenged software or technology.

We may incur substantial costs and liabilities in connection with acquisitions.

We have completed six acquisitions since 2000 and expect to consider further acquisitions and investments in the future. If we make an acquisition or investment, we may:

- issue stock that would dilute current stock ownership;
- incur debt that would restrict our cash flow;
- assume liabilities;
- incur large and immediate write-offs;
- incur unanticipated costs;
- incur unanticipated liabilities under purchase and sale agreements with target companies;
- forego procurement opportunities as a result of organizational conflict of interest concerns;
- experience risks associated with entering markets in which we have no or limited prior experience; or
- lose key employees from the acquired operations.

In connection with any acquisition we make, there may be liabilities that we fail to discover or that we inadequately assess. In addition, acquired operations may not perform according to the forecasts that we used to determine the purchase price. If the acquired entity fails to achieve these forecasts, or if we are not successful in offering our services to the customer base of the acquired entity or otherwise do not achieve the anticipated benefits of the acquisition, our financial condition and operating results may decline as a result. In addition, if we incur a substantial amount of indebtedness in order to finance one or more acquisitions, our increased leverage may restrict our business and operations, reduce our cash flows or restrict our future access to sufficient funding to finance desired growth.

We may not successfully integrate companies that we have acquired or may acquire in the future.

The process of integrating companies requires a significant amount of resources and management attention which detracts from attention to our business. If we are unable to integrate the operations of a company we may acquire in the future as planned, our management's attention may continue to be diverted from the operation of our business, our operations could be disrupted and we may be unable to deliver our services to our customers as planned, any of which would hinder implementation of our business plan, harm our relationships with our customers and force us to incur unanticipated expenses.

Our Amended Credit Agreement contains financial and operating covenants that limit our operations and could lead to adverse consequences if we fail to comply.

Our Amended and Restated Revolving Credit and Term Loan Agreement, or Amended Credit Agreement, contains financial and operating covenants, including fixed charge and leverage ratios as well as limitations on mergers, consolidations and dissolutions; sales of assets; investments and acquisitions; indebtedness and liens; repurchase of shares of capital stock and options to purchase shares of capital stock; transactions with affiliates; sale and leaseback transactions and restricted payments. Failure to meet these financial and operating covenants could result from, among other things, changes in our results of operations, the incurrence of debt or changes in general economic conditions. These covenants may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders, which could harm our business and operations.

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

As a result of the Small Business Administration, or 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 impact our ability to bid on new procurements as a prime contractor or restrict our ability to recompete on incumbent work that is placed in the set-aside program.

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

A significant number of our employees and subcontractors are involved in government contracting and billing processes, which require compliance with a number of procurement laws and regulations. In addition, in the course of our business, our employees and subcontractors routinely obtain access to sensitive or classified government information. As a result, we are exposed to the risk that employee or subcontractor fraud or other misconduct could occur. Misconduct by employees or subcontractors could include intentional or unintentional failures to comply with federal government procurement regulations, engaging in unauthorized activities or falsifying time records. Employee or subcontractor 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. It is not always possible to deter employee or subcontractor 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 materially harm our business.

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

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

Continuation of the current economic conditions may negatively impact our business, including our ability to access additional liquidity.

The United States and worldwide capital and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the capital and credit markets may negatively impact our business, including our ability to access additional financing at reasonable terms, which may negatively affect our ability to make future acquisitions. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of our equity securities. The disruptions in the financial markets may have a material adverse effect on the market value of our common stock and other adverse effects on our business.

Risks Related to Our Industry

Federal government contracts contain provisions giving government customers a variety of rights that are unfavorable to us, including the ability to terminate a contract at any time for convenience.

Federal government contracts contain provisions and are subject to laws and regulations that provide government customers with rights and remedies not typically found in commercial contracts. In many instances, these rights and remedies allow government customers, among other things, to:

- terminate existing contracts, with short notice, for convenience, as well as for default;
- reduce orders, or otherwise, modify contracts;
- for contracts subject to the Truth in Negotiations Act, reduce the contract price or cost where it was increased because a contractor or subcontractor during negotiations furnished cost or pricing data that was not complete, accurate and current;
- demand a refund, make a forward price adjustment or terminate a contract for default if a contractor provided inaccurate or incomplete data during the contract negotiation process;

- reduce the contract price under certain triggering circumstances, including the revision of price lists or other documents upon which the contract award was predicated;
- grant more favorable discounts or terms and conditions than those contained in such documents;
- grant certain special discounts to certain customers;
- terminate our facility security clearances and thereby prevent us from receiving classified contracts;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- decline to exercise an option to renew a multi-year contract or issue task orders in connection with ID/IQ contracts;
- claim rights in solutions, systems and technology produced by us;
- control or prohibit the export of our technology and services;
- prohibit future procurement awards with a particular agency due to a finding of organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors or the existence of conflicting roles that might bias a contractor's judgment;
- subject the award of contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest and may also result in a requirement to resubmit offers for the contract or in the termination, reduction or modification of the awarded contract; and
- suspend or debar us from doing business with the federal government.

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

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 laws and regulations relating to the formation, administration and performance of federal government contracts, which affect how we do business with our federal government customers and may increase our expenses. Among the most significant laws and regulations are:

- the Federal Acquisition Regulation, and agency regulations analogous or supplemental to the Federal Acquisition Regulation, which comprehensively regulate the formation, administration, and performance of government contracts, including provisions relating to the avoidance of conflicts of interest and intra-organizational conflicts of interest;
- the Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with some contract negotiations;
- the Procurement Integrity Act, which requires evaluation of ethical conflicts surrounding procurement activity and establishing certain employment restrictions for individuals who participate in the procurement process;

- the Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under some cost-based government contracts;
- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of specified products, technologies, and technical data; and
- antitrust laws.

If a government review or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including the termination of our contracts, the forfeiture of profits, the suspension of payments owed to us, fines and our suspension or debarment from doing business with federal government agencies. In particular, the civil False Claims Act provides for treble damages and potentially substantial civil penalties where, for example, a contractor presents a false or fraudulent claim to the government for payment or approval, or makes a false statement in order to get a false or fraudulent claim paid or approved by the government. Actions under the civil False Claims Act may be brought by the government or by other persons on behalf of the government. These provisions of the civil False Claims Act permit parties, such as our employees, to sue us on behalf of the government and share a portion of any recovery. Any failure to comply with applicable laws and regulations could result in contract termination, damage to our reputation, price or fee reductions or suspension or debarment from contracting with the government, each of which could lead to a material reduction in our revenues.

The failure by Congress to timely approve budgets for the federal agencies we contract with could delay or reduce spending and cause us to lose revenues.

On an annual basis, Congress must approve budgets that govern spending by each of the federal agencies with which we contract. When Congress is unable to agree on budget priorities, and thus is unable to pass the annual budget on a timely basis, Congress typically enacts a continuing resolution that allows federal government agencies to operate at spending levels approved in the previous budget cycle. Operation by government agencies on the basis of a continuing resolution may delay or cancel funding we expect to receive from customers on work we are already performing and is likely to result in new initiatives being delayed, and in some cases being cancelled.

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

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

Risks Related to Our Common Stock

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.

Our revenues and operating results will vary from quarter to quarter and, 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 that are specific to our industry such as:

- fluctuations in revenues earned on government contracts;
- seasonal fluctuations in our staff utilization rates;
- commencement, completion or termination of contracts during any particular quarter;
- variable purchasing patterns under GSA schedule contracts, GWACs, blanket purchase agreements and other ID/IQ contracts;
- delays in the payment of our invoices by government payment offices;
- changes in contract requirements by our government agency customers;
- changes in the extent to which we use subcontractors;
- timing of significant bid and proposal costs;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs and joint ventures;
- federal government shutdowns or temporary facility closings;
- changes in presidential administrations and senior federal government officials that affect the timing of technology procurement; and
- changes in federal government policy or budgetary measures that adversely affect government contracts in general.

Reductions in revenues in a particular quarter could lead to lower profitability in that quarter because a relatively large amount of our expenses are fixed in the short-term. We may incur significant operating expenses during the start-up and early stages of large contracts and may not receive corresponding payments in the same quarter. We may also incur additional expenses when contracts expire or are terminated or not renewed.

In addition, payments due to us from government agencies may be delayed due to billing cycles or as a result of failures of governmental budgets to gain Congressional and administration approval in a timely manner. 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 with us until a budget has been approved. Any such suspensions may reduce our revenue during that year.

Our executive officers and directors as a group and our Employee Stock Ownership Plan own a significant percentage of our common stock, and as a result have significant influence over our affairs and policies.

Our executive officers and directors as a group beneficially owned approximately 23% of our outstanding common stock at March 31, 2009. For so long as our executive officers and directors continue to own a significant portion of our outstanding common stock, they will have significant influence over matters submitted to our stockholders for approval and exercise significant control over our business policies and affairs, including the election of directors, amendments to our certificate of incorporation and determinations with respect to mergers and other business combinations, including those that may result in a change in control of our Company. In addition, our Employee Stock Ownership Plan, or ESOP, beneficially owned approximately 14.6% of our outstanding common stock at March 31, 2009. Substantially all of the participants in the ESOP are our employees. If these participants act together, they may also be able to exert influence over matters submitted to our stockholders for approval, and if they act together with our executive officers and directors, they may be able to determine the outcome of matters submitted for stockholder approval. The interests of our executive officers and directors and the ESOP participants may conflict with the interests of our other stockholders.

Provisions of our charter documents may inhibit potential acquisition bids that stockholders may consider favorable, and the market price of our common stock may be lower as a result.

Provisions of our certificate of incorporation and by-laws, as amended and restated, may deter, delay or prevent a third party from acquiring us. These provisions include:

- limitations on who may call special meetings of stockholders;
- the absence of cumulative voting in the election of directors;
- the inability of stockholders to act by written consent;
- advance notice requirements for nominations for election to the board of directors and for stockholder proposals; and
- the authority of our board of directors to issue, without stockholder approval, up to 500,000 shares of preferred stock with such terms as the board of directors may determine and to issue additional shares of our common stock.

These provisions could have the effect of delaying, deferring or preventing a change in control of our company, discourage others from making tender offers for our shares, lower the market price of our stock or impede the ability of our stockholders to change our management, even if such changes would be beneficial to our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease our office facilities and we do not own any facilities or real estate that are material to our operations. We lease approximately 49,100 square feet in Arlington, Virginia for our corporate headquarters for a term expiring December 31, 2015. At March 31, 2009, we leased additional facilities at approximately 45 other locations in 17 states and Washington, D.C. We also had employees working at customer sites both in the United States and in other countries. We believe our present facilities are adequate to meet our current and projected needs. Our leases and subleases have various terms ranging from one month to ten years and annual rents ranging from approximately $12,500 to $1.76 million. We expect to be able to renew each of our leases or to lease comparable facilities on terms commercially acceptable to us.

ITEM 3. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us.

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

No matters were submitted to a vote of stockholders during the fourth quarter of fiscal 2009.

PART II

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

Market Information

Our common stock is traded on the New York Stock Exchange under the symbol "SXE."

The following table reflects, by quarter, the high and low prices per share of our common stock on the New York Stock Exchange for each of the periods listed.

Quarter Ended	High	Low
06/30/07	$19.64	$13.41
09/30/07	$27.75	$17.41
12/31/07	$38.53	$24.00
03/31/08	$34.08	$22.68

Quarter Ended	High	Low
06/27/08	$35.50	$23.50
09/26/08	$38.99	$31.00
12/26/08	$37.46	$26.06
03/31/09	$36.37	$23.79

As of May 14, 2009, there were approximately 117 holders of record of our common stock, although there is a much larger number of beneficial owners.

Dividend Policy

We have never declared nor paid any cash dividends on our common stock. We currently intend to retain earnings, if any, to support our growth strategy and do not anticipate paying cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

We did not issue or sell any securities in fiscal 2009 that were not registered under the Securities Act of 1933, or the Securities Act. The issuance of shares to the ESOP did not constitute sales within the meaning of the Securities Act.

Securities Authorized for Issuance under Equity Compensation Plans

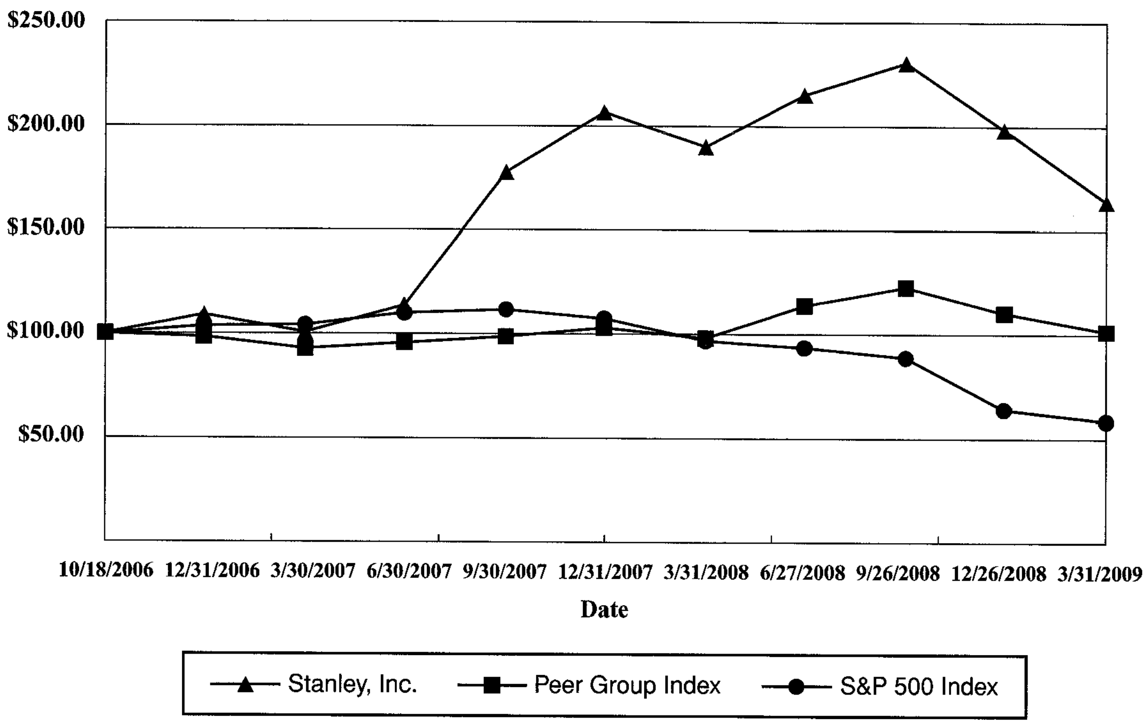
See Item 12 of this report, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," for certain information regarding our equity compensation plans.

Performance Graph(1)

The following graph shows the total stockholder return of an investment of $100 in cash on October 18, 2006 for (i) our common stock, (ii) the Standards & Poor's 500 Index, or S&P 500 Index, and (iii) our peer group index(2). All values are calculated as of October 18, 2006 (the first day of trading of our common stock) through March 31, 2009.

The comparison assumes that all returns are market-cap weighted. The historical information set forth below is not necessarily indicative of future performance.

Comparison of Cumulative Total Return



	October 18, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Stanley, Inc.	$100.00	$100.65	$190.06	$163.81
Peer Group Index	$100.00	$ 92.80	$ 98.06	$101.46
S&P 500 Index	$100.00	$104.21	$ 96.76	$ 58.37

(1) The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any of our filings under the Securities Act or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

(2) In fiscal 2008, our peer group was composed of NCI, Inc., ManTech International Corp., Dynamics Research Corp., MTC Technologies Inc., CACI International Inc., SI International, Inc., ICF International, Inc., SRA International, Inc. and SAIC, Inc. In fiscal 2009, we changed our peer group to omit MTC Technologies Inc. and SI International, Inc., since these companies were acquired and ceased trading during our fiscal 2009.

ITEM 6. SELECTED FINANCIAL DATA

The table below, derived from our audited consolidated financial statements, presents our selected historical financial data for each of the five fiscal years in the five-year period ended March 31, 2009.

You should read the selected financial data presented below in conjunction with the consolidated financial statements, the notes to the consolidated financial statements and the section entitled "Management Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this report.

	Year Ended March 31, (in thousands, except per share amounts)				
	2009(1)	2008(2)	2007	2006(3)	2005
Statement of income data:					
Revenues	$ 779,679	$604,342	$409,411	$284,801	$282,456
Operating costs and expenses:					
Cost of revenues	653,672	512,243	343,628	241,357	243,677
Selling, general and administrative	49,114	37,242	30,700	19,709	16,844
Amortization of deferred compensation	250	267	5,082	790	372
Depreciation and amortization	9,988	6,695	5,424	3,057	2,327
Impairment of intangible assets	—	—	—	3,590	—
Operating income	66,655	47,895	24,577	16,298	19,236
Other income (expense):					
Other income (expense)	26	19	(478)	101	2
Interest expense, net	(5,397)	(3,779)	(5,918)	(2,441)	(822)
Income before taxes	61,284	44,135	18,181	13,958	18,416
Provision for income taxes	(24,054)	(17,971)	(7,476)	(5,708)	(7,184)
Net income	$ 37,230	$ 26,164	$ 10,705	$ 8,250	$ 11,232
Earnings per share(4):					
Basic	$ 1.63	$ 1.18	$ 0.61	$ 0.58	$ 0.78
Diluted	$ 1.56	$ 1.12	$ 0.55	$ 0.51	$ 0.70
Weighted-average shares(4):					
Basic	22,819	22,133	17,567	14,202	14,446
Diluted	23,814	23,414	19,458	16,096	16,117
Statement of cash flows data:					
Net cash provided by operating activities	$ 44,547	$ 21,065	$ 16,037	$ 10,224	$ 3,506
Net cash used in investing activities	(179,582)	(34,407)	(4,282)	(86,588)	(997)
Net cash provided by (used in) financing activities	136,575	877	981	76,364	(2,509)
Balance sheet data (at period end):					
Cash(5)	$ 1,811	$ 271	$ 12,736	$ —	$ —
Working capital	91,854	66,730	60,919	29,299	13,085
Total assets	501,552	306,055	237,975	199,903	93,558
Line of credit	135,030	—	—	10,409	21,214
Long-term debt	34,500	35,500	36,750	99,000	7,833
Total long-term liabilities	179,926	40,238	40,346	102,885	9,367
Stockholders' equity	217,223	166,704	134,152	42,389	34,567

(1) On July 15, 2008, we acquired Oberon for $167.8 million at closing, net of cash acquired, plus an additional $3.0 million in post closing net working capital and other purchase price adjustments. For further information on this acquisition, please see Note 8 to the Consolidated Financial Statements in Item 15 of this report.

(2) On April 1, 2007, we acquired Techizon for $30.6 million, which includes $0.3 million in transaction fees. For further information on this acquisition, please see Note 8 to the Consolidated Financial Statements in Item 15 of this report.

(3) On February 16, 2006, we acquired Morgan for $76.0 million plus an additional $6.2 million in working capital and other purchase price adjustments.

(4) Earnings per share and weighted-average shares are calculated after giving effect to the thirty-for-one stock split on September 12, 2006.

(5) In the fiscal years ended March 31, 2005 and 2006 we did not maintain a cash balance, as we applied all of our operating cash flow to reduce indebtedness under outstanding lines of credit.

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

You should read the following discussion in conjunction with the audited consolidated financial statements and the accompanying notes included in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in or implied by any of the forward-looking statements as a result of various risks, including but not limited to those risks identified in the section of this report entitled "Risk Factors" and elsewhere in this report.

Overview

We provide information technology services and solutions to U.S. defense, intelligence and federal civilian government agencies. We offer our customers solutions and expertise to support their mission-essential needs at any stage of program, product development or business lifecycle through five service areas: systems engineering, enterprise integration, operational logistics, business process outsourcing and advanced engineering and technology. As a systems integrator, we apply these five service areas to enable our customers to achieve interoperability between different business processes and information technology systems.

Contracts funded by federal government agencies account for substantially all of our revenues. At March 31, 2009, we had approximately 300 active contractual engagements across 54 federal government agencies. Our customers include all major agencies of the Department of Defense, the Department of State, the Department of Homeland Security, the Department of Transportation, the Department of the Treasury, NASA, the Department of Justice and the Department of Health and Human Services.

Key Metrics Evaluated By Management

We manage and assess the performance of our business by evaluating a variety of financial and non-financial metrics derived from, and in addition to, our United States generally accepted accounting principles, or GAAP, results. The most significant of these metrics are discussed below.

Revenue Growth

We closely monitor revenue growth in order to assess the performance of our business. In monitoring our revenue growth, we focus on both internal revenue growth and revenue growth through acquisitions. Our internal revenue growth is driven primarily by two factors. First, internal revenue growth is driven by adding new customers and by obtaining new task orders and contracts with our existing customers. For example, over the past several years we have added the Department of Homeland Security's Citizenship and Immigration Services, the Department of the Treasury's Office of the Comptroller of the Currency, the National Guard Bureau, the Department of Transportation and agencies in the intelligence community as new customers. Second, organic revenue growth is driven by increasing revenues under existing contracts and task orders with customers. For example, since the initial award of our contract with the Department of State for the provision of passport processing and support services, the scope of services provided by us, and the revenues generated by those services, have grown significantly.

Our revenue growth strategy also includes the pursuit of strategic acquisitions. We have completed the following six acquisitions since 2000:

Acquired Company	Date of Acquisition
GCI Information Services, Inc.	January 2000
CCI, Incorporated	September 2002
Fuentez Systems Concepts, Inc.	December 2003
Morgan Research Corporation	February 2006
Techrizon, LLC	April 2007
Oberon Associates, Inc.	July 2008

For further information on our recent acquisitions, please see Note 8 to the Consolidated Financial Statements in Item 15 of this report.

Backlog

We monitor backlog, which provides us with visibility of our future revenues, as a measure of the strength of our target markets and our ability to retain existing contracts and win new contracts. The following table summarizes our backlog as of the dates indicated:

	March 31,	
	2009	2008
	(in millions)	
Backlog:		
Funded	$ 340.4	$ 299.3
Unfunded	1,684.5	1,485.0
Total Backlog	$2,024.9	$1,784.3

Each year, a significant portion of our revenues is derived from our backlog, and a significant portion of our backlog represents work related to the continuation of services and solutions under contracts or projects where we are the incumbent provider.

We define backlog as the amount of revenues we expect to realize (i) over the remaining base contract performance period and (ii) from the exercise by the customer of option periods that we reasonably believe will be exercised, in each case from signed contracts in existence as of the measurement date. We do not include contract ceiling values, which represent the maximum amount of contract awards that could be awarded to all contractors under GWAC or multiple-award ID/IQ contracts, in our backlog calculation.

We also do not include in backlog (i) the expected amount of revenues that would be realized if, and when, we were successful in the re-compete of signed contracts in existence as of the measurement date or (ii) the expected amount of revenues that would be realized from future unidentified growth on signed contracts and task orders in existence as of the measurement date.

We define funded backlog as the portion of our backlog for which funding currently is appropriated and obligated to us under a signed contract or task order by the purchasing agency, or otherwise authorized for payment to us by a customer upon completion of a specified portion of work, less the amount of revenue we have previously recognized under the contract. Our funded backlog does not include the full potential value of our contracts, because Congress often appropriates funds to be used by an agency for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a number of years. As a result, contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under the contracts may remain unfunded unless and until Congress makes subsequent appropriations and the procuring agency allocates funding to the contract.

Contract Mix

We work with the federal government under contracts employing one of three types of price structures: cost-plus-fee, time-and-materials and fixed-price. Cost-plus-fee contracts are typically lower risk arrangements and thus yield lower profit margins than time-and-materials and fixed-price arrangements. Because the customer usually specifies the type of contract for a particular contractual engagement, we generally do not influence the choice of contract type. However, where we do have the opportunity to influence the contract type, and where customer requirements are clear, we prefer time-and-materials and fixed-price arrangements rather than cost-plus-fee arrangements because time-and-materials and fixed-price contracts, as compared with cost-plus-fee contracts, generally provide us with a greater opportunity to generate higher margins and provide the customer with a fixed value for services provided.

Our acquisition of Oberon in July 2008 and our successful recompete win in March 2008 of the contract with the Department of State to support passport production and services have resulted in an increase to our percentage of time-and-materials contracts and a corresponding reduction in the percentage of cost-plus-fee contracts. The following table summarizes our historical contract mix, measured as a percentage of total revenues, for the periods indicated:

	Year Ended March 31,		
	2009	2008	2007
Cost-plus-fee	30%	46%	52%
Time-and-materials	51%	36%	32%
Fixed-price	19%	18%	16%

Headcount and Labor Utilization

We generate revenues primarily from services provided by our employees and subcontractors, with services provided by our employees generally yielding higher profits than services provided by our subcontractors. Our ability to hire and deploy qualified employees is a key driver of our ability to generate additional revenues, and our successful deployment of existing employees on direct-billable jobs is a key driver of our profitability.

Indirect Costs

Indirect costs constitute a substantial portion of the costs associated with our performance of contracts for customers. We carefully monitor the amount by which our actual indirect costs under our contracts vary from those expected to be incurred, which we refer to as indirect rate variance. Increased indirect rate variance can adversely affect our ability to achieve attractive contract pricing, our profitability, and our competitive position, by resulting in unexpected increased costs to our customers.

Days Sales Outstanding

Days sales outstanding, or DSO, is a measure of how efficiently we manage the billing and collection of our accounts receivable, our most significant working capital requirement. For fiscal 2009, we reported DSO of 81 days, a decrease from the 82 days we reported for fiscal 2008, based on the average accounts receivable balance from the beginning of the year and at the end of each of the four quarters. The decrease in DSO was primarily the result of improved collections, despite higher average daily sales over the course of the fiscal year.

Unbilled Receivables

Unbilled receivables are comprised of work-in-process that will be billed in accordance with contract terms and delivery schedules, as well as amounts billable upon final execution of contracts, contract completion, milestones or completion of rate negotiations. Because the billing of unbilled receivables is contingent on those events, changes in the relative amount of unbilled receivables have an impact on our working capital and liquidity.

Payments to us for performance on certain of our federal government contracts are subject to audit by the DCAA and are subject to government funding. We provide a reserve against our receivables for estimated losses that may result from rate negotiations, audit adjustments and/or government funding availability. To the extent that actual adjustments due to rate negotiations, audit adjustments or government funding availability differ from our estimates, our revenue may be impacted. Because substantially all of our receivables originate from contracts funded by the federal government, the likelihood of a material loss on an uncollectible account is low.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect reported amounts, and actual results may differ from the estimates. Our significant accounting policies are described in Note 2 to our consolidated financial statements included in this filing. We consider the following accounting policies to be critical to the understanding of our financial condition and results of operations because these policies require the most difficult, subjective or complex judgments on the part of our management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain, and are the most important to our financial condition and operating results.

Revenue Recognition

We recognize revenue under our contracts when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred and collectibility is considered probable and can be reasonably estimated. We use a standard management process to determine whether all required criteria for revenue recognition have been met, which includes regular reviews of our contract performance. This review covers, among other matters, progress against a schedule, outstanding action items, effort and staffing, quality, risks and issues, subcontract management, costs incurred, commitments and satisfaction. During this review, we determine whether the overall progress on a contract is consistent with the effort expended.

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

Under cost-plus-fee contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. We consider fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs actually incurred in performance of the contract for level of effort contracts. For completion type cost-plus-fee contracts, fixed fees are earned in proportion to the percentage of work completed. For time-and-materials contracts, revenues are computed by multiplying the number of direct labor hours expended in performance of the contract by the contract billing rates and adding other billable direct and indirect costs. For fixed-price contracts, revenues are recognized as services are performed, using the percentage-of-completion method, applying the cost-to-cost or units of delivery method, in accordance with Accounting Research Bulletin No. 45 and American Institute of Certified Public Accountants ("AICPA") Statement of Position 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ("SOP 81-1").

For cost-plus-award fee type contracts, we recognize the expected fee to be awarded by the customer at the time such fee can be reasonably estimated, based on factors such as prior award experience and communication with the customer regarding performance, including any interim performance evaluations rendered by the customer. For cost-plus-incentive fee type contracts, the method of calculating incentive fee is specified in the contract and it is typically based on measuring actual costs to perform the contract against a target cost to perform the contract. We prepare periodic estimates to complete and adjust the incentive fee as required based on the contract incentive fee formula.

Our contracts with agencies of the government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. From time to time, we may proceed with work based on customer direction prior to the completion and signing of formal contract documents. Such situations require completion of a formal internal review process and management approval prior to commencement of work. Additionally, revenue associated with such work is recognized without profit and only when it can be reliably estimated and realization is probable. We base our estimates on notices to proceed from our customers, previous experience with customers, communications with customers regarding funding status, and our knowledge of available funding for the contract or program. Pre-contract costs related to unsuccessful contract bids are expensed in the period in which we are notified that the contract will not be issued.

Disputes occasionally arise in the normal course of our business due to events such as delays, changes in contract specifications, and questions of cost allowability or collectibility. Such matters, whether claims or unapproved change orders in the process of negotiation, are recorded at the lesser of their estimated net realizable value or actual costs incurred, and only when the realization is probable and can be reliably estimated. Claims against us are recognized where a loss is considered probable and can be reasonably estimated in amount.

Contract Cost Accounting

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

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired companies. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), we do not amortize goodwill. Rather, we test goodwill for impairment at least on an annual basis. Testing for impairment is a two-step process as prescribed by SFAS 142. The first step is a test for potential impairment, while the second step measures the amount of impairment, if any. Under the guidelines of SFAS 142, we are required to perform an impairment test at least on an annual basis at any time during the fiscal year, provided that the test is performed at the same time every year. An impairment loss would be recognized when the assets' fair value is below their carrying value. Based on the testing performed as of December 26, 2008, we determined that no impairments existed. Identifiable intangible assets are amortized over their estimated useful lives. Customer relationships are being amortized on a straight-line basis over periods ranging from five to seven years. Non-competition agreements are being amortized on a straight-line basis over three years. Backlog and contracts are being amortized on a straight-line basis over periods ranging from two to five years.

Results of Operations

Our historical financial statements reflect the operating results of our acquisitions from the date of acquisition. The following tables set forth the results of operations expressed in dollars (in thousands) and as a percentage of revenues, for the periods below:

	Year Ended March 31,		
	2009	2008	2007
Consolidated Statement of Income Data			
Revenues	$779,679	$604,342	$409,411
Operating costs and expenses:			
Cost of revenues	653,672	512,243	343,628
Selling, general and administrative	49,114	37,242	30,700
Amortization of deferred compensation	250	267	5,082
Depreciation and amortization	9,988	6,695	5,424
Total operating costs and expenses	713,024	556,447	384,834
Operating income	66,655	47,895	24,577
Other income (expense):			
Other income (expense)	26	19	(478)
Interest expense—net	(5,397)	(3,779)	(5,918)
Total other expenses	(5,371)	(3,760)	(6,396)
Income before taxes	61,284	44,135	18,181
Provision for income taxes	(24,054)	(17,971)	(7,476)
Net income	$ 37,230	$ 26,164	$ 10,705

	Year Ended March 31,		
	2009	2008	2007
As a Percentage of Revenues			
Revenues	100.0%	100.0%	100.0%
Operating costs and expenses:			
Cost of revenues	83.8	84.8	83.9
Selling, general and administrative	6.3	6.2	7.5
Amortization of deferred compensation	0.0	0.0	1.3
Depreciation and amortization	1.3	1.1	1.3
Total operating costs and expenses	91.5	92.1	94.0
Operating income	8.5	7.9	6.0
Other income (expense):			
Other income (expense)	0.0	0.0	(0.1)
Interest expense—net	(0.7)	(0.6)	(1.5)
Total other expenses	(0.7)	(0.6)	(1.6)
Income before taxes	7.9	7.3	4.4
Provision for income taxes	(3.1)	(3.0)	(1.8)
Net income	4.8%	4.3%	2.6%

We generate revenues primarily from services provided by our employees and subcontractors, with services provided by our employees generally yielding higher profits than services provided by our subcontractors. To a lesser degree, we earn revenues through reimbursable travel and other reimbursable direct and indirect costs.

Our most significant expense is cost of revenues, which includes the costs of direct labor, subcontractors, materials, equipment, travel and an allocation of indirect costs (other than selling, general and administrative expenses and depreciation). Indirect costs consist primarily of fringe benefits, applicable facility and information technology infrastructure costs, business insurance, recruiting, training, other overhead and certain other non-direct costs that are necessary to support direct labor. The number and types of personnel, their salaries and other costs, can have a significant impact on our cost of revenues.

Our selling, general and administrative expenses include costs not directly associated with performing work for our customers. These costs include wages plus associated fringe benefits, stock-based compensation charges, rent, travel and insurance. Among the functions covered by these expenses are sales, business development, contracts, purchasing, legal, finance, accounting, human resources and benefits, information technology support and general management. Most of these costs are allowable costs under the cost accounting standards for contracting with the federal government and are recoverable under cost-plus-fee contracts.

Our depreciation and amortization expenses include the amortization of purchased intangibles in connection with acquisitions and the amortization of leasehold improvements and the depreciation of property and equipment purchased in the ordinary course of our business.

Our amortization of deferred compensation includes stock-based compensation amortized over the vesting period of the awards.

Certain revenues and payments we receive are based on provisional billings and payments that are subject to adjustment after audit. Federal government agencies have the right to challenge our cost estimates and allocation methodologies with respect to government contracts. In addition, contracts with these agencies are subject to audit and possible adjustment to give effect to unallowable costs under cost-plus-fee contracts or to other regulatory requirements affecting both cost-plus-fee and fixed-price contracts.

Comparison of Results of Operations for the Fiscal Years Ended March 31, 2009 and 2008

Revenues. Our consolidated revenues increased $175.4 million, or 29.0%, from $604.3 million for the fiscal year ended March 31, 2008, to $779.7 million for the fiscal year ended March 31, 2009. The increase was primarily due to $29.4 million of increased revenues attributable to immigration and naturalization services for the Department of Homeland Security, $26.6 million of increased revenues attributable to engineering and technical support services for the U.S. Air Force and the Defense Information Systems Agency, or DISA, $24.8 million of increased revenues attributable to information technology lifecycle support and logistics management services for the U.S. Army, $23.9 million of increased revenues attributable to military intelligence training and operations support for the U.S. Army, $23.0 million of increased revenues attributable to biometric software development, training and support, $21.2 million of increased revenues attributable to operational intelligence services and $15.9 million of increased revenues attributable to systems and software engineering services for the U.S. Army's Communications-Electronics Life Cycle Management Command and Fires Center of Excellence, or U.S. Army CELCMC & FCE. A significant portion of this increase was due to the acquisition of Oberon, including contracts won after the date of acquisition. The balance of $10.6 million was a result of continued growth providing software engineering and technology services to the Marine Corps and operational support services for the Department of Defense, offset by reduced demand for passport services for the Department of State.

Cost of Revenues. Our cost of revenues increased $141.5 million, or 27.6%, from $512.2 million for the fiscal year ended March 31, 2008, to $653.7 million for the fiscal year ended March 31, 2009. This increase was primarily the result of additional costs attributable to revenues associated with the increased services provided under the contracts referred to above. Cost of revenues represented 83.8% of revenues for the fiscal year ended March 31, 2009, as compared to 84.8% of revenues for the fiscal year ended March 31, 2008. This decrease was primarily the result of a greater percentage of more profitable time-and-materials and fixed-price contracts.

Selling, General and Administrative. Our selling, general and administrative expense increased $11.9 million, or 31.9%, from $37.2 million for the fiscal year ended March 31, 2008, to $49.1 million for the fiscal year ended March 31, 2009. This increase was primarily due to higher selling, general and administrative expenses attributable to our Oberon acquisition and to higher share-based payment expenses. Selling, general and administrative expense represented 6.3% of revenues for the fiscal year ended March 31, 2009, as compared to 6.2% of revenues for the fiscal year ended March 31, 2008. This increase was primarily a result of Oberon's higher selling, general and administrative expense as a percentage of revenues.

Depreciation and Amortization. Our depreciation and amortization expense increased $3.3 million, or 49.2%, from $6.7 million for the fiscal year ended March 31, 2008, to $10.0 million for the fiscal year ended March 31, 2009. The increase in depreciation and amortization was primarily due to the amortization of intangible assets associated with the acquisition of Oberon as well as depreciation expense associated with increased capital expenditures and leasehold improvements in fiscal 2009.

Interest Expense, Net. Our net interest expense increased $1.6 million, or 42.8%, from $3.8 million for the fiscal year ended March 31, 2008, to $5.4 million for the fiscal year ended March 31, 2009. The increase in net interest expense was primarily due to borrowings under our Senior Credit Facility relating to the Oberon acquisition, partially offset by a lower overall borrowing rate.

Provision for Income Taxes. Our effective tax rate decreased from 40.7% for the fiscal year ended March 31, 2008, to 39.3% for the fiscal year ended March 31, 2009. The decrease was primarily attributable to a lower consolidated effective state income tax rate and the realization of certain federal and state tax credits.

Net Income. Our net income increased $11.0 million, or 42.3%, from $26.2 million for the fiscal year ended March 31, 2008, to $37.2 million for the fiscal year ended March 31, 2009. The increase in net income was primarily attributable to the increase in revenues as well as improved margins resulting from a greater percentage of time-and-materials and fixed-price contracts.

Comparison of Results of Operations for the Fiscal Years Ended March 31, 2008 and 2007

Revenues. Our consolidated revenues increased $194.9 million, or 47.6% from $409.4 million for the fiscal year ended March 31, 2007, to $604.3 million for the fiscal year ended March 31, 2008. The increase was primarily due to $51.4 million of increased revenue attributable to expanding demand for passport services for the Department of State's Bureau of Consular Affairs, $40.3 million of increased revenue attributable to systems and software engineering services for the U.S Army CELCMC & FCE, $27.3 million of increased revenue attributable to production and engineering services provided under various SPAWAR programs, $14.7 million of increased revenue attributable to information systems support provided to the U.S. Marine Corps, including software engineering and technology services for the Marine Corps Recruiting Command, and $15.0 million of increased revenue attributable to specialized engineering and technology services provided to the U.S. Army Aviation and Missile Command, and the U.S. Army Program Executive Office for Simulation, Training, and Instrumentation, and $14.5 million of increased revenues attributable to our immigration and nationalization services for the U.S. Citizenship and Immigration Services. A significant portion of this increase was due to the acquisition of Techrizon. The balance of $31.7 million was primarily a result of continued growth providing enterprise integration and operational support services for the Department of Defense, and ongoing logistics support for the Army's equipment reset effort in the United States and abroad.

Cost of Revenues. Our cost of revenues increased $168.6 million, or 49.1%, from $343.6 million for the fiscal year ended March 31, 2007, to $512.2 million for the fiscal year ended March 31, 2008. This increase was primarily the result of additional costs attributable to revenues generated by the increased services provided under the contracts referred to above. Cost of revenues represented 84.8% of total revenues for the fiscal year ended March 31, 2008, as compared to 83.9% of total revenues for the fiscal year ended March 31, 2007. This increase was primarily the result of start-up costs associated with the ramp up of new contracts awarded during the year and share-based payment expenses.

Selling, General and Administrative. Our selling, general and administrative expense increased $6.5 million, or 21.3%, from $30.7 million for the fiscal year ended March 31, 2007, to $37.2 million for the fiscal year ended March 31, 2008. This increase was primarily due to higher selling, general and administrative expenses to support expanding operations from organic and acquired growth, share-based payment expenses, higher recruiting costs to expand our workforce, and additional costs associated with legal, audit, tax, and Sarbanes-Oxley compliance services. Selling, general and administrative expenses represented 6.2% of total revenues for the fiscal year ended March 31, 2008, as compared to 7.5% of total revenues for the fiscal year ended March 31, 2007. This decrease was primarily the result of the realization of efficiencies in our corporate infrastructure.

Amortization of Deferred Compensation. Our amortization of deferred compensation decreased $4.8 million, or 94.7%, from $5.1 million for the fiscal year ended March 31, 2007, to $0.3 million for fiscal year ended March 31, 2008. The decrease was primarily attributable to the amortization expense related to the acceleration of the vesting period of restricted stock grants in connection with our initial public offering in October 2006.

Depreciation and Amortization. Our depreciation and amortization expense increased $1.3 million, or 23.4%, from $5.4 million for the fiscal year ended March 31, 2007, to $6.7 million for the fiscal year ended March 31, 2008. Approximately $0.8 million of the increase was related to the amortization of intangible assets primarily associated with the Techrizon acquisition. The remainder of the increase was associated with depreciation of Techrizon assets and increased capital expenditures and leasehold improvements during fiscal 2008.

Other Income or Expense. Our other expense was $0.5 million for the fiscal year ended March 31, 2007, which was primarily related to changes in market value and cancellation of our interest rate swap agreements. Our other income for the fiscal year ended March 31, 2008 was less than $0.1 million.

Interest Expense, Net. Our net interest expense decreased $2.1 million from $5.9 million for the fiscal year ended March 31, 2007, to $3.8 million for the fiscal year ended March 31, 2008. The decrease in net interest expense was due to the repayment of term loan borrowings and a lower overall borrowing rate.

Provision for Income Taxes. Our effective tax rate decreased from 41.1% for the fiscal year ended March 31, 2007, to 40.7% for the fiscal year ended March 31, 2008. The decrease was primarily attributable to a reduction in the provision related to equity compensation.

Net Income. Our net income increased $15.5 million, or 144.6%, from $10.7 million for the fiscal year ended March 31, 2007, to $26.2 million for the fiscal year ended March 31, 2008. The increase in net income was attributable to increased profits from internal revenue growth, lower interest expense and profits related to the Techrizon operations.

Inflation

We do not believe that inflation has had a material effect on our business for the three years ended March 31, 2009.

Liquidity and Capital Resources

As of March 31, 2009, we had approximately $1.8 million in available cash. We have both short-term and long-term liquidity requirements as described in more detail below.

Short-Term Liquidity Requirements. We generally consider our short-term liquidity requirements to consist primarily of funds necessary to finance the costs of operations pending the billing and collection of accounts receivable. We expect to meet our short-term liquidity needs through existing cash balances, cash provided by our operations and, if necessary, from borrowings under our Senior Credit Facility.

Long-Term Liquidity Requirements. We generally consider our long-term liquidity requirements to consist primarily of funds necessary to pay scheduled debt maturities, non-recurring capital expenditures and the costs associated with acquisitions that we may pursue. Historically, we have satisfied our long-term liquidity requirements through various sources of capital, including cash provided by operations, equity offerings and borrowings under our Senior Credit Facility.

We believe that these sources of capital will continue to be available to us in the future to fund our long-term liquidity requirements. However, our ability to incur additional debt is dependent upon a number of factors, including our degree of leverage, the value of our unencumbered assets, borrowing restrictions imposed by existing lenders and the condition of the credit markets as well as general market conditions. In addition, our ability to raise funds through the issuance of equity securities is dependent upon, among other things, general market conditions and market perceptions about us. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but debt and equity financing may not be consistently available on terms that are attractive, or at all.

We expect we will require additional borrowings, including borrowings under our Senior Credit Facility, to satisfy our long-term liquidity requirements. Other sources of long-term liquidity may be sales of equity securities.

Cash Flow

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

	Year Ended March 31,		
	2009	2008	2007
	(in millions)		
Net cash provided by operating activities	$ 44.5	$ 21.1	$16.0
Net cash used in investing activities	$(179.6)	$(34.4)	$(4.3)
Net cash provided by financing activities	$ 136.6	$ 0.9	$ 1.0

Net cash provided by operating activities of $44.5 million for fiscal 2009 primarily reflected our net income plus depreciation and amortization expenses for that period, $6.3 million of share-based payment expense and $2.5 million of income tax benefits from stock compensation, partially offset by a $5.2 million increase in accounts receivable and a $9.9 million decrease in accounts payable. Net cash provided by operating activities of $21.1 million for fiscal 2008 primarily reflected our net income plus depreciation and amortization expenses for that period and a $24.5 million increase in accrued expenses, partially offset by a $46.1 million increase in accounts receivable. The increases in accrued expenses and accounts receivable were primarily the result of the Techrizon acquisition and increased demand and volume under our existing contracts. Net cash provided by operating activities of $16.0 million for fiscal 2007 primarily reflected our net income plus depreciation and amortization expenses and amortization of deferred compensation for that period, partially offset by a $28.3 million increase in accounts receivable, a $7.3 million increase in accounts payable and a $9.1 million increase in accrued expenses.

Net cash used in investing activities of $179.6 million for fiscal 2009 consisted primarily of $170.8 million for the purchase of Oberon and $8.8 million in capital expenditures relating to new and existing facility leases. Net cash used in investing activities of $34.4 million for fiscal 2008 consisted of $30.6 million to complete the acquisition of Techrizon and $3.8 million in capital expenditures to support our expanding operations. Net cash used in investing activities of $4.3 million for fiscal 2007 consisted primarily of the purchase of equipment in the ordinary course of business.

Net cash provided by financing activities of $136.6 million for fiscal 2009 consisted primarily of $134 million in borrowings under the revolving portion of our Senior Credit Facility to support the acquisition of Oberon and $1.8 million in proceeds from the exercise of stock options. Net cash provided by financing activities of $0.9 million for fiscal 2008 primarily consisted of $2.5 million in proceeds from the exercise of stock options, partially offset by repayments of our term debt and the purchase of treasury stock. Net cash provided by financing activities of $1.0 million for fiscal 2007 primarily consisted of $71.8 million in net proceeds from the sale of stock in our initial public offering and $2.0 million in proceeds received from the exercise of stock options, partially offset by $10.4 million of net repayments of our line of credit and $62.3 million of repayments on our long-term debt.

Credit Agreement and Borrowing Capacity

On October 10, 2007, we entered into the Amended Credit Agreement with a group of lenders for which SunTrust Robinson Humphrey, Inc. acted as sole book manager and lead arranger, SunTrust Bank acted as administrative agent and M&T Bank and BB&T Bank acted as co-documentation agents. The Amended Credit Agreement amended and restated the previous credit agreement entered into in February 2006. In connection with the Amended Credit Agreement, we paid fees of approximately $0.5 million.

The Amended Credit Agreement increased the amount of the lenders' aggregate commitment under the Senior Credit Facility from $87.0 million to $187.0 million, which includes a $150.0 million revolving line of credit, or Revolver, and a $37.0 million term loan, or Term Loan. The Term Loan matures on January 31, 2012 and the Revolver matures on October 31, 2012. All outstanding borrowings under the Term Loan and Revolver are due and payable on their respective maturity dates. The Amended Credit Agreement also increased the letter of credit commitment from $5.0 million to $10.0 million and increased the swing line facility from $5.0 million to $20.0 million, both of which are part of the Revolver and have the same maturity date as the Revolver. The Amended Credit Agreement also eliminated the requirement to hedge a portion of our outstanding indebtedness under the Senior Credit Facility.

On July 15, 2008, we exercised, in part, the accordion option feature under the Senior Credit Facility to increase the aggregate commitment under the Revolver by $69.1 million. The exercise of the accordion feature increased the amount of the lenders' current aggregate commitment under the Senior Credit Facility from $186.5 million to $255.6 million, which was comprised of a $219.1 million Revolver and a $36.5 million Term Loan. We paid aggregate lender fees of $0.6 million in connection with the exercise of the accordion feature. Immediately following the July 15, 2008 exercise of the accordion feature under the Senior Credit Facility, we borrowed under the Revolver to fund the purchase price for our acquisition of Oberon.

On March 27, 2009, we amended our Amended Credit Agreement to delete a provision of the agreement which had required us to maintain our primary operating deposit accounts with SunTrust Bank. The removal of this requirement enabled us to re-classify our Revolver from a current liability to a long-term liability.

Subsequent to our fiscal year end, on April 30, 2009, we completed a partial exercise of the accordion option feature of our Senior Credit Facility to increase the aggregate commitment under the Revolver by $22.5 million. The exercise of the accordion feature increased the amount of the lenders' current aggregate commitment under the Senior Credit Facility from the current $254.6 million to $277.1 million, which is comprised of a $241.6 million Revolver and a $35.5 million Term Loan. We paid aggregate lender fees of $1.1 million in connection with the exercise of the accordion feature.

Under the terms of the Amended Credit Agreement, and after giving effect to our April 30, 2009 exercise of the accordion option feature, we are entitled to request another increase in the size of the Revolver by an aggregate amount not greater than $33.4 million. If any lender elects not to increase its commitment under the Senior Credit Facility, we may designate another bank or other financial institution to become a party to the Senior Credit Facility.

The Amended Credit Agreement also contains a number of affirmative and restrictive covenants, including limitations on mergers, consolidations and dissolutions; sales of assets; investments and acquisitions; indebtedness and liens; repurchases of shares of capital stock and options to purchase shares of capital stock; transactions with affiliates; sale and leaseback transactions; and restricted payments.

In addition, the Amended Credit Agreement provides that we are required to meet the following financial covenants:

- a fixed charge coverage ratio as of the end of any fiscal quarter of not less than 1.35 to 1.00, based upon the ratio of (i) consolidated EBITDA (as defined in the Amended Credit Agreement) less the actual amount paid by us and our subsidiaries in cash on account of capital expenditures and taxes to (ii) consolidated interest expense for such period, scheduled principal payments required to be made on consolidated total debt during such period and certain restricted payments paid during such period, in each case measured for the four consecutive fiscal quarters ending on or immediately prior to such date; and
- a maximum leverage ratio not greater than 3.75 to 1.00, based upon the ratio of (i) consolidated total debt to (ii) consolidated EBITDA (as defined in the Amended Credit Agreement).

At March 31, 2009, we had $35.5 million of Term Loan indebtedness and $135.0 million of Revolver indebtedness outstanding under our Senior Credit Facility. At March 31, 2009, our borrowing availability under our $219.1 million Revolver was $83.9 million, after a reduction of $0.1 million for outstanding letters of credit. As of March 31, 2009, we were in compliance with all covenants under our Senior Credit Facility. The obligations under our Senior Credit Facility are unconditionally guaranteed by each of our existing and subsequently acquired or organized subsidiaries and are secured on a first-priority basis by security interests (subject to permitted liens) in substantially all assets owned by us and each of our subsidiaries, including the shares of capital stock of our subsidiaries, subject to certain exceptions.

Capital Expenditures

We have relatively low capital expenditure requirements. Our capital expenditures were $8.8 million, $3.8 million and $3.9 million for fiscal 2009, fiscal 2008 and fiscal 2007, respectively. Substantially all of the expenditures consisted of leasehold improvements and purchases of office equipment. Our capital expenditures increased in fiscal 2009 primarily due to leasehold improvements for several new facilities to support our organic and acquired growth.

Contractual Obligations

The future scheduled contractual payments at March 31, 2009 are as follows:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
			(in thousands)		
Long-term debt obligations	$ 35,500	$ 1,000	$34,500	$ —	$ —
Long-term interest payments(1)	2,972	1,076	1,896	—	—
Capital lease obligations	421	287	126	8	—
Operating lease obligations(2)	69,669	13,600	21,715	17,439	16,914
Liabilities for uncertain tax positions(3)	2,471	—	2,056	329	86
Total	$106,157	$14,565	$58,097	$16,495	$16,992

(1) Interest estimated at rates prevalent on March 31, 2009.

(2) Leases for facilities and equipment.

(3) Tax liability resulting from adoption of Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB No. 109,* in April 2007.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K as of March 31, 2009.

Recently Adopted Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance for measuring the fair value of assets and liabilities and expands related disclosures. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The adoption of FAS 157 did not have a material impact on our consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standard No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"), which reorganizes the GAAP hierarchy. The standard transfers the hierarchy of GAAP from the auditing literature to the accounting standards and identifies a consistent hierarchy for selecting accounting principles to be used in applying U.S. GAAP. SFAS 162 became effective November 18, 2008. The adoption of this new standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R moves closer to a fair value model by requiring the acquirer, in a business combination, to measure all assets acquired and all liabilities assumed at their respective fair values at the date of acquisition, including the measurement of noncontrolling interests at fair value. SFAS 141R also establishes principles and requirements as to how the acquirer recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. In addition, SFAS 141R significantly changes the accounting for business combinations in a number of areas, including the treatment of contingent consideration, preacquisition contingencies, in-process research and development, restructuring costs, and requires the expensing of acquisition-related costs as incurred. The effective date of SFAS 141R is for fiscal years beginning after December 15, 2008. For transactions consummated after the effective date of SFAS 141R, prospective application of the new standard is applied. For business combinations consummated prior to the effective date of SFAS 141R, the guidance in SFAS 141 is applied. We are in the process of assessing what effect, if any, the application of the provisions of SFAS 141R will have on our consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51* ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. We do not currently expect the adoption of SFAS 160 to have a material impact on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position FAS 157-2 deferring the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We are assessing the impact that the adoption of SFAS 157 for nonfinancial assets and liabilities will have, if any, on our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Account Standards No. 161, *Disclosure about Derivative Instruments and hedging Activities—An Amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 expands and amends the disclosure requirement for derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are in the process of determining what effect, if any, the application of the provisions of SFAS 161 will have on our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of the FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP 142-3 is effective for the fiscal years beginning after December 15, 2008. We do not expect the adoption of FSP 142-3 to have a material impact on our consolidated financial statements.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCUSSION ABOUT MARKET RISK

Our principal exposure to market risk relates to changes in interest rates. From time to time, we enter into interest rate swap agreements to effectively limit exposure to interest rate movements within the parameters of our interest rate hedging policy. As of March 31, 2009, all of the outstanding debt under our Senior Credit Facility, with the exception of that portion covered by an interest rate swap, was subject to floating interest rate risk. In October 2006, we entered into an interest rate swap agreement covering 50.0% of our term indebtedness under which the swap and term debt maturities match. Even after giving effect to this agreement, we are exposed to risks due to fluctuations in the market value of this agreement and changes in interest rates with respect to the portion of our Senior Credit Facility that is not covered by this agreement. A hypothetical increase in the interest rate of 100 basis points would have increased our annual interest expense on that portion of our outstanding debt not covered by the interest rate swap by $1.2 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Stanley, Inc. are included on pages F-1 through F-31 of this report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2009, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, or Exchange Act. Based on this evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures are effective in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in periodic SEC filings. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act). An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of March 31, 2009. The effectiveness of our internal control over financial reporting as of March 31, 2009 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management's assessment of internal control over financial reporting excluded Oberon, which was acquired during the fiscal year. The revenues and net income of Oberon represented approximately 12.8% and 21.3%, respectively, of our consolidated financial statement amounts for the fiscal year ended March 31, 2009, and the net and total assets of Oberon represented approximately 9.9% and 8.6%, respectively, of our consolidated financial statement amounts as of March 31, 2009.

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

To the Board of Directors and Stockholders of
Stanley, Inc.
Arlington, Virginia

We have audited the internal control over financial reporting of Stanley, Inc. and subsidiaries (the "Company") as of March 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Oberon Associates, Inc. ("Oberon"), which was acquired on July 15, 2008 and whose financial statements constitute 9.9% and 8.6% of net and total assets, respectively, 12.8% of revenues, and 21.3% of net income of the consolidated financial statement amounts as of and for the year ended March 31, 2009. Accordingly, our audit did not include the internal control over financial reporting at Oberon. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on the criteria established in *Internal Control—*

Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2009 of the Company and our report dated May 21, 2009 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding the Company's adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia
May 21, 2009

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, those controls.

Limitations on the Effectiveness of Controls

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures and internal controls over financial reporting will prevent all error and 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, and our management has concluded that our disclosure controls and procedures and internal controls over financial reporting were effective at a reasonable level as of March 31, 2009. 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, with 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 override of the controls.

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, a control 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 may not be detected.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

We will file a definitive Proxy Statement for our 2009 Annual Meeting of Stockholders (the "2009 Proxy Statement") with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2009 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference from our 2009 Proxy Statement under the captions "Election of Directors," "Executive Officers Who Are Not Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Code of Ethics," and "Audit Committee."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from our 2009 Proxy Statement under the captions "Executive and Director Compensation" and "Compensation Committee Report."

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

The information required by Item 12 is hereby incorporated by reference from our 2009 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance Under Equity Compensation Plans."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference from our 2009 Proxy Statement under the captions "Certain Related-Person Transactions" and "Independence of the Board of Directors."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from our 2009 Proxy Statement under the caption "Independent Registered Public Accounting Firm Fees and Services."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report

1. The following financial statements are filed herewith:

   Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements and Financial Statement Schedule

   Consolidated Statements of Income for the Fiscal Years ended March 31, 2009, 2008 and 2007

   Consolidated Balance Sheets as of March 31, 2009 and 2008

   Consolidated Statements of Changes in Stockholders' Equity for the Fiscal Years ended March 31, 2007, 2008 and 2009

   Consolidated Statements of Cash Flows for the Fiscal Years ended March 31, 2009, 2008 and 2007

   Consolidated Statements of Comprehensive Income for the Fiscal Years ended March 31, 2009, 2008 and 2007

   Notes to Consolidated Financial Statements

2. Financial Statement Schedule

   Schedule II—Valuation and Qualifying Accounts

3. Exhibits

   The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Stanley, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended March 31, 2008)
3.2	Amended and Restated Bylaws of Stanley, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Form 10-K for the fiscal year ended March 31, 2008)
4.1	Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-134053), filed July 28, 2006)
10.1	1995 Stock Incentive Plan, as Amended as of October 11, 2001 (incorporated by reference to Exhibit 10.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-134053), filed June 26, 2006)†
10.2	Executive Deferred Compensation and Equity Incentive Plan, as of January 30, 2002 (incorporated by reference to Exhibit 10.6 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-134053), filed July 28, 2006)†
10.3	Amendment No. 1 to Executive Deferred Compensation and Equity Incentive Plan, as of June 28, 2006 (incorporated by reference to Exhibit 10.12 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-134053), filed July 28, 2006)†

Exhibit No.	Description
10.4	Amendment No. 2 to Executive Deferred Compensation and Equity Incentive Plan, as of November 6, 2008 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended December 26, 2008)†
10.5	Executive Deferred Compensation and Equity Incentive Plan Trust, as of March 5, 2004 (incorporated by reference to Exhibit 10.7 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-134053), filed July 28, 2006)†
10.6	2006 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.13 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-134053), filed July 28, 2006)†
10.7	Amendment No. 1 to 2006 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended March 31, 2008)†
10.8	Amendment No. 2 to 2006 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended March 31, 2008)†
10.9	Amendment No. 3 to 2006 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended December 26, 2008)†
10.10	Form of Restricted Stock Award Agreement under the 2006 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.8 to the Company's Form 10-K for the fiscal year ended March 31, 2008)†
10.11	Form of Incentive Stock Option Award Agreement under the 2006 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.9 to the Company's Form 10-K for the fiscal year ended March 31, 2008)†
10.12	Form of Nonqualified Stock Option Award Agreement under the 2006 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended March 31, 2008)†
10.13	Amended and Restated Revolving Credit and Term Loan Agreement, dated as of October 10, 2007 (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended March 31, 2008)
10.14	Amendment to Amended and Restated Revolving Credit and Term Loan Agreement, dated August 4, 2008 (incorporated by reference to Exhibit 10.10 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)
10.15	Second Amendment to Amended and Restated Resolving Credit and Term Loan Agreement, dated March 27, 2009*
10.16	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and Philip O. Nolan (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†
10.17	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and Brian J. Clark (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†

Exhibit No.	Description
10.18	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and George H. Wilson (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†
10.19	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and Gregory M. Denkler (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†
10.20	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and Christopher J. Torti (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†
10.21	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and E. Patrick Flannery (incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†
10.22	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and James H. Brabston (incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†
10.23	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and Scott D. Chaplin (incorporated by reference to Exhibit 10.9 to the Company's Form 10-Q for the fiscal quarter ended June 27, 2008)†
10.24	Change in Control Severance Agreement, dated June 26, 2008, by and between Stanley, Inc. and Eric A. Wolking*†
10.25	Agreement and Plan of Merger, dated June 10, 2008, by and among Stanley, Inc., Omaha Acquisition Corporation, Oberon Associates, Inc. and the Significant Shareholders named therein (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K, filed on June 10, 2008)
10.26	Stanley Executive Savings Plan, dated as of May 6, 2009*†
21.1	List of subsidiaries of Stanley, Inc.*
23.1	Consent of Deloitte & Touche LLP*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith

† Denotes management contract or compensation plan or arrangement

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.

STANLEY, INC.

/s/ PHILIP O. NOLAN

Philip O. Nolan
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
May 21, 2009

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

/s/ PHILIP O. NOLAN

Philip O. Nolan
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
May 21, 2009

/s/ BRIAN J. CLARK

Brian J. Clark
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)
May 21, 2009

/s/ GEORGE H. WILSON

George H. Wilson
Executive Vice President and Director
May 21, 2009

/s/ WILLIAM E. KARLSON

William E. Karlson
Director
May 21, 2009

/s/ LAWRENCE A. GALLAGHER

Lawrence A. Gallagher
Director
May 21, 2009

/s/ JAMES C. HUGHES

James C. Hughes
Director
May 21, 2009

/s/ JOHN P. RICEMAN

John P. Riceman
Director
May 21, 2009

/s/ GENERAL JIMMY D. ROSS

General Jimmy D. Ross, USA (Ret.)
Director
May 21, 2009

/s/ LT. GENERAL RICHARD L. KELLY

Lt. General Richard L. Kelly, USMC (Ret.)
Director
May 21, 2009

/s/ CHARLES S. REAM

Charles S. Ream
Director
May 21, 2009

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of
Stanley, Inc.
Arlington, Virginia:

We have audited the accompanying consolidated balance sheets of Stanley, Inc. and subsidiaries (the "Company") as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, cash flows and comprehensive income for each of the three years in the period ended March 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Stanley, Inc. and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 9 to the consolidated financial statements, the Company adopted, effective April 1, 2007, a new accounting standard for accounting for uncertain tax positions.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 21, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia
May 21, 2009

STANLEY, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(in thousands, except per share amounts)

	Year Ended March 31,		
	2009	**2008**	**2007**
Revenues	$779,679	$604,342	$409,411
Operating costs and expenses:			
Cost of revenues	653,672	512,243	343,628
Selling, general and administrative	49,114	37,242	30,700
Amortization of deferred compensation	250	267	5,082
Depreciation and amortization	9,988	6,695	5,424
Total operating costs and expenses	713,024	556,447	384,834
Operating income	66,655	47,895	24,577
Other income (expense):			
Other income (expense)	26	19	(478)
Interest expense—net	(5,397)	(3,779)	(5,918)
Total other expenses	(5,371)	(3,760)	(6,396)
Income before taxes	61,284	44,135	18,181
Provision for income taxes	(24,054)	(17,971)	(7,476)
Net income	$ 37,230	$ 26,164	$ 10,705
Earnings per share:			
Basic	$ 1.63	$ 1.18	$ 0.61
Diluted	$ 1.56	$ 1.12	$ 0.55
Weighted-average shares:			
Basic	22,819	22,133	17,567
Diluted	23,814	23,414	19,458

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

STANLEY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share data)

	March 31, 2009	March 31, 2008
Assets		
Current assets:		
Cash	$ 1,811	$ 271
Accounts receivable—net	187,680	160,928
Prepaid and other current assets	6,766	4,644
Total current assets	196,257	165,843
Property and equipment—net	19,552	12,894
Goodwill	262,705	113,615
Intangible assets—net	15,557	8,088
Deferred taxes	4,212	3,343
Other assets	3,269	2,272
Total assets	$501,552	$306,055
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 21,528	$ 29,628
Accrued expenses and other liabilities	79,841	62,649
Current portion of long-term debt	1,000	1,000
Income taxes payable	2,034	5,836
Total current liabilities	104,403	99,113
Line of credit	135,030	—
Long-term debt—net of current portion	34,500	35,500
Other long-term liabilities	10,396	4,738
Total liabilities	284,329	139,351
Commitments and contingencies:		
Stockholders' equity		
Common stock, $0.01 par value—200,000,000 authorized; 23,813,334 and 22,822,697 issued and outstanding, respectively	238	228
Additional paid-in capital	96,957	83,970
Retained earnings	121,434	84,204
Accumulated other comprehensive loss	(886)	(929)
Deferred compensation	(520)	(769)
Total stockholders' equity	217,223	166,704
Total liabilities and stockholders' equity	$501,552	$306,055

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

STANLEY, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

(in thousands)

	Issued Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Treasury Stock	Deferred Compensation	Stockholders' Notes Receivable	Accumulated Other Comprehensive Loss, Net of Tax	Total
BALANCE—April 1, 2006	14,967	$150	$ 3,858	$ 47,640	735	$(4,791)	$(4,392)	$(76)	$ —	$ 42,389
Purchase of common stock for Treasury	—	—	—	—	33	(259)	—	—	—	(259)
Contribution of common stock to ESOP	10	—	155	—	—	—	—	—	—	155
Exercise of stock options	676	7	(2,596)	—	(690)	4,606	—	—	—	2,017
Issuance of shares from Treasury	—	—	32	—	(30)	165	—	—	—	197
Restricted stock grants	—	—	6	—	(48)	279	(285)	—	—	—
Amortization of deferred compensation, net of canceled shares	—	—	—	—	—	—	5,082	—	—	5,082
Income tax benefit from stock transactions	—	—	1,624	—	—	—	—	—	—	1,624
Shares sold in initial public offering	6,235	62	71,724	—	—	—	—	—	—	71,786
Deferred compensation	—	—	1,441	—	—	—	(1,441)	—	—	—
Stock compensation expense	—	—	541	—	—	—	—	—	—	541
Repayment of stockholder loans, net of reclassification	—	—	—	—	—	—	—	76	—	76
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(161)	(161)
Net income	—	—	—	10,705	—	—	—	—	—	10,705
BALANCE—March 31, 2007	21,888	$219	$76,785	$ 58,345	—	$ —	$(1,036)	$ —	$(161)	$134,152
Purchase of common stock for Treasury	—	—	—	—	14	(260)	—	—	—	(260)
Contribution of common stock to ESOP	15	—	380	—	—	—	—	—	—	380
Exercise of stock options	770	8	2,195	—	(14)	260	—	—	—	2,463
Restricted stock grants, net of forfeitures	150	1	(1)	—	—	—	—	—	—	—
Income tax benefit from stock transactions	—	—	2,513	—	—	—	—	—	—	2,513
Deferred compensation	—	—	—	—	—	—	267	—	—	267
Stock compensation expense	—	—	2,098	—	—	—	—	—	—	2,098
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(768)	(768)
Adoption of FIN 48	—	—	—	(305)	—	—	—	—	—	(305)
Net income	—	—	—	26,164	—	—	—	—	—	26,164
BALANCE—March 31, 2008	22,823	$228	$83,970	$ 84,204	—	$ —	$ (769)	$ —	$(929)	$166,704
Purchase of common stock for Treasury	(8)	—	—	—	8	(196)	—	—	—	(196)
Contribution of common stock to ESOP	50	1	1,400	—	—	—	—	—	—	1,401
Issuance of common stock from reserves	24	—	702	—	—	—	—	—	—	702
Exercise of stock options	339	3	1,553	—	(8)	196	—	—	—	1,752
Restricted stock grants, net of forfeitures	585	6	(6)	—	—	—	—	—	—	—
Income tax benefit from stock transactions	—	—	3,015	—	—	—	—	—	—	3,015
Deferred compensation	—	—	—	—	—	—	249	—	—	249
Stock compensation expense	—	—	6,323	—	—	—	—	—	—	6,323
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	43	43
Net income	—	—	—	37,230	—	—	—	—	—	37,230
BALANCE—March 31, 2009	23,813	$238	$96,957	$121,434	—	$ —	$ (520)	$ —	$(886)	$217,223

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

STANLEY, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended March 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 37,230	$ 26,164	$ 10,705
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,988	6,695	5,424
Amortization of deferred compensation	250	267	5,082
Loss on disposal of property and equipment	117	137	335
Deferred taxes	(2,696)	(4,736)	(853)
Stock contributed to employee stock ownership plan	1,401	380	155
Income tax benefit from stock-based compensation	2,458	2,417	1,624
Stock compensation expense	6,323	2,098	541
Changes in assets and liabilities—net of acquisition effects:			
Increase in accounts receivable	(5,166)	(46,095)	(28,297)
Decrease in prepaid income taxes	481	—	2,650
(Increase) decrease in prepaid expenses and other current assets	(1,915)	(1,049)	612
(Increase) decrease in other assets	(898)	(106)	628
(Decrease) increase in accounts payable	(9,915)	5,030	7,283
Increase in accrued expenses	6,739	24,464	9,148
Increase in other liabilities	5,950	7	794
(Decrease) increase in income taxes payable	(5,800)	5,392	206
Net cash provided by operating activities	44,547	21,065	16,037
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Morgan—net of cash acquired	—	—	(417)
Purchase of Techrizon—net of cash acquired	—	(30,563)	—
Purchase of Oberon—net of cash acquired	(170,808)	—	—
Acquisition of property and equipment	(8,774)	(3,844)	(3,865)
Net cash used in investing activities	(179,582)	(34,407)	(4,282)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) under line-of-credit agreements	135,030	—	(10,409)
Repayments on long-term debt	(1,000)	(1,250)	(62,250)
Payments under capital lease obligations	(270)	(172)	(129)
Purchase of treasury stock	(196)	(260)	(259)
Proceeds from exercise of stock options	1,752	2,463	2,017
Cash repayments from stockholders	—	—	28
Net proceeds from sale of stock in initial public offering	—	—	71,786
Proceeds from sale of stock	702	—	197
Excess tax benefit from share-based payments	557	96	—
Net cash provided by financing activities	136,575	877	981
NET INCREASE (DECREASE) IN CASH	1,540	(12,465)	12,736
CASH—Beginning of year	271	12,736	—
CASH—End of year	$ 1,811	$ 271	$ 12,736
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Income taxes	$ 27,851	$ 14,899	$ 6,529
Interest	$ 5,178	$ 3,630	$ 6,268
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:			
Lease incentive	$ 942	$ —	$ —

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

STANLEY, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended March 31,		
	2009	2008	2007
Net income	$37,230	$26,164	$10,705
Other comprehensive income:			
Unrealized loss on interest rate swap	(149)	(720)	(161)
Translation adjustments	192	(48)	—
Total other comprehensive income	43	(768)	(161)
Comprehensive income	$37,273	$25,396	$10,544

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

1. DESCRIPTION OF BUSINESS

Description of Business—Stanley, Inc., together with its subsidiaries ("Stanley" or the "Company"), is a provider of information technology services and solutions to U.S. defense, intelligence and federal civilian government agencies. Stanley offers its customers solutions to support any stage of program, product development or business lifecycle through five service areas: systems engineering, enterprise integration, operational logistics, business process outsourcing and advanced engineering and technology. The Company has derived substantially all of its revenue from U.S. federal government agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, these statements reflect all adjustments necessary to fairly present the Company's financial position as of March 31, 2009 and 2008, its results of operations for the fiscal years ended March 31, 2009, 2008 and 2007 and its cash flows for the fiscal years ended March 31, 2009, 2008 and 2007.

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of Stanley's wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Fair Value of Financial Instruments—The fair value of accounts receivable, accounts payable, accrued expenses, note payable, and swap contract approximates their respective carrying amounts.

Revenue Recognition—The Company recognizes revenue under its contracts when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectibility is considered probable and can be reasonably estimated. Revenue is earned under cost-plus-fee, fixed-price and time-and-materials contracts. The Company uses a standard management process to determine whether all required criteria for revenue recognition have been met, which includes regular reviews of the Company's contract performance. This review covers, among other matters, progress against a schedule, outstanding action items, effort and staffing, quality, risks and issues, subcontract management, costs incurred, commitments, and customer satisfaction. During this review, the Company determines whether the overall progress on a contract is consistent with the effort expended.

Contract revenue recognition inherently involves the use of estimates. Examples of estimates include the contemplated level of effort to accomplish the tasks under contract, the cost of the effort, and an ongoing assessment of the Company's progress toward completing the contract. From time to time, as part of the Company's standard management process, facts develop that require the Company to revise its estimated total costs and revenues. To the extent that a revised estimate affects contract profit or revenue previously recognized, the Company records the cumulative effect of the revision in the period in which the facts requiring the revision become known. The full amount of an anticipated loss on any type of contract is recognized in the period in which it becomes probable and can be reasonably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under cost-plus-fee contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. For level of effort or term cost-plus-fee contracts, fixed fees are earned in proportion to the percentage of required effort delivered. For completion type cost-plus-fee contracts, fixed fees are earned in proportion to the percentage of work completed. For time-and-materials contracts, revenues are computed by multiplying the number of direct labor-hours expended in performance of the contract by the contractual billing rates and adding other billable direct and indirect costs. For fixed-price contracts, revenues are recognized as services are performed, using the percentage-of-completion method, applying the cost-to-cost or units of delivery method, in accordance with Accounting Research Bulletin No. 45 and American Institute of Certified Public Accountants ("AICPA") Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ("SOP 81-1").

For cost-plus-award fee type contracts, the Company recognizes the expected fee to be awarded by the customer at the time such fee can be reasonably estimated, based on factors such as prior award experience and communications with the customer regarding performance, including any interim performance evaluations rendered by the customer. For cost-plus-incentive fee type contracts, the method of calculating incentive fee is specified in the contract and it is typically based on measuring actual costs to perform the contract against a target cost to perform the contract. The Company prepares periodic estimates to complete and adjusts the incentive fee as required based on the contract incentive fee formula.

The Company's contracts with agencies of the government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. From time to time, the Company may proceed with work based on customer direction prior to the completion and signing of formal contract documents. The Company has a formal review process for approving any such work. Revenue associated with such work is recognized only when it can be reliably estimated and realization is probable. The Company bases its estimates on previous experiences with the customer, communications with the customer regarding funding status, and its knowledge of available funding for the contract or program. Pre-contract costs related to unsuccessful contract bids are expensed in the period in which the Company is notified that the contract will not be issued.

Disputes occasionally arise in the normal course of the Company's business due to events such as delays, changes in contract specifications, and questions of cost allowability or collectibility. Such matters, whether claims or unapproved change orders in the process of negotiation, are recorded at the lesser of their estimated net realizable value or actual costs incurred, and only when realization is probable and can be reliably estimated.

The allowability of certain costs under government contracts is subject to audit by the government. Certain indirect costs are charged to contracts using provisional or estimated indirect rates, which are subject to later revision based on government audits of those costs. The Company is of the opinion that costs subsequently disallowed, if any, would not be significant.

Concentration of Risk—Contracts funded by federal government agencies account for substantially all of our revenues. For the fiscal years ended March 31, 2009, 2008 and 2007, we derived approximately 72%, 66% and 65% of our revenues, respectively, from the Department of Defense, including agencies within the intelligence community, and approximately 28%, 34% and 35% of our

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

revenues, respectively, from federal civilian government agencies. The Company's contract with the Department of State for the provision of passport processing and support services, which is our largest revenue-generating contract, accounted for approximately 10%, 16% and 15% of our revenues for the fiscal years ended March 31, 2009, 2008 and 2007, respectively. The Company's contracts with the Department of the Navy for production engineering and integrations services under various SPAWAR programs accounted for approximately 10%, 12% and 12% of our revenues for the fiscal years ended March 31, 2009, 2008 and 2007, respectively.

Property and Equipment—Property and equipment are carried at cost, less accumulated depreciation. Depreciation of property and equipment is calculated using the straight-line method over the useful lives. The estimated useful lives of computers, peripherals and software typically range from three to five years. The estimated useful lives of furniture and equipment typically range from five to ten years. Leasehold improvements are amortized over the lesser of the useful life or the term of the lease. Repairs and maintenance are expensed as incurred. Depreciation expense related to property and equipment was $4.4 million, $2.9 million and $2.2 million for the fiscal years ended March 31, 2009, 2008 and 2007, respectively.

Goodwill and Intangible Assets—Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired companies. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), we do not amortize goodwill. Rather, we test goodwill for impairment at least on an annual basis. Testing for impairment is a two-step process as prescribed by SFAS 142. The first step is a test for potential impairment, while the second step measures the amount of impairment, if any. Under the guidelines of SFAS 142, we are required to perform an impairment test at least on an annual basis at any time during the fiscal year, provided that the test is performed at the same time every year. An impairment loss would be recognized when the assets' fair value is below their carrying value. Based on the testing performed as of December 26, 2008, we determined that no impairments existed. Identifiable intangible assets are amortized over their estimated useful lives. Customer relationships are being amortized on a straight-line basis over periods ranging from five to seven years. Non-competition agreements are being amortized on a straight-line basis over three years. Backlog and contracts are being amortized on a straight-line basis over periods ranging from two to five years.

Impairment of Long-Lived Assets—Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be fully recoverable, Stanley evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If any impairment were indicated as a result of this review, Stanley would recognize a loss based on the amount by which the carrying amount exceeds the estimated fair value. Stanley believes that no impairments exist as of March 31, 2009.

Income Taxes—The provision for income taxes includes federal and state income taxes currently payable plus the net change during the year in the deferred tax liability or asset. The current or deferred tax consequences of all events that have been recognized in the financial statements are measured based on provisions of enacted tax law to determine the amount of taxes payable or refundable in future periods.

(in thousands, except share and per share data, or as otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On April 1, 2007, the Company adopted the Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes* ("FIN 48"). FIN 48 provides guidance on recognition, derecognition, measurement, classification, interest and penalties, accounting for interim periods and disclosures. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The amount recognized is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. In addition, FIN 48 permits an entity to recognize interest and penalties related to tax uncertainties as income tax expense or operating expenses. The effect of FIN 48 is further described in Note 9.

Unbilled Receivables—Unbilled receivables are comprised of work-in-process that will be billed in accordance with contract terms and delivery schedules, as well as amounts billable upon final execution of contracts, contract completion, milestones or completion of rate negotiations. Because the billing of unbilled receivables is contingent on those events, changes in the relative amount of unbilled receivables have an impact on our working capital and liquidity.

Payments to us for performance on certain of our federal government contracts are subject to audit by the DCAA and are also subject to government funding. We provide a reserve against our receivables for estimated losses that may result from rate negotiations, audit adjustments and/or government funding availability. To the extent that actual adjustments due to rate negotiations, audit adjustments or government funding availability differ from our estimates, our revenue may be impacted. Because substantially all of our receivables come from contracts funded by the federal government, we believe that the likelihood of a material loss on an uncollectible account from this activity is low.

Earnings per share—Basic earnings per share has been computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Restricted shares of common stock that vest based on the satisfaction of certain conditions are treated as contingently issuable shares until the conditions are satisfied. These shares are included in the computation of basic earnings per share only after the shares vest. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Diluted earnings per share considers the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Shares that are anti-dilutive are not included in the computation of diluted earnings per share. Stock options that were not included in the computation of diluted earnings per share calculation, because to do so would have been anti-dilutive totaled 66,825, 40,950 and 6,750 for the years ended March 31, 2009, 2008 and 2007, respectively. The weighted-average number of common shares outstanding is computed as follows:

	Fiscal Year Ended March 31,		
	2009	**2008**	**2007**
Basic weighted-average common shares outstanding	22,819	22,133	17,567
Effect of stock options and unvested restricted stock grants	995	1,281	1,891
Diluted weighted-average common shares outstanding	23,814	23,414	19,458

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments and Hedging Activities—In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), as amended by SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS 133* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, the fair value of the hedge arrangement is recorded as an asset or a liability in the accompanying consolidated balance sheets at March 31, 2008 and 2009. For qualifying cash flow hedges, the effective portion of derivative gains and losses is recorded as a component of other comprehensive income and is reclassified into earnings in the same period in which the hedged transaction affects such earnings. Any ineffectiveness is reported currently in earnings.

Stanley entered into an interest rate swap agreement on October 27, 2006 with a maturity date of January 31, 2012, an annual fixed rate of 5.28% and a notional amount of $19.0 million. The Company designated this swap agreement, at its inception, as a qualifying cash flow hedge. The fair value of the swap at March 31, 2009 of $1.7 million has been reported in "Accrued expenses and other liabilities" with an offset, net of tax, included in "Accumulated other comprehensive loss" in the Consolidated Balance Sheet. None of the $1.7 million unrealized loss was recognized in earnings during the year ended March 31, 2009 based on hedge ineffectiveness and none of the swap's unrealized loss was excluded from the assessment of hedge effectiveness. Amounts in accumulated other comprehensive loss will be reclassified into earnings in the period in which variable interest payments (the hedged transaction) are made under the Senior Credit Facility (defined in Note 7). Amounts paid or received on the swap are recorded as interest expense in the period during which the floating interest rate is incurred.

Segment Reporting—Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and assess performance. The Company currently has one reportable segment for financial reporting purposes, which represents the Company's core business of providing information technology solutions and services for federal government customers. The Company does not report revenue by product or service or groups of products or services because it is impracticable to do so.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include revenue recognition, carrying amount and useful lives of long-lived assets, valuation allowances for accounts receivable and deferred tax assets and loss contingencies such as litigation, claims and assessments.

Recently Adopted Accounting Pronouncements—In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance for measuring the fair value of assets and liabilities and expands related disclosures. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes market or observable

(in thousands, except share and per share data, or as otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

Effective April 1, 2008, the Company adopted SFAS 157 for all financial instruments accounted for at fair value on a recurring basis. SFAS 157 established a three level fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

As of March 31, 2009, the financial liability measured at fair value consisted of an interest rate swap agreement. The value is based on model-driven valuations whose inputs are observable. The following table summarizes the financial liability measured at fair value on a recurring basis as of March 31, 2009 and the level it falls within the fair value hierarchy:

	Fair Value Measurement Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total March 31, 2009**
Liabilities:				
Interest rate swap	$—	$1,703	$—	$1,703

In May 2008, the FASB issued Statement of Financial Accounting Standard No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"), which reorganizes the GAAP hierarchy. The standard transfers the hierarchy of GAAP from the auditing literature to the accounting standards and identifies a consistent hierarchy for selecting accounting principles to be used in applying U.S. GAAP. SFAS 162 became effective November 18, 2008. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards—In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R moves closer to a fair value model by requiring the acquirer, in a business combination, to measure all assets acquired and all liabilities assumed at their respective fair values at the date of acquisition, including the measurement of noncontrolling interests at fair value. SFAS 141R also establishes principles and requirements as to how the acquirer recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. In addition, SFAS 141R significantly changes the accounting for business combinations in a number of areas, including the treatment of contingent consideration, preacquisition contingencies, in-process research and development, restructuring costs, and requires the expensing of acquisition-related costs as incurred. The effective date of SFAS 141R is for fiscal years beginning after December 15, 2008. For transactions consummated after the effective date of SFAS 141R, prospective

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

application of the new standard is applied. For business combinations consummated prior to the effective date of SFAS 141R, the guidance in SFAS 141 is applied. The Company is in the process of assessing what effect, if any, the application of the provisions of SFAS 141R will have on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51* ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not currently expect the adoption of SFAS 160 to have a material impact on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 deferring the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is assessing the impact that the adoption of SFAS 157 for nonfinancial assets and liabilities will have on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Account Standards No. 161, *Disclosure about Derivative Instruments and hedging Activities—An Amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 expands and amends the disclosure requirement for derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is in the process of determining what effect, if any, the application of the provisions of SFAS 161 will have its consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of the FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP 142-3 is effective for the fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP 142-3 to have a material impact on its consolidated financial statements.

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

(in thousands, except share and per share data, or as otherwise noted)

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	As of March 31, 2009	As of March 31, 2008
Billed receivables	$122,322	$120,504
Unbilled receivables		
Amounts billable	57,912	35,259
Revenues recorded in excess of contract funding	8,132	5,410
Retainage and contract fee withholding	451	415
Allowance for doubtful accounts	(1,137)	(660)
Total	$187,680	$160,928

Amounts billable consist primarily of amounts to be billed within a month. Revenues recorded in excess of contract funding are billable upon receipt of contractual amendments or modifications adding additional funding. The retainage and fee withholding is billable upon completion of the contract performance and approval of final indirect expense rates by the government. Unbilled receivables at March 31, 2009 are expected to be billed and collected within one year, except for the $0.5 million related to retainage and fee withholding.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	As of March 31, 2009	As of March 31, 2008
Computers and peripherals	$ 5,684	$ 4,554
Software	4,265	2,429
Furniture and equipment	5,669	4,390
Leasehold improvements	14,323	8,270
	29,941	19,643
Less: Accumulated depreciation and amortization	(10,389)	(6,749)
Property and equipment—net	$ 19,552	$12,894
Property and equipment included above that are under capital lease obligations include:		
Software	$ 947	$ 637
Furniture and equipment	161	176
Less: Accumulated depreciation and amortization	(766)	(328)
Total	$ 342	$ 485

(in thousands, except share and per share data, or as otherwise noted)

5. GOODWILL AND ACQUIRED OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the fiscal years ended March 31, 2007, 2008 and 2009 are as follows:

Balance as of March 31, 2007	$ 88,249
Goodwill acquired during the year in connection with the Techrizon acquisition	25,366
Balance as of March 31, 2008	$113,615
Goodwill acquired during the year in connection with the Oberon acquisition	149,090
Balance as of March 31, 2009	$262,705

The components of acquired other intangible assets as of March 31, 2009, are as follows:

	As of March 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Assets subject to amortization:			
Customer relationships	$17,080	$ (7,106)	$ 9,974
Noncompete agreements	2,710	(2,142)	568
Backlog and contracts	11,840	(6,825)	5,015
Total	$31,630	$(16,073)	$15,557

The components of acquired other intangible assets as of March 31, 2008, are as follows:

	As of March 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Assets subject to amortization:			
Customer relationships	$ 6,580	$ (4,740)	$1,840
Noncompete agreements	2,010	(1,778)	232
Backlog and contracts	9,940	(3,924)	6,016
Total	$18,530	$(10,442)	$8,088

Aggregate amortization expense of other intangible assets was $5.6 million, $3.8 million and $3.2 million for the years ended March 31, 2009, 2008 and 2007, respectively. Other intangible assets are being amortized on a straight-line basis over a period of 2 to 7 years.

(in thousands, except share and per share data, or as otherwise noted)

5. GOODWILL AND ACQUIRED OTHER INTANGIBLE ASSETS (Continued)

Estimated amortization expense is as follows for the periods indicated:

Years Ending March 31,	
2010	$ 5,914
2011	4,442
2012	2,488
2013	2,100
Thereafter	613
Total	$15,557

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	As of March 31,	
	2009	2008
Accrued payroll costs	$28,089	$20,534
Accrued contract costs	34,848	34,759
Accrued indirect costs	7,405	3,923
Other payables	9,499	3,433
Total accrued expenses and other current liabilities	$79,841	$62,649

7. DEBT

	As of March 31,	
	2009	2008
Borrowings under the term loan and revolving line of credit:		
Revolving line of credit	$135,030	$ —
Term loan	35,500	36,500
Total debt	170,530	36,500
Less: Current portion	(1,000)	(1,000)
Debt—net of current portion	$169,530	$35,500

On October 10, 2007, Stanley entered into an Amended and Restated Revolving Credit and Term Loan Agreement ("Senior Credit Facility" or "Amended Credit Agreement") with a group of lenders for which SunTrust Robinson Humphrey, Inc. acted as sole book manager and lead arranger, SunTrust Bank acted as administrative agent and M&T Bank and BB&T Bank acted as co-documentation agents. The Amended Credit Agreement amends and restates the previous credit agreement entered into in February 2006. The Amended Credit Agreement increased the amount of the lenders' aggregate commitment under the Senior Credit Facility from $87.0 million to $187.0 million, which includes a $150.0 million revolving line of credit ("Revolver") and a $37.0 million term loan ("Term Loan"). The Term Loan matures on January 31, 2012 and the Revolver matures on October 31, 2012. All

7. DEBT (Continued)

outstanding borrowings under the Term Loan and Revolver are due and payable on their respective maturity dates. The Amended Credit Agreement also increased the letter of credit commitment from $5.0 million to $10.0 million and increased the swing line facility from $5.0 million to $20.0 million, both of which are part of the Revolver and have the same maturity date as the Revolver. The Amended Credit Agreement also eliminated the requirement to hedge a portion of the Company's outstanding indebtedness under the Senior Credit Facility. In connection with the Amended Credit Agreement, Stanley paid fees of approximately $0.5 million.

On July 15, 2008, Stanley exercised, in part, the accordion option feature under the Senior Credit Facility to increase the aggregate commitment under the Revolver contemplated by the Senior Credit Facility by $69.1 million. The exercise of the accordion feature increased the amount of the lenders' current aggregate commitment under the Senior Credit Facility from $186.5 million to $255.6 million, which is comprised of a $219.1 million Revolver and a $36.5 million Term Loan. Stanley paid aggregate lender fees equal to $0.6 million in connection with the exercise of the accordion feature. Immediately following the July 15, 2008 exercise of the accordion feature under the Senior Credit Facility, the Company borrowed under the Revolver to fund the purchase price for its acquisition of Oberon (see Note 8).

On March 27, 2009 the Company amended its Amended Credit Agreement to delete Section 5.13 of the agreement which had required the Company to maintain its primary operating deposit accounts with SunTrust Bank. The removal of this requirement enabled the Company to re-classify its Revolver from a current liability to a long-term liability.

The Amended Credit Agreement also contains a number of affirmative and restrictive covenants, including limitations on mergers, consolidations and dissolutions; sales of assets; investments and acquisitions; indebtedness and liens; repurchases of shares of capital stock and options to purchase shares of capital stock; transactions with affiliates; sale and leaseback transactions; and restricted payments.

In addition, the Amended Credit Agreement provides that we are required to meet the following financial covenants:

- a fixed charge coverage ratio as of the end of any fiscal quarter of not less than 1.35 to 1.00, based upon the ratio of (i) consolidated EBITDA (as defined in the Amended Credit Agreement) less the actual amount paid by us and our subsidiaries in cash on account of capital expenditures and taxes to (ii) consolidated interest expense for such period, scheduled principal payments required to be made on consolidated total debt during such period and certain restricted payments paid during such period, in each case measured for the four consecutive fiscal quarters ending on or immediately prior to such date; and
- a maximum leverage ratio not greater than 3.75 to 1.00, based upon the ratio of (i) consolidated total debt to (ii) consolidated EBITDA (as defined in the Amended Credit Agreement).

As of March 31, 2009, Stanley had $35.5 million of Term Loan indebtedness and $135.0 million of Revolver indebtedness outstanding under its Senior Credit Facility, with a weighted-average interest rate of approximately 3.32% and 6.52% for the fiscal years ended March 31, 2009 and March 31, 2008,

(in thousands, except share and per share data, or as otherwise noted)

7. DEBT (Continued)

respectively. The total interest expense associated with Stanley's Senior Credit Facility for the fiscal year ended March 31, 2009 was $5.7 million, which included $0.6 million of deferred financing costs.

As of March 31, 2009, Stanley's borrowing availability under its $219.1 million Revolver was $83.9 million (including outstanding letters of credit). At March 31, 2009, the Company was in compliance with all covenants under its Senior Credit Facility. The obligations under the Senior Credit Facility are unconditionally guaranteed by each of Stanley's existing and subsequently acquired or organized subsidiaries and are secured on a first-priority basis by security interests (subject to permitted liens) in substantially all assets owned by the Company and each of its subsidiaries, including the shares of capital stock of its subsidiaries, subject to certain exceptions.

The following is a schedule of the Company's contractual payments on its Term Loan under the Senior Credit Facility as of March 31, 2009.

Fiscal Year Ending March 31,	Payment Amount
2010	$ 1,000
2011	1,000
2012	33,500
Total	$35,500

8. ACQUISITIONS

Oberon Associates, Inc.

On July 15, 2008, Stanley acquired Oberon Associates, Inc. ("Oberon"), an engineering, intelligence operations and information technology services company for approximately $167.8 million at closing, net of cash acquired, plus an additional $3.0 million in post closing net working capital and other purchase price adjustments. Stanley financed the acquisition with borrowings under its Senior Credit Facility.

Oberon provides engineering, operational intelligence and information technology support to multiple elements of the U.S. Army, in addition to the U.S. Air Force, Defense Information Systems Agency, Transportation Security Administration and several agencies throughout the intelligence community. Oberon's areas of expertise include biometrics systems engineering, integration and operational deployment; intelligence community support; communications engineering; and information technology and enterprise data management. The acquisition of Oberon expands the range of solutions offered to the Company's customers, bringing to Stanley biometric applications experts, functional experts within the intelligence community, and expertise in communications and information management systems.

In accordance with SFAS No. 141, *Business Combinations* ("SFAS 141"), the acquisition was accounted for under the purchase method of accounting. Accordingly, the results of Oberon have been included in the accompanying consolidated financial statements since the date of acquisition. The purchase price has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values. Of the purchase consideration, $149.1 million has been allocated to goodwill,

(in thousands, except share and per share data, or as otherwise noted)

8. ACQUISITIONS (Continued)

based upon the excess of the purchase price over the $8.6 million estimated fair value of net tangible assets and $13.1 million has been assigned to other identifiable intangible assets. The Company is continuing to evaluate the fair value of the assets and liabilities of Oberon and will complete the purchase accounting entries relating to the acquisition prior to the end of the Company's fiscal 2010 second quarter. None of the amount allocated to goodwill is expected to be deductible for tax purposes.

Included in identifiable intangibles arising from the Oberon acquisition are $10.5 million, $1.9 million and $0.7 million related to customer contracts and relationships, order backlog and non-compete agreements, respectively. The amortization period for customer contracts and relationships, order backlog and non-compete agreements is five years, two years and three years, respectively. No residual value has been assumed at the end of their useful lives.

The following unaudited pro forma financial information presents consolidated results of operations data for the years ended March 31, 2009 and March 31, 2008, respectively, as if the acquisition of Oberon had occurred on April 1, 2007. The pro forma information is provided based on historical data that does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of operations of the combined entity.

	Fiscal Year ended	
	March 31, 2009	March 31, 2008
Revenue	$810,343	$671,845
Net Income	$ 39,143	$ 32,406
Basic earnings per share	$ 1.72	$ 1.46
Diluted earnings per share	$ 1.64	$ 1.38

Techrizon, LLC

On April 1, 2007, Stanley acquired Techrizon, a provider of software, training, simulation and information security solutions, for $30.3 million, net of cash acquired, and financed the acquisition with a combination of existing cash and borrowings under the Company's Senior Credit Facility. Additionally, acquisition-related costs of $0.3 million were incurred.

The acquisition combined the specialized expertise of Techrizon with Stanley's systems integration capabilities. The two companies provide complementary information technology services and together offer an expanded suite of solutions for the Company's combined customer base. Techrizon provides support to the U.S. Army's Communications-Electronics Life Cycle Management Command and the Fires Center of Excellence. Techrizon has also provided support to the U.S. Army's Field Artillery School since 1976.

In accordance with SFAS 141, the acquisition was accounted for under the purchase method of accounting. Accordingly, the results of Techrizon have been included in the accompanying consolidated financial statements since the date of acquisition. The purchase price has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values. Of the purchase consideration, $25.4 million has been allocated to goodwill, based upon the excess of the purchase price over the

(in thousands, except share and per share data, or as otherwise noted)

8. ACQUISITIONS (Continued)

$2.7 million estimated fair value of net tangible assets and $2.5 million of other identifiable intangible assets. The entire amount allocated to goodwill is expected to be deductible for tax purposes.

Included in identifiable intangibles arising from the Techrizon acquisition are $1.6 million, $0.8 million and $0.1 million related to customer contracts and relationships, order backlog, and non-compete agreements, respectively. The amortization period for customer contracts and relationships, order backlog, and non-compete agreements is 5 years, 2 years and 3 years, respectively. No residual value has been assumed at the end of their useful lives.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, at the date of the acquisition.

	Oberon	Techrizon
Current assets	$ 24,766	$ 5,041
Property and equipment, net	1,390	153
Other assets	3,538	—
Goodwill	149,090	25,366
Identified intangibles	13,100	2,500
Total assets acquired	191,884	33,060
Current liabilities	12,177	2,497
Other liabilities	8,899	—
Total liabilities assumed	21,076	2,497
Net assets acquired	$170,808	$30,563

9. INCOME TAXES

The provision for Federal and State income taxes for fiscal years ended March 31 consists of the following:

	2009	2008	2007
Current income taxes:			
Federal	$22,755	$18,635	$ 7,560
State	3,846	3,699	769
Foreign	149	373	—
	26,750	22,707	8,329
Deferred income taxes:			
Federal	(2,636)	(3,623)	(1,150)
State	89	(740)	297
Foreign	(149)	(373)	—
	(2,696)	(4,736)	(853)
	$24,054	$17,971	$ 7,476

(in thousands, except share and per share data, or as otherwise noted)

9. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant deferred tax assets and deferred tax liabilities at March 31 are as follows:

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Current:				
Accrued vacation	$ 2,502	$ —	$2,513	$ —
Bad debts	458	—	273	—
Unbilled revenue	—	(3,800)	—	(1,545)
Deferred payments	1,287	—	—	—
Foreign tax credits	—	—	331	—
Prepaids	—	(608)	—	(502)
Other	1,698	—	655	—
Total current	5,945	(4,408)	3,772	(2,047)
Noncurrent:				
Deferred compensation	4,370	—	2,538	—
Depreciation	—	(446)	—	(650)
Foreign tax credits	2,471	—	523	—
Intangibles	—	(5,901)	—	(1,426)
Morgan contracts	186	—	261	—
Leasehold improvements	2,784	—	1,466	—
Deferred rent	748	—	631	—
Total noncurrent	10,559	(6,347)	5,419	(2,076)
Total	$16,504	$(10,755)	$9,191	$(4,123)

A reconciliation of the statutory Federal income tax rate with Stanley's effective income tax rate at March 31 is as follows:

	2009	2008	2007
Statutory Federal rate	35.00%	35.00%	35.00%
State income taxes—net of Federal income tax benefit	3.98	4.45	4.07
Equity Compensation	0.40	0.65	1.65
Other	(0.13)	0.62	0.39
Effective tax rates	39.25%	40.72%	41.11%

Adoption of FIN 48—In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 provides guidance on recognition, derecognition, measurement, classification, interest and penalties, accounting for interim periods, and disclosures. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination by a taxing authority. The amount recognized is

9. INCOME TAXES (Continued)

measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. In addition, FIN 48 permits an entity to recognize interest and penalties related to tax uncertainties as income tax expense or operating expenses. FIN 48 is effective for fiscal years beginning after December 15, 2006.

The Company adopted the provisions of FIN 48 on April 1, 2007. The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company's tax years for 2005, 2006 and 2007 are subject to examination by domestic tax authorities and for 2002 through 2007 by foreign tax authorities. As a result of the implementation of FIN 48, the Company recognized a decrease of $0.3 million to retained earnings, an increase of $0.5 million to net deferred tax assets, a decrease to income taxes payable of $0.1 million and an increase in liabilities of $0.5 million for unrecognized tax benefits and $0.4 million for interest and penalties.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits at March 31 in thousands is as follows:

	2009	2008
Unrecognized tax benefit at beginning of year	$ 885	$453
Gross increases—tax positions in prior periods	—	22
Gross increases—tax positions in current period	435	410
Acquisitions—increases in tax positions in prior periods	1,271	—
Lapse of statute of limitations	(178)	—
Unrecognized tax benefit at end of year	$2,413	$885

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as interest expense and operating expenses, respectively. As of March 31, 2009 and 2008, the Company had approximately $0.4 million and $0.5 million of accrued expenses related to interest and penalties, respectively.

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized is $2.4 million as of March 31, 2009 and $0.9 million as of March 31, 2008. The Company does not anticipate any material changes in this position in the next 12 months.

10. 401(K) PLAN

Stanley maintains a 401(k) plan for substantially all its employees. Employees may elect to defer up to the maximum amount permissible under the IRS code. After employees have completed a year of service, the Company matches 100% of the first 3% deferred and 50% of the next 2% deferred. Company matching contributions are immediately vested.

Contributions by the Company to the 401(k) plan were $5.7 million, $4.3 million and $3.3 million for the years ended March 31, 2009, 2008 and 2007, respectively.

11. STOCKHOLDERS' EQUITY

Common Stock

Stanley has one class of common stock, with each share of common stock having one vote per share. Holders of common stock share equally in any dividends declared, if any, by the board of directors.

Stanley may elect to repurchase shares of outstanding common stock from employees in order to satisfy tax obligations upon the vesting of restricted stock or upon the exercise of stock options. Stanley repurchased 7,715, 14,490 and 33,000 shares during the fiscal years ended March 31, 2009, 2008 and 2007, respectively. The shares were recorded at market value and presented as treasury shares.

Deferred Compensation and Stock Options

Under the 2006 Omnibus Incentive Compensation Plan (the "Omnibus Plan"), Stanley is authorized to provide awards for a maximum of 4,000,000 shares of common stock to directors, officers, employees or consultants. The Omnibus Plan allows for cash awards, restricted stock awards, restricted stock units, stock appreciation rights, performance units, fully vested shares, option awards and other equity-related awards. Vesting periods of these awards vary. Except as otherwise determined by the board of directors, the option awards may not have an exercise price less than the fair market value of the common stock on the date the option is granted.

Prior to July 2006, under the Executive Deferred Compensation and Equity Incentive Plan (the "Executive Plan"), Stanley was authorized to provide awards for a maximum of 15,000,000 shares of common stock to key employees and non-employee directors. The Executive Plan allowed for cash awards, restricted stock awards, restricted stock trust awards and option awards. Vesting periods of these awards varied. Holders of restricted stock awards have voting rights with respect to the awards. The trustee of the restricted stock trust awards has voting rights with respect to the trust awards. The option awards granted under the Executive Plan have exercise prices that range from 85% to 110% of the fair market value of the common stock on the date the option was granted. No further grants under the Executive Plan will be made.

Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)") using the prospective-transition method. Under that transition method, compensation cost recognized in the years ended March 31, 2009, 2008 and 2007 includes compensation cost for all share-based payments granted on or after April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company is required to account for any portion of awards outstanding at the date of adoption of SFAS 123(R) using the accounting principles originally applied to those awards.

For the years ended March 31 2009, 2008 and 2007, the Company recorded $6.3 million, $2.1 million and $0.5 million of share-based payment expense. As of March 31, 2009, there was $16.0 million of unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.7 years.

The Company has presented all tax benefits resulting from stock-based compensation awarded prior to the adoption of SFAS 123(R) as operating cash flows in the accompanying Consolidated Statements of Cash Flows. The tax benefits associated with share-based compensation in effect prior to

(in thousands, except share and per share data, or as otherwise noted)

11. STOCKHOLDERS' EQUITY (Continued)

the adoption of SFAS 123(R) were $2.5 million, $2.4 million and $1.6 million for the fiscal years ended March 31, 2009, 2008 and 2007, respectively. For share-based payment transactions awarded subsequent to the adoption of SFAS 123(R), the tax benefits in excess of the compensation cost recognized are classified as financing cash flows. The excess tax benefits associated with share-based payment transactions accounted for after the adoption of SFAS 123(R) were $0.6 million, $0.1million and zero for the fiscal years ended March 31, 2009, 2008 and 2007, respectively, and are disclosed within the financing activities in the accompanying Consolidated Statements of Cash Flows.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton closed-form option-pricing model that uses the assumptions noted in the following table. Expected volatility is based on a weighted-average of the historical volatilities of similar public entities. The expected term of options granted is derived using the simplified method and represents the period of time that options granted are expected to be outstanding. Options granted meet the criteria of "plain vanilla" for purposes of applying the simplified method. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company has not issued dividends in the past nor does it currently intend to issue dividends in the near future.

A summary of the weighted-average assumptions is presented below.

	As of March 31,		
	2009	2008	2007
Volatility	32.3%	34.4%	35.8%
Expected Dividends	0.0%	0.0%	0.0%
Risk-free interest rate	2.6%	4.5%	5.1%
Expected term (years)	3.5	3.5	6.1

During the fiscal year ended March 31, 2009, the Company granted stock options to purchase 445,210 shares of common stock at a weighted-average exercise price of $26.43 per share, which reflects the fair market value at the date of grant. These options vest ratably over a period of three years and have a contractual term of five years. The weighted-average fair value of stock options granted during the fiscal years ended March 31, 2009, 2008 and 2007 was $7.22, $5.07 and $3.50, respectively. The stock options that vested during the fiscal years ended March 31, 2009, 2008 and 2007 had a combined fair value of $1.3 million, $0.5 million and $0.1 million, respectively. The weighted-average contractual term of options outstanding at March 31, 2009 was 4.5 years.

11. STOCKHOLDERS' EQUITY (Continued)

A summary of stock option activity during the years ended March 31, 2007, 2008 and 2009 is as follows:

	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding, April 1, 2006	2,584,620	$ 2.10	
Granted during the year	813,750	$ 8.00	
Exercised during the year	(1,365,384)	$ 1.48	$16,576
Forfeited during the year	(18,000)	$ 5.77	
Outstanding, March 31, 2007	2,014,986	$ 4.87	
Granted during the year	570,125	$16.21	
Exercised during the year	(784,636)	$ 3.14	$16,998
Forfeited during the year	(191,000)	$ 9.83	
Outstanding, March 31, 2008	1,609,475	$ 9.15	
Granted during the year	445,210	26.43	
Exercised during the year	(338,834)	5.17	$ 7,762
Forfeited during the year	(111,452)	14.90	
Outstanding, March 31, 2009	1,604,399	14.38	$17,661

A summary of nonvested stock options for the year ended March 31, 2009 is as follows:

	Shares	Weighted-Average Fair Value
Nonvested stock options at April 1, 2008	1,010,625	$4.30
Granted during the year	445,210	$7.22
Vested during the year	(296,392)	$4.42
Forfeited during the year	(108,302)	$4.75
Nonvested stock options at March 31, 2009	1,051,141	$5.46

A summary of vested stock options at March 31, 2009, and stock options expected to vest in future periods is presented below.

Options	Number of Underlying Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Exercisable	553,258	$ 7.79	4.6	$9,738
Expected to vest	972,305	$17.85	4.4	$7,329
Exercisable and expected to vest	1,525,563			

(in thousands, except share and per share data, or as otherwise noted)

11. STOCKHOLDERS' EQUITY (Continued)

Prior to fiscal 2009, the Company primarily granted restricted stock awards to employees that vest ratably over the service period. Beginning in fiscal 2009, in addition to time vested awards, the Company granted certain restricted stock awards that vest only if the Company meets certain revenue and earnings targets determined by the Board of Directors. During the fiscal year ended March 31, 2009, the Company granted 543,714 of such performance-based restricted stock awards at a fair value of $25.12 per share with a vesting period of four years subject to the Company meeting the revenue and earnings targets. Additionally, during the fiscal year ended March 31, 2009, the Company granted 54,186 restricted stock awards at a weighted-average fair value of $28.01 per share that vest ratably over periods of one to three years. The weighted-average fair value of restricted stock awards granted during the fiscal years ended March 31, 2009, 2008 and 2007 was $25.38, $16.08 and $7.37, respectively. The restricted stock awards that vested during the fiscal years ended March 31, 2009, 2008 and 2007 had a combined fair value of $1.0 million, $0.2 million and $0.1 million, respectively.

A summary of restricted stock activity for the fiscal year ended March 31, 2009 is presented below.

Restricted Stock	Number of Shares	Weighted-Average Fair Value
Outstanding at April 1, 2008	149,967	$16.17
Granted	597,900	$25.38
Vested	(59,023)	$16.74
Forfeited	(12,407)	$17.01
Outstanding at March 31, 2009	676,437	$24.25

Prior to the adoption of SFAS 123(R), the fair market value of each issuance and grant was determined by the Company on a contemporaneous basis. The Company recorded stock-based deferred compensation in aggregate of approximately $1.4 million in connection with compensatory grants of stock options and shares of restricted stock awarded during fiscal 2006 and 2007. Approximately $0.2 million of compensation expense was recognized during the fiscal year ended March 31, 2009. The remaining deferred compensation of $0.5 million will be amortized over the final two years of the vesting period of the awards.

Employee Stock Ownership Plan—Stanley maintains an Employee Stock Ownership Plan ("ESOP") designed to provide employee ownership of the Company's stock. The ESOP is available to substantially all of the Company's U.S. employees and is funded by periodic discretionary contributions. The Company contributed 50,000, 15,000 and 10,000 shares of common stock during the fiscal years ending March 31, 2009, 2008 and 2007, respectively. The Company committed to contribute additional shares with an aggregate fair market value of $0.8 million during the fiscal year ended March 31, 2009, which amount was accrued on the Company's balance sheet as of March 31, 2009. Subsequent to the end of the fiscal year ended March 31, 2009, the Company contributed 30,000 shares with an aggregate fair market value of $0.8 million. The expense for shares contributed and committed to be contributed totaled $2.2 million, $0.4 million and $0.2 million in the fiscal years ended March 31, 2009, 2008 and 2007, respectively.

(in thousands, except share and per share data, or as otherwise noted)

11. STOCKHOLDERS' EQUITY (Continued)

Employee Stock Purchase Plan—The Company maintains an Employee Stock Purchase Plan ("ESPP") and is authorized to issue up to 400,000 shares of common stock to employees. The ESPP permits eligible employees to purchase common stock at a price equal to 95% of the closing price of the common stock on the last day of each offering period. Employees purchased 24,025 shares of common stock for $0.7 million during the year ended March 31, 2009.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases—Stanley leases buildings and equipment under various operating leases with lease terms ranging from one month to ten years. The rental payments under certain of the leases are based on a minimum rental plus a percentage of the operating expenses. The following is a schedule of the future minimum lease payments required under operating leases that have initial non-cancelable lease terms in excess of one year as of March 31, 2009:

Fiscal Year Ending March 31,	Minimum Lease Commitments
2010	$13,600
2011	12,207
2012	9,508
2013	9,100
2014	8,340
Thereafter	16,914
Total	$69,669

Total rent expense for the fiscal years ended March 31, 2009, 2008 and 2007 was $12.3 million, $8.7 million and $6.8 million, respectively.

Capital Leases—Stanley has capital lease arrangements for certain office equipment and software licenses that are included in property and equipment in the accompanying balance sheets in the amount of $0.4 million and $0.5 million, net of accumulated depreciation, at March 31, 2009 and 2008, respectively. The assets under capital leases are amortized on a straight-line basis over their useful lives. The obligations are collateralized by the related leased equipment.

12. COMMITMENTS AND CONTINGENCIES (Continued)

Future minimum lease payments required under the capital leases at March 31, 2009, are as follows:

Fiscal Year Ending March 31,	Minimum Lease Commitments
2010	$ 287
2011	114
2012	12
2013	8
2014	—
Total Minimum lease payments	421
Less: Amount representing interest	(25)
Present value of minimum lease payments	396
Less: Current portion	(270)
Long-term portion	$ 126

Contract Cost Audits—Substantially all payments to Stanley under cost-reimbursable contracts are provisional payments subject to potential adjustments upon audit by the Defense Contract Audit Agency. Audits through December 31, 2005 have been completed. In the opinion of management, adjustments resulting from the audits of all subsequent years are not expected to have a material effect on the Company's financial position, results of operations or cash flows.

Litigation—The Company is involved in legal actions in the normal course of business. These actions, when finally concluded and determined, will not, in the opinion of management, have a material effect on the Company's financial position, results of operations or cash flows.

13. UNAUDITED QUARTERLY FINANCIAL DATA

Unaudited summarized financial data by quarter for the fiscal years ended March 31, 2009 and 2008 are presented in the table below.

	June 27, 2008	September 26, 2008	December 26, 2008	March 31, 2009
	(in thousands, except per share data)			
Fiscal 2009				
Revenues	$172,566	$191,078	$203,597	$212,437
Operating income	14,306	16,343	17,483	18,523
Net income	8,317	8,728	9,678	10,508
Basic EPS	$ 0.37	$ 0.38	$ 0.42	$ 0.46
Diluted EPS	$ 0.35	$ 0.37	$ 0.41	$ 0.44

13. UNAUDITED QUARTERLY FINANCIAL DATA (Continued)

	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008
	(in thousands, except per share data)			
Fiscal 2008				
Revenues	$133,481	$150,239	$147,083	$173,539
Operating income	10,045	11,592	12,236	14,022
Net income	5,364	6,335	6,751	7,714
Basic EPS	$ 0.24	$ 0.29	$ 0.31	$ 0.34
Diluted EPS	$ 0.23	$ 0.27	$ 0.29	$ 0.33

14. SUBSEQUENT EVENTS

Partial Exercise of Accordion Feature of Amended and Restated Credit Agreement—On April 30, 2009, the Company completed a partial exercise of the accordion option feature of its Senior Credit Facility in order to increase the aggregate commitment under the Revolver by $22.5 million. The exercise of the accordion feature increased the amount of the lenders' current aggregate commitment under the Senior Credit Facility from $254.6 million to $277.1 million, which consists of a $241.6 million Revolver and a $35.5 million Term Loan. The Company paid aggregate lender fees of $1.1 million in connection with the exercise of the accordion feature.

STANLEY, INC. AND SUBSIDIARIES

Schedule II—Valuation and Qualifying Accounts

(in thousands)

Allowance for Doubtful Accounts

	Balance at beginning of period	Charged to costs and expenses	Acquired in business combinations	Deductions	Balance at end of period
2007	919	247	20	(577)	609
2008	609	369	—	(318)	660
2009	660	721	—	(244)	1,137

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CORPORATE ORGANIZATION

Board of Directors

Philip O. Nolan
Chairman, President and Chief Executive Officer

George H. Wilson
Executive Vice President

Lawrence A. Gallagher
Director

James C. Hughes
Director

William E. Karlson
Director

Lt. General Richard L. Kelly, USMC (Ret.)
Director

Charles S. Ream
Director

John P. Riceman
Director

General Jimmy D. Ross, USA (Ret.)
Director

Corporate Officers

Philip O. Nolan
Chairman, President and Chief Executive Officer

Brian J. Clark
Executive Vice President and Chief Financial Officer

Gregory M. Denkler
Executive Vice President

George H. Wilson
Executive Vice President

James H. Brabston
Senior Vice President

Scott D. Chaplin
Senior Vice President, General Counsel and Secretary

E. Patrick Flannery
Senior Vice President

Eric A. Wolking
Senior Vice President

CORPORATE AND STOCKHOLDER INFORMATION

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Providence, RI 02940-3078
www.computershare.com

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3101 Wilson Boulevard, Suite 700
Arlington, VA 22201
Telephone: (703) 739-7410
Fax: (703) 682-1547
E-mail: InvestorRelations@stanleyassociates.com

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, VA 22102

Annual Meeting
The Annual Meeting of Stockholders will be held at 10:00 am ET on August 7, 2009 at:

The Westin Arlington Gateway
801 North Glebe Road
Arlington, Virginia 22203

Available Information
Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports for Stanley, Inc. are available free of charge on our website at www.stanleyassociates.com as soon as practical after they are electronically filed with the Securities and Exchange Commission.

Stanley, Inc. has included as Exhibit 31.1 and Exhibit 31.2 to its Annual Report on Form 10-K for the fiscal year ended March 31, 2009, the certificates of its Chief Executive Officer and Chief Financial Officer, respectively, required by Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of Stanley, Inc.'s public disclosure. In addition, Stanley, Inc. has submitted to the New York Stock Exchange, a certificate of its Chief Executive Officer certifying that he is not aware of any violation by Stanley, Inc. of New York Stock Exchange corporate governance listing standards.

Stock Listing
Stanley, Inc. common stock is traded on the New York Stock Exchange (Ticker Symbol: SXE).

Equal Opportunity Employer
Stanley, Inc. is an equal opportunity employer. Our practices in the areas of recruiting, hiring, training, compensation, benefits, promotions, transfers and all other personnel policies are reviewed regularly to provide for a discrimination-free workplace and compliance with all applicable employment laws.

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