DYNCORP INTERNATIONAL INC.
Form 10-K
June 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 2, 2010

or

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

Commission File Number: 001-32869

DYNCORP INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware	**01-0824791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3190 Fairview Park Drive, Suite 700, Falls Church, Virginia 22042

(571) 722-0210

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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

Title of Each Class	Name of Exchange on Which Registered
Class A common stock, par value $0.01 per share	**New York Stock Exchange**

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

None

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

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 þ

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 þ 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 (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer þ	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 Act). Yes ¨ No þ

As of October 2, 2009, the last business day of the registrant s most recently completed second fiscal quarter, 34,801,366 shares of publically traded Class A common stock held by non-affiliates were outstanding with an aggregate market value of approximately $615 million (based upon the closing price on the New York Stock Exchange on October 2, 2009 of $17.67 per share). Aggregate market value is estimated solely for the purposes of this report.

As of June 1, 2010, the registrant had 56,307,871 shares of its Class A common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant s Definitive Proxy Statement regarding the merger with Delta Tucker Holdings, Inc. and Delta Tucker Sub, Inc., each of whom is an affiliate of the private investment firm, Cerberus Capital Management, L.P., are incorporated by reference into Part III of this Report. Such Definitive Proxy Statement was filed with the Securities and Exchange Commission on May 17, 2010.

DYNCORP INTERNATIONAL INC.

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Forward-Looking Statements

This Annual Report on Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements, written, oral or otherwise made, represent our expectation or belief concerning future events. Without limiting the foregoing, the words believes, thinks, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. Forward-looking statements involve risks and uncertainties. Statements regarding the amount of our backlog, estimated remaining contract values and estimated total contract values are other examples of forward-looking statements. We caution that these statements are further qualified by important economic, competitive, governmental, international and technological factors that could cause our business, strategy or actual results or events to differ materially, or otherwise, from those in the forward-looking statements. These factors, risks and uncertainties include, among others, the following:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger, dated as of April 11, 2010 by and among DynCorp International, Inc., Delta Tucker Holdings, Inc. and Delta Tucker Sub, Inc., including a termination under circumstances that could require us to pay a termination fee and/or reimburse expenses (subject to a cap);
- the failure to obtain the necessary equity and debt financing pursuant to the applicable commitment letters received in connection with the transactions contemplated by the Merger Agreement or the failure of such financing to be sufficient to complete the Merger and the transactions contemplated thereby;
- the inability to complete the Merger due to the failure to obtain stockholder approval or the failure to satisfy other conditions to complete of the Merger, including required regulatory approvals;
- the failure of the Merger to close for any other reason;
- risks that the proposed Merger (including the efforts of the Company and/or its directors, officers and employees to consummate the proposed Merger) disrupts current plans and operations and the potential difficulties in employee retention as a result of the Merger;
- the outcome of any legal proceedings that have been or may be instituted against the Company and/or others relating to the Merger Agreement;
- the diversion of our management s attention from our ongoing business concerns;
- the effect of the announcement, pendency or anticipated consummation of the Merger on our customer, vendor and other business relationships, operating results and business generally;
- the amount of the costs, fees, expenses and charges incurred by the Company related to the Merger;
- the future impact of acquisitions, joint ventures or teaming agreements;

our substantial level of indebtedness and changes in availability of or cost of capital;

the outcome of any material litigation, government investigation or other regulatory matters;

policy and/or spending changes implemented by the Obama administration or Congress;

termination or modification of key United States (U.S.) government contracts;

changes in the demand for services that we provide or work awarded under our contracts, including without limitation, the Civilian Police, International Narcotics and Law Enforcement, Worldwide Personal Protection Services and Logistics Civil Augmentation Program contracts;

pursuit of new commercial business in the U.S. and abroad;

activities of competitors and the outcome of bid protests;

changes in significant operating expenses;

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general political, economic and business conditions in the U.S.;

acts of war or terrorist activities;

variations in performance of financial markets;

the inherent difficulties of estimating future contract revenue and changes in anticipated revenue from indefinite delivery, indefinite quantity contracts;

changes in expected percentages of future revenue represented by fixed-price and time-and-materials contracts, including increased competition with respect to task orders subject to such contracts; and

statements covering our business strategy, those described in Item 1A. Risk Factors and other risks detailed from time to time in our reports filed with the Securities and Exchange Commission.

Accordingly, such forward-looking statements do not purport to be predictions of future events or circumstances and therefore there can be no assurance that any forward-looking statement contained herein will prove to be accurate. We assume no obligation to update the forward-looking statements.

Fiscal Year

We report the results of our operations using a 52-53 week basis. Throughout this report, each quarter of the fiscal year contains 13 weeks, except for the infrequent fiscal years with 53 weeks, in which case one quarter will contain 14 weeks. The fiscal years ended April 2, 2010, March 28, 2008, March 30, 2007, and March 31, 2006 were 52-week years whereas the fiscal year ended April 3, 2009 was a 53 week year.

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PART I

ITEM 1. *BUSINESS.*

Unless the context otherwise indicates, references herein to we, our, us, the Company or DynCorp International refer to DynCorp International Inc. and our consolidated subsidiaries. DynCorp International Inc., incorporated in the state of Delaware, is a holding company that owns the equity securities of DynCorp International LLC, organized in the state of Delaware. We refer to our wholly-owned operating subsidiary, DynCorp International LLC as our Operating Company . Our principal executive offices are located at 3190 Fairview Park Drive, Suite 700, Falls Church, Virginia 22042, telephone number (571) 722-0210.

Overview

We are a leading provider of specialized, mission-critical professional and support services outsourced by the U.S. military, non-military U.S. governmental agencies and foreign governments. Our specific global expertise is in law enforcement training and support, security services, base and logistics operations, intelligence training, rule of law development, construction management, platform services and operations, and linguist services. We also provide logistics support for all our services. Through our predecessor companies, we have provided essential services to numerous U.S. government departments and agencies since 1951.

Our customers include the U.S. Department of Defense (DoD), the U.S. Department of State (DoS), the U.S. Agency for International Development (USAID), foreign governments, commercial customers and certain other U.S. federal, state and local government departments and agencies. Revenue from the U.S. government accounted for approximately 97%, 96% and 95% of total revenue in fiscal years 2010, 2009, and 2008, respectively. Our contracts revenue and percentage of total revenue from the U.S. government fluctuates from year to year. These fluctuations can be due to contract length or contract structure, such as with indefinite delivery, indefinite quantity type contracts (IDIQ). The majority of our contracts are awarded for one year base periods with subsequent option years available subject to changing governmental priorities. IDIQ type contracts are often awarded to multiple contractors and provide the opportunity for awarded contractors to bid on task orders issued under the contract.

During fiscal year 2008, we conducted our operations through two reportable segments: Government Services (GS) and Maintenance and Technical Support Services (MTSS). In fiscal year 2009, we divided our GS operating segment into two new segments, International Security Services (ISS) and Logistics and Construction Management (LCM). On April 6, 2009, we announced a further reorganization of our business structure to better align with strategic markets and to streamline our infrastructure. Under the new alignment, our three reportable segments were realigned into three new segments, two of which, Global Stabilization and Development Solutions (GSDS) and Global Platform Support Solutions (GPSS), are wholly-owned, and a third segment, Global Linguist Solutions (GLS), which is a 51% owned joint venture. The new structure became effective April 4, 2009, the start of our 2010 fiscal year, and is more fully described in Note 13 to our consolidated financial statements.

In addition to the information presented below, Note 13 to our consolidated financial statements contains additional information about our operating segments and geographic areas in which we have conducted business during fiscal years 2010, 2009, and 2008. We have restated the corresponding items of segment information during fiscal years 2008 and 2009 to conform to our fiscal year 2010 segment presentation.

Recent Developments Merger Agreement

As discussed in detail in the definitive proxy statement filed by us with the SEC on May 17, 2010 (the Definitive Proxy Statement), on April 11, 2010 we entered into an Agreement and Plan of Merger (the Merger

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Agreement) with Delta Tucker Holdings, Inc. (Parent) and Delta Tucker Sub, Inc. (Merger Sub), each of whom is an affiliate of the private investment firm, Cerberus Capital Management, L.P. Pursuant to the terms of the Merger Agreement, Merger Sub will be merged with and into the Company, and as a result the Company will continue as the surviving corporation and be a wholly owned subsidiary of Parent (the Merger). The Merger Agreement was approved by the Company s Board of Directors (the Board). The transaction is expected to close in the third or fourth quarter of calendar year 2010, but could close as early as late June.

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of the Company s Class A common stock, par value $0.01 per share (the Class A Common Stock), other than shares owned by the Company, Parent or Merger Sub, or by any stockholders who have perfected and not withdrawn a demand for appraisal rights under Delaware law, will be canceled and will be automatically converted into the right to receive $17.55 in cash (the Per Share Merger Consideration), without interest. Additionally, the Company s restricted stock units granted under the DynCorp International 2007 Omnibus Incentive Plan will vest at the effective time of the Merger and will be converted into the right to receive the Per Share Merger Consideration.

Consummation of the Merger is subject to customary conditions, including without limitation (i) approval by the holders of a majority of the outstanding shares of the Company s Class A Common Stock entitled to vote on the Merger, (ii) expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), and (iii) the absence of any law, order or injunction prohibiting the Merger. Moreover, each party s obligation to consummate the Merger is subject to certain other conditions, including without limitation (a) the accuracy of the other party s representations and warranties (subject to customary materiality qualifiers) and (b) the other party s compliance with its covenants and agreements contained in the Merger Agreement (subject to customary materiality qualifiers). On May 27, 2010, we received notice from the U.S. Department of Justice that early termination of the waiting period under the HSR Act, as amended, was granted effective immediately. The termination had the effect of ending the HSR Act waiting period relating to the Merger.

Concurrently with the execution and delivery of the Merger Agreement, DIV Holding LLC (DIV Holding), the largest stockholder of the Company s Common Stock, and affiliates thereof, entered into a voting agreement (the Voting Agreement) with Parent and Merger Sub whereby DIV Holding and its affiliate, committed, among other things, subject to the terms and conditions of the Voting Agreement, to vote 34.9% of the outstanding shares of Common Stock for the adoption of the Merger Agreement. The Voting Agreement automatically terminates upon the termination of the Merger Agreement.

Parent and Merger Sub have obtained equity and debt financing commitments for the transaction contemplated by the Merger Agreement, the aggregate proceeds of which will be sufficient for Parent to pay the aggregate Per Share Merger Consideration and all related fees and expenses. Cerberus Series Four Holdings, LLC, an investment fund affiliated with Cerberus Capital Management, L.P. (Cerberus), has committed to purchase equity interests in Parent amounting to $591.6 million in the aggregate on the terms and subject to the conditions set forth in an equity commitment letter dated April 11, 2010 (the Equity Commitment Letter), and have provided the Company with a limited guarantee in favor of the Company dated April 11, 2010 (the Limited Guarantee), guaranteeing, subject to the terms and conditions of the Limited Guarantee, the payment of certain monetary obligations that may be owed by Parent pursuant to the Merger Agreement.

Bank of America Securities LLC, Barclays Bank PLC, Citigroup Global Markets Inc., Deutsche Bank Trust Company Americas, and certain of their respective affiliates (the Debt Commitment Parties) have committed to provide up to $715 million in senior secured credit facilities (comprised of a term loan facility of up to $565 million and a revolving credit facility of up to $150 million) and senior unsecured term loans of up to $455 million, on the terms and subject to the conditions set forth in a commitment letter dated April 11, 2010 (the Debt Commitment Letter). The obligations of the Debt Commitment Parties to provide debt financing under the Debt Commitment Letter are subject to a number of conditions, which we believe are customary for financings of this type or are otherwise consistent with certain conditions in the Merger Agreement. The final

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termination date for the Debt Commitment Letter is the same as under the Merger Agreement, except to the extent the Merger Agreement is extended by Parent in accordance with the terms thereof.

The Merger Agreement contains certain termination rights for the Company and Parent, including the right of the Company to terminate the Merger Agreement to accept a superior proposal. Upon termination of the Merger Agreement under specified circumstances, the Company will be required to pay Parent a termination fee of $30 million. The Company may also be obligated to reimburse transaction expenses incurred by Parent and Merger Sub up to $12 million upon termination of the Merger Agreement under specified circumstances. Upon termination of the Merger Agreement under specified circumstances, Parent will be required to pay the Company a reverse termination fee of $100 million. In addition, under certain circumstances, in the event that a party establishes that the other party has committed a Willful Breach (as defined in the Merger Agreement) of the Merger Agreement, then the party that has committed the Willful Breach shall be required to pay the non-breaching party liquidated damages in the amount of $300 million.

The foregoing descriptions of the Merger Agreement, Limited Guarantee and Voting Agreement do not purport to be complete and are qualified in their entirety by reference to the full text of the Merger Agreement, Limited Guarantee and Voting Agreement, as applicable, a copy of each of which was filed as Exhibit 2.1, Exhibit 10.1 and Exhibit 9.1, as applicable, to our April 12, 2010 Form 8-K and the respective terms of which are incorporated herein by reference.

Contract Types

Our contracts typically have a term of three to ten years consisting of a base period of one year with multiple one-year options. Our contracts typically are awarded for an estimated dollar value based on the forecast of the work to be performed under the contract over its maximum life. In addition, we have historically received additional revenue through increases in program scope beyond that of the original contract. These contract modifications typically consist of over and above requests derived from changing customer requirements and are reviewed by us for appropriate revenue recognition. The U.S. government is not obligated to exercise options under a contract after the base period. At the time of completion of the contract term of a government contract, the contract is re-competed to the extent that the service is still required.

Our contracts with the U.S. government or the government s prime contractor (to the extent that we are a subcontractor) generally contain standard, unilateral provisions under which the customer may terminate for convenience or default. U.S. government contracts generally also contain provisions that allow the U.S. government to unilaterally suspend us from obtaining new contracts pending resolution of alleged violations of procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract and control and potentially prohibit the export of our services and associated materials.

Most of our contracts are to provide services to our customers, resulting in the majority of costs being labor related. For this reason, we flexibly staff for each contract. If we lose a contract, we terminate or reassign the employees associated with the contract, hence cutting direct cost and overhead. The elimination of employees would not generate significant separation costs. Additionally, the indirect costs that are absorbed by any one contract could be absorbed by the remaining contracts without a significant impact to our business or competitiveness. Accordingly, the termination of any distinct contract could be absorbed by us without significant disruption to existing business and pursuit of new business.

Our capital structure also provides us flexibility as our primary capital requirements are working capital related, which are variable with our overall revenue stream. The nature of our contracts does not typically require investments in fixed assets and we do not have significant fixed asset investments or significant agreements tied to a single contract upon which our business materially depends. Additionally, our contract mix gives us a degree of flexibility to utilize assets purchased for certain programs to be deployed on other programs in cases where the scope of our deliverables changes.

Our business generally is performed under fixed-price, time-and-materials or cost-reimbursement contracts. Each of these is described below.

Fixed-Price Type Contracts: In a fixed-price contract, the price is not subject to adjustment based on costs incurred, which can favorably or adversely impact our profitability depending upon our execution in performing the contracted service. Our fixed-price contracts include firm fixed-price, fixed-price with economic adjustment, and fixed-price incentive.

Time-and-Materials Type Contracts: Time-and-materials type contracts provide for acquiring supplies or services on the basis of direct labor hours at fixed hourly/daily rates plus materials at cost.

Cost-Reimbursement Type Contracts: Cost-reimbursement type contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract, plus a fixed-fee, award-fee or incentive-fee. Award-fees or incentive-fees are generally based upon various objective and subjective criteria, such as aircraft mission capability rates and meeting cost targets.

Any of these three types of contracts discussed above may be executed under an IDIQ contract, which are often awarded to multiple contractors. An IDIQ contract does not represent a firm order for services. Our Civilian Police and Contract Field Teams programs are two examples of IDIQ contracts. In fiscal years 2010, 2009, and 2008, 76%, 73%, and 70% of our revenue, respectively, were attributable to IDIQ contracts. When a customer wishes to order services under an IDIQ contract, the customer issues a task order request for proposal to the contractor awardees. The contract awardees then submit proposals to the customer and task orders are typically awarded under a best-value approach. However, many IDIQ contracts permit the customer to direct work to a particular contractor. In some instances, the contractor may identify specific projects and propose to perform the service for a customer within the scope of the IDIQ contract, although the customer is not obligated to order the services.

Our historical contract mix by type for the last three fiscal years, as a percentage of revenue, is indicated in the table below.

	Fiscal Year		
Contract Type	**2010**	**2009**	**2008**
Fixed-Price	26%	27%	37%
Time-and-Materials	16%	24%	33%
Cost-Reimbursement	58%	49%	30%
Totals	100%	100%	100%

The task orders under the Logistics Civil Augmentation Program (LOGCAP IV) and Intelligence and Security Command (INSCOM) contracts, which are described below under Strategic Business Areas and Service Offerings Global Stabilization and Development Solutions (GSDS) and Global Linguist Solutions (GLS), are predominantly cost-reimbursement type task orders. We anticipate that revenue from cost-reimbursement type contracts will continue to increase in fiscal year 2011 primarily due to the full year impact of the southern Afghanistan LOGCAP IV task order. Cost-reimbursement type contracts typically carry lower margins than other contract types, but also carry lower risk of loss.

Under many of our contracts, we rely on subcontractors to perform all or a portion of the services we are obligated to provide to our customers. We often enter into subcontract arrangements in order to meet government requirements that certain categories of services be awarded to small businesses. We use subcontractors primarily for specialized, technical labor and certain functions such as construction and catering.

Strategic Business Areas and Service Offerings

We group our various programs within each operating segment into service offerings or business areas, terms we use interchangeably, to manage, review and assess our business performance at a program level. A description of our service offerings/business areas by operating segment are as follows:

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Global Stabilization and Development Solutions (GSDS)

GSDS provides a diverse collection of outsourced services primarily to government agencies worldwide. GSDS includes four service offerings/business areas as described below:

Training & Mentoring This service offering provides international policing and police training, judicial support, immigration support and base operations. Under this service offering, we also provide senior advisors and mentors to foreign governmental agencies. In addition, we provide security and personal protection for diplomats and senior governmental officials.

Logistics This service offering supports U.S. military operations and maintenance support, including but not limited to: construction services, facilities management, electrical power, water, sewage and waste management, laundry operations, food services and transportation motor pool operations.

Operations & Development This service offering provides:

- peacekeeping logistics support;
- humanitarian relief;
- weapons removal and abatement;
- worldwide contingency planning and other rapid response services;
- inventory procurement and tracking services;
- property control;
- mobile repair services;
- facility and equipment maintenance and control;
- custodial and administrative services;
- civil, electrical, environmental and mechanical engineering; and
- construction management services.

This service offering also includes new activities as a result of the acquisition of Casals and Associates, Inc. (Casals) such as supporting U.S. foreign policy and international development priorities by assisting in the development of stable and democratic governments, implementing anti-corruption initiatives, and aiding the growth of democratic public and civil institutions.

Intelligence Training and Solutions This service offering provides proprietary training courses, management consulting and augmentation services to the intelligence community and expands our services to the intelligence community and national security clients.

Key GSDS Contracts

Civilian Police (CivPol). The CivPol program was awarded to us by the DoS in February 2004. Our CivPol program has an estimated total contract value of $4.0 billion over the six and one-half year term of this program through August 2010. Through this program, we have deployed civilian police officers from the U.S. to several countries to train and offer logistics support to the local police and assist them with infrastructure reconstruction. Our first significant deployment of civilian police personnel began in the Balkans in 1996, where we helped train local police and provided support during the conflict. Our security trainers and mentors remained in the region through 2004. In addition, we have been awarded multiple task orders under the Civilian Police program, including assignments in Iraq and Afghanistan. Our current task orders are primarily time-and-materials and cost-reimbursement.

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Logistics Civil Augmentation Program (LOGCAP IV). On April 17, 2008, we were selected as one of three prime contractors to provide logistics support under the LOGCAP IV contract. LOGCAP IV is the Army component of the DoD s initiative to award contracts to U.S. companies with a broad range of logistics capabilities to support U.S. and allied forces during combat, peacekeeping, humanitarian and training operations. The contract has a term of up to ten years, a ceiling value of $50 billion and an annual ceiling value to us and our subcontractors of $5 billion per year per contractor. Under LOGCAP IV the Army contracts to perform selected services in a theater of operations to augment U.S. Army forces and release military units for other missions or to fill U.S. Army resource shortfalls. Our current task orders are primarily cost-reimbursement.

Worldwide Personal Protection Service (WPPS). We provide protective service details to protect U.S. and foreign government senior officials in Iraq and Pakistan. We have provided personal protective services for the DoS since the WPPS program inception in 1996. Our current task orders are primarily time-and-materials and cost-reimbursement.

Africa Peacekeeping (AFRICAP). We have assumed increasing responsibilities in Africa through our Africa Peacekeeping contract operations, supporting the DoS in Ethiopia, Liberia, Senegal, Somalia, and Sudan. We believe our experience in logistics and contingency operations is a valuable asset to many efforts such as peacekeeping, humanitarian aid, and national reconstruction. We arrange transportation, manage construction and provide security and equipment training. We also provide advisors and serve as a liaison with the DoS. Our current task orders are fixed-price, time-and-materials, and cost-reimbursement.

War Reserve Materiel. Through our War Reserve Materiel program, we provide management of the U.S. Air Force Southwest Asia War Reserve Materiel Pre-positioning program, which includes operations in Oman, Bahrain, Qatar, Kuwait and two locations in the U.S. (Albany, Georgia and Shaw Air Force base, South Carolina). We store, maintain and deploy assets such as tents, generators, vehicles, kitchens and medical supplies to deployed forces in the global war on terror. During Operation Enduring Freedom and Operation Iraqi Freedom, we sent teams into the field to assist in the setup of tent cities prior to the arrival of the deployed forces. The War Reserve Materiel program continues to partner with the U.S. Central Command Air Force in the development of new and innovative approaches to asset management. Our contract is primarily cost-reimbursement with a smaller portion of fixed-price services.

Global Platform Support Solutions (GPSS)

GPSS provides a wide range of technical, engineering, logistics and maintenance support services primarily to government agencies worldwide. Additionally, GPSS provides services including drug eradication and host nation pilot and crew training. GPSS includes four service offerings/business areas as described below:

Aviation Maintenance & Support This service offering provides worldwide maintenance, modification, repair, and logistics support on aircraft, weapons systems, and related support equipment to the DoD and other U.S. government agencies. Contract Field Teams (CFT) is the most significant program in our Field Service Operations service offering. We have provided CFT services for over 58 years. This program deploys highly mobile, quick-response field teams to customer locations to supplement a customer s workforce.

Counter-Drug and Law Enforcement Aviation This service offering conducts foreign assistance programs to reduce the flow of international narcotics. The assistance helps foreign governments improve their ability to develop and implement national strategies and programs to prevent the production, trafficking, and abuse of illicit drugs. International Narcotics and Law Enforcement Air-Wing (INL) supports governments worldwide in their efforts to locate and eradicate drug crops, interdict drug production and trafficking activities, and develop their own institutional counter-narcotics aviation programs. Also, this program provides intra-theater transportation services for a variety of customers throughout Iraq.

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Fleet Management This service offering provides aircraft fleet maintenance and modification services, ground vehicle maintenance and modification services, pilot and maintenance training, logistics support, air traffic control services, base and depot operations, program management and engineering services. Additionally, this service offering provides aerial firefighting services.

Land Systems This service offering provides maintenance, operations, support, life extension, engineering, marine services and program management services primarily for ground vehicles and docked ships. This includes the services we provide under the Mine Resistant Ambush Protected Vehicles Logistics Support (MRAP) contract.

Key GPSS Contracts

INL Air Wing: In May 2005, the DoS awarded us a contract in support of the INL program to aid in the eradication of illegal drug operations. We are the sole awardee of this contract, which has an estimated contract value of $1.6 billion for the first five years of the nine-year term. The contract expires in October 2014. This program has been ongoing since 1991, in cooperation with multiple Latin American countries. A similar program in Afghanistan began in 2006. Also, this program provides intra theater transportation services for a variety of customers throughout Iraq. The majority of our contractual services are cost-reimbursement type services.

Life Cycle Contractor Support: This GPSS program consists of contracts with the U.S. Army and the U.S. Navy. Under the Life Cycle Contractor Support-Army contracts, we provide aircraft maintenance and logistics for C-12/RC-12 and UC-35 aircraft, as well as services for a major avionics suite upgrade of aircraft for Global Air Traffic Management compliance. Under our Life Cycle Contractor Support-Navy contracts, we provide aircraft maintenance and logistics for the U.S. Navy s UC-35 aircraft. We entered into the Life Cycle Contractor Support-Army and Life Cycle Contractor Support-Navy contracts in August 2000 and the Global Air Traffic Management portion of our Army contract in March 2003. The Life Cycle Contractor Support-Army Contract is up for re-competition in July 2010 whereas the Life Cycle Contractor Support-Navy Contract is up for re-competition in October 2010. The estimated total contract value for these programs is $1.37 billion, of which $1.3 billion relates to the Life Cycle Contractor Support-Army Contract. The majority of our contractual services are fixed-price with a portion of cost-plus services.

Contract Field Teams: We have provided this service for over 58 consecutive years. This program deploys highly mobile, quick-response field teams to customer locations to supplement a customer s workforce. The services we provide under the CFT program generally include mission support to aircraft and weapons systems and depot-level repair. The principal customer for our CFT program is the DoD. This contract has a $10.1 billion ceiling for multiple awardees over a seven-year term through September 2015. The majority of our current delivery orders are time-and-materials, but we also have cost-reimbursement and fixed-priced services.

Andrews Air Force Base: Under the Andrews Air Force Base contract, we perform aircraft maintenance and base supply functions, including full back shop support, organizational level maintenance, fleet fuel services and supply, launch and recovery and Federal Aviation Administration (FAA) repair services. Our principal customer under this contract is the U.S. Air Force. We entered into this contract in January 2001. This contract has a $372 million estimated total contract value. The majority of our contract is fixed-price.

Columbus Air Force Base: We provide aircraft and equipment maintenance functions for T-37, T-38, T-1 and T-6 training aircraft in support of the Columbus AFB Specialized Undergraduate Pilot Training Program in Columbus, Mississippi. Our customer under this program is the U.S. Air Force Air Education and Training Command and specifically the 14th Flying Training Wing. This contract provides for a firm fixed-price incentive fee with an incentive award fee. Estimated total contract value is $294 million. The performance period started October 2005 and runs through September 2012. We have completed a transition from the old T-37 primary trainer to the new T-6 turbo prop. Additionally, this 14th Flying Training Wing has one additional squadron of T-38s dedicated to fighter lead-in-training.

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Sheppard Air Force Base: Under the Sheppard Air Force Base Program, we provide aircraft maintenance services for the 80th Flying Training Wing based at Sheppard Air Force Base in Wichita Falls, Texas. This contract has an initial base period of eleven months, and six option years. The mission of the Air Education and Training Command s 80th Flying Training Wing is to provide undergraduate pilot training for the U.S. and North Atlantic Treaty Organization (NATO) allies in the Euro NATO Joint Jet Pilot Training program. Graduates of this prestigious program are assigned to fighter pilot positions in their respective air forces. The majority of our contract is fixed-price.

Mine Resistant Ambush Protected Vehicle (MRAP): Under the Mine Resistant Ambush Protected Vehicle program, we provide MRAP Vehicle on-site liaison and advisory services to the military users with direct assistance in maintenance or repair operations. The MRAP vehicles are required to increase survivability and mobility of troops operating in a hazardous fire area against known threats such as small arms fire, rocket propelled grenades, and improvised explosive devices. The majority of our contract is fixed-price.

California Department of Forestry: We have been helping to fight fires in California since December 2001. We maintain aircraft, providing nearly all types and levels of maintenance scheduled, annual, emergency repairs, and even structural depot level repair. McClellan Field in Sacramento is home base for our program mechanics, data entry staff, and quality control inspectors. In addition, we provide pilots who operate the fixed wing aircraft.

C-21 Contractor Logistics Support: Under the C-21A CLS Program, we perform organizational, intermediate and depot level maintenance, together with supply chain management for C-21A (Lear 35A) aircraft operated by the U.S. Air Force at seven main operating bases and one deployed location. The contract has time-and-materials and fixed-priced portions.

Global Linguist Solutions (GLS)

GLS is a joint venture between DynCorp International and McNeil Technologies, in which we have a 51% ownership interest. GLS currently and historically has had no other operations outside of performance on the INSCOM contract. The majority of our current INSCOM task orders are cost-reimbursement with an award fee. Our GLS operating segment is comprised of a single linguist service offering/business area, Linguistics & Translation.

Linguistics & Translation: This service offering provides rapid recruitment, deployment and on-site management of interpreters and translators in-theatre for a wide range of foreign languages in support of the U.S. Army, unified commands attached forces, combined forces, and joint elements executing the Operation Iraqi Freedom (OIF) mission, and other U.S. government agencies supporting the OIF mission.

Estimated Total Contract Value

The estimated total contract value represents amounts expected to be realized from the current award date to the current contract end date (i.e., revenue recognized to date plus backlog). For the reasons stated under Item 1.A. Risk Factors, the estimated contract value or ceiling value specified under a government contract or task order is not necessarily indicative of the revenue that we will realize under that contract.

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The following table sets forth certain information for our principal contracts, including estimated total contract values of the current contracts as of April 2, 2010:

Contract	Segment	Principal Customer	Initial/Current Award Date	Current Contract End Date	Estimated Total Contract Value (1)
Civilian Police Program	GSDS	DoS	Feb 1994/Feb-04	Aug-10	$ 4.02 billion(2)
INSCOM	GLS	U.S. Army	Dec-06	Apr-13	$ 3.78 billion(2)(3)
INL Air Wing	GPSS	DoS	Jan-91/May-05	Oct-14	$ 1.59 billion(2)(4)
Life Cycle Contractor Support	GPSS	U.S. Army and U.S. Navy	Aug-00	Jul-10	$ 1.37 billion
LOGCAP IV	GSDS	U.S. Army	Apr-08	Apr-18	$ 872 million(2)(5)
WPPS	GSDS	DoS	Mar-00/June-05	Sep-14	$ 453 million(2)(6)
Contract Field Teams	GPSS	DoD	Oct 1951/Jul-08	Sep-15	$ 438 million(2)
AFRICAP	GSDS	DoS	May-03/Sept-09	Sep-14	$ 395 million(2)(7)
War Reserve Materiel	GSDS	U.S. Air Force	May-00/May-08	Sep-16	$ 382 million
Andrews Air Force Base	GPSS	U.S. Air Force	Jan-01	Mar-11	$ 372 million
Columbus Air Force Base	GPSS	U.S. Air Force	Oct 1998/Oct-05	Sep-12	$ 294 million
Sheppard Air Force Base	GPSS	U.S. Air Force	Oct-09	Oct-16	$ 256 million
MRAP	GPSS	DoD	Sep-07	Jan-12	$ 246 million
California Department of Forestry	GPSS	State of California	Dec-01/Jul-08	Dec-14	$ 237 million
C-21 Contractor Logistics Support	GPSS	U.S. Air Force	Sep-06	Sep-11	$ 213 million

(1) Estimated total contract value has the meaning indicated in Estimated Total Contract Value and is not necessarily representative of the amount of work we will actually be awarded under the contract.
(2) This contract is an IDIQ contract. For more information about IDIQ contracts see Contract Types . Also, for a discussion of how we define estimated remaining contract value for IDIQ contracts, see Estimated Remaining Contract Value .
(3) Awarded to GLS, a joint venture of DynCorp International (51% majority interest) and McNeil Technologies.
(4) We are the sole awardee of this contract, which has an estimated value of $1.59 billion for the first five years of this nine-year contract through October 2014.
(5) LOGCAP IV has a $5 billion ceiling per year over 10 years.
(6) Although the base WPPS contract expires June 2010; we have a task order out through September 2014 if all options are exercised.
(7) AFRICAP was awarded September 2009; the predecessor contract called Africa Peacekeeping had a total contract value of $395 million.

Competition

We compete with various entities across geographic and business lines based on a number of factors, including services offered, experience, price, geographic reach and mobility. Most activities in which we engage are highly competitive and require that we have highly skilled and experienced technical personnel to compete. Some of our competitors may possess greater financial and other resources or may be better positioned to compete for certain contract opportunities. We believe that our principal competitors include Civilian Police International, Science Applications International Corporation, ITT Corporation, KBR, Inc., IAP Worldwide Services, Inc., Xe Inc., Triple Canopy Inc., Fluor Corporation, Lockheed Martin Corporation, United Technologies Corporation, L-3 Holdings, Aerospace Industrial Development Corporation, Al Salam Aircraft Company Ltd., Mission Essential Personnel, Northrop Grumman, Computer Sciences Corporation, Lear Siegler, and Serco Group Plc. We believe that the primary competitive factors for our services include reputation, technical skills, past contract performance, experience in the industry, cost competitiveness and customer relationships.

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Backlog

We track backlog in order to assess our current business development effectiveness and to assist us in forecasting our future business needs and financial performance. Our backlog consists of funded and unfunded amounts under contracts. Funded backlog is equal to the amounts actually appropriated by a customer for payment of goods and services less actual revenue recognized as of the measurement date under that appropriation. Unfunded backlog is the actual dollar value of unexercised, priced contract options and the unfunded portion of exercised contract options. Most of our U.S. government contracts allow the customer the option to extend the period of performance of a contract for a period of one or more years. These priced options may or may not be exercised at the sole discretion of the customer. Historically, it has been our experience that the customer has typically exercised contract options.

Firm funding for our contracts is usually made for one year at a time, with the remainder of the contract period consisting of a series of one-year options. As is the case with the base period of our U.S. government contracts, option periods are subject to the availability of funding for contract performance. The U.S. government is legally prohibited from ordering work under a contract in the absence of funding. Our historical experience has been that the government has typically funded the option periods of our contracts.

The following table sets forth our approximate backlog as of the dates indicated:

	April 2, 2010	April 3, 2009	March 28, 2008
		(Amounts in millions)	
GSDS:			
Funded backlog	$ 978	$ 590	$ 448
Unfunded backlog	510	1,124	442
Total GSDS backlog	$ 1,488	$ 1,714	$ 890
GPSS:			
Funded backlog	$ 661	$ 797	$ 699
Unfunded backlog	1,090	720	854
Total GPSS backlog	$ 1,751	$ 1,517	$ 1,553
GLS:			
Funded backlog	$ 30	$ 44	$ 17
Unfunded backlog	2,303	3,023	3,501
Total GLS backlog	$ 2,333	$ 3,067	$ 3,518
CONSOLIDATED:			
Funded backlog	$ 1,669	$ 1,431	$ 1,164
Unfunded backlog	3,903	4,867	4,797
Total consolidated backlog	$ 5,572	$ 6,298	$ 5,961

Estimated Remaining Contract Value

Our estimated remaining contract value represents total backlog plus management s estimate of future revenue under IDIQ contracts for task or delivery orders that have not been awarded. When agreements for such task orders or projects are signed, their value is added to the backlog. Future revenue represents management s estimate of unawarded and unfunded options that will be recognized from the end of current task orders until the end of the IDIQ contract term. It is based on our experience and performance under our existing contracts and management s judgments and estimates with respect to future task or delivery order awards. Although we believe our estimates are reasonable, there can be no assurance that our existing contracts will result in actual revenue in

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any particular period or at all. Our estimated remaining contract value could vary or even change significantly depending upon various factors including government policies, government budgets and appropriations, the accuracy of our estimates of work to be performed under time-and-material contracts and whether we successfully compete with any multiple bidders in IDIQ contracts.

The following table sets forth our estimated remaining contract value as of the dates indicated (dollars in millions):

	April 2, 2010	April 3, 2009	March 28, 2008
		(Amounts in millions)	
GSDS estimated remaining contract value	$ 5,994	$ 2,268	$ 1,350
GPSS estimated remaining contract value	3,907	3,081	2,616
GLS estimated remaining contract value	2,333	3,066	3,517
Total Estimated Remaining Contract Value	$ 12,234	$ 8,415	$ 7,483

Regulatory Matters

Contracts with the U.S. government are subject to a multitude of regulatory requirements, including but not limited to the Federal Acquisition Regulation, which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. government. Under U.S. government regulations, certain costs, including certain financing costs, portions of research and development costs, lobbying expenses, certain types of legal expenses and certain marketing expenses related to the preparation of bids and proposals, are not allowed for pricing purposes and calculation of contract reimbursement rates under cost-reimbursement contracts. The U.S. government also regulates the methods by which allowable costs may be allocated under U.S. government contracts.

Our international operations and investments are subject to U.S. government laws, regulations and policies, including the International Traffic in Arms Regulations, Export Administration Act, the Foreign Corrupt Practices Act and other export laws and regulations. We must also comply with foreign government laws, regulations and procurement policies and practices, which may differ from U.S. government regulation, including import-export control, investments, exchange controls, repatriation of earnings and requirements to expend a portion of program funds in-country. In addition, embargoes, international hostilities and changes in currency values can also impact our international operations.

Our government contracts are subject to audits at various points in the contracting process. Pre-award audits are performed at the time a proposal is submitted to the U.S. government for cost-reimbursement contracts. The purpose of a pre-award audit is to determine the basis of the bid and provide the information required for the U.S. government to negotiate the contract effectively. In addition, the U.S. government may perform a pre-award audit to determine our capability to perform under a contract. During the performance of a contract, the U.S. government may have the right to examine our costs incurred on the contract, including any labor charges, material purchases and overhead charges. Upon a contract s completion, the U.S. government typically performs an incurred cost audit of all aspects of contract performance for cost-reimbursement contracts to ensure that we have performed the contract in a manner consistent with our proposal. The government also may perform a post-award audit for proposals that are subject to the Truth in Negotiations Act, which are proposals in excess of $650,000, to determine if the cost proposed and negotiated was accurate, current and complete as of the time of negotiations.

The Defense Contract Audit Agency (DCAA) performs audits on behalf of the U.S. government. The DCAA also reviews the adequacy of, and our compliance with, our internal control systems and policies, including our labor, billing, accounting, purchasing, property, estimating, budgeting & planning, indirect vs.

direct costs, and compensation and management information systems. The DCAA has the right to perform audits on our incurred costs on all flexibly priced contracts on an annual basis. We have DCAA auditors on-site to monitor our billing and back-office operations. An adverse finding under a DCAA audit could result in the disallowance of our costs under a U.S. government contract, termination of U.S. government contracts, forfeiture of profits, suspension of payments, fines and suspension and prohibition from doing business with the U.S. government. In the event that an audit by the DCAA recommends disallowance of our costs under a contract, we have the right to appeal the findings of the audit under applicable dispute resolution provisions. Approval of submitted yearly contract incurred costs can take from one to three years from the date of submission of the contract costs. All of our contract incurred indirect costs for U.S. government contracts completed through fiscal year 2004 have been audited by the DCAA and approved by the Defense Contract Management Agency. The audits for such costs during subsequent periods are continuing. See Item 1.A. Risk Factors A negative audit or other actions by the U.S. government could adversely affect our operating performance .

At any given time, many of our contracts are under review by the DCAA and other government agencies. We cannot predict the outcome of such ongoing audits and what, if any, impact such audits may have on our future operating performance.

Over the last few years, U.S. government contractors, including our Company, have seen a trend of increased scrutiny by the DCAA and other U.S. government agencies. If any of our internal control systems or policies are found non-compliant or inadequate, payments may be suspended under our contracts or we may be subjected to increased government scrutiny and approval that could delay or adversely affect our ability to invoice and receive timely payment on our contracts, perform contracts or compete for contracts with the U.S. government. These adverse outcomes could also occur if the DCAA cannot timely complete periodic reviews of our control systems which could then render the status of these systems as not reviewed .

Sales and Marketing

We primarily market our services to U.S. and foreign governments, including their military branches. We also market our services to other prime contractors who have contracts with the U.S. and foreign governments in certain instances where our competencies help to deliver effective solutions. We position our sales and marketing personnel to cover key accounts such as the DoS and the DoD, as well as market segments which hold the most promise for aggressive growth.

We participate in national and international tradeshows, particularly as they apply to aviation services, logistics, contingency support, and defense. We are also an active member in several organizations related to services contracting, such as the Professional Services Council.

We leverage our experience and capability in providing value added and complementary services to companies that require support in remote and hazardous regions of the globe.

Our sales and marketing personnel help to establish a presence in select market segments that hold the most promise for aggressive growth, whether it is GPSS, GSDS or GLS. These activities support our objective to be the leading global government services provider in support of U.S. national security and foreign policy objectives.

Intellectual Property

We hold an exclusive, perpetual, irrevocable, worldwide, royalty-free and fully paid license to use the Dyn International and DynCorp International names in connection with aviation services, security services, technical services and marine services. We also own various licenses for names associated with Phoenix Consulting Group, Inc. (Phoenix) and Casals and Associates, Inc. (Casals). Additionally, we own various registered domain names, trademarks and copyrights. We currently have two patent applications pending

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approval. Because most of our business involves providing services to government entities, our operations generally are not substantially dependent upon obtaining and/or maintaining copyright or trademark protections, although our operations make use of such protections and benefit from them.

Environmental Matters

Our operations include the use, generation and disposal of petroleum products and other hazardous materials. We are subject to various U.S. federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites and the maintenance of a safe workplace. We believe we have been and are in substantial compliance with environmental laws and regulations, and we have no liabilities under environmental requirements that would have a material adverse effect on our business, results of operations or financial condition. We have not incurred, nor do we expect to incur, material costs relating to environmental compliance.

Employees

As of April 2, 2010, we had approximately 22,300 employees from our consolidated entities in 38 countries, of which approximately 3,000 are represented by labor unions. We consider our relationships with our employees inclusive of our union employees to be generally good.

Availability of Forms Filed With the U.S. Security and Exchange Commission

Our shareholders may obtain, free of charge, copies of the following documents (and any amendments thereto) as filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC) as soon as reasonably practical after such material is filed with or furnished to the SEC:

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K;
- statement of changes in beneficial ownership of securities for insiders;
- proxy statements; and
- any amendments thereto.

The public may read and copy any materials we file with or furnish to the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file or furnish such information electronically with the SEC which may be obtained at www.sec.gov. Our SEC filings are accessible through the Internet at that website. A copy of these filings may also be obtained by going to our Internet website at www.dyn-intl.com and selecting Investor Relations and selecting Financial Information. Copies may also be obtained by providing a written request for such copies or additional information regarding our operating or financial performance to Corporate Secretary, DynCorp International, 3190 Fairview Park Drive, Suite 700, Falls Church, VA 22042. Except as otherwise stated in these reports, the information contained on our website or available by hyperlink from our website is not incorporated into this Annual Report or other documents we file with, or furnish to, the SEC.

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ITEM 1A. ***RISK FACTORS.***

The risks described below should be carefully considered, together with all of the other information contained in this Form 10-K. Any of the following risks could materially and adversely affect our financial condition or results of operations.

We rely on sales to U.S. government entities. A loss of contracts, a failure to obtain new contracts or a reduction of sales under existing contracts with the U.S. government could adversely affect our operating performance and our ability to generate cash flow to fund our operations.

We derive substantially all of our revenue from contracts and subcontracts with the U.S. government and its agencies, primarily the DoD and the DoS. The remainder of our revenue is derived from commercial contracts and contracts with foreign governments. We expect that U.S. government contracts, particularly with the DoD and the DoS, will continue to be our primary source of revenue for the foreseeable future. The continuation and renewal of our existing government contracts and new government contracts are, among other things, contingent upon the availability of adequate funding for various U.S. government agencies, including the DoD and the DoS. Changes in U.S. government spending could directly affect our operating performance and lead to an unexpected loss of revenue. The loss or significant reduction in government funding of a large program in which we participate could also result in a material decrease to our future sales, earnings and cash flows. U.S. government contracts are also conditioned upon the continuing approval by Congress of the amount of necessary spending. Congress usually appropriates funds for a given program on a September 30 fiscal year basis, even though contract periods of performance may extend over many years. Consequently, at the beginning of a major program, the contract is usually partially funded, and additional monies are normally committed to the contract by the procuring agency only as appropriations are made by Congress for future fiscal years. Among the factors that could impact U.S. government spending and reduce our federal government contracting business include:

- policy and/or spending changes implemented by the Obama administration;
- a significant decline in, or reapportioning of, spending by the U.S. government, in general, or by the DoD or the DoS, in particular;
- changes, delays or cancellations of U.S. government programs, requirements or policies;
- the adoption of new laws or regulations that affect companies that provide services to the U.S. government;
- U.S. government shutdowns or other delays in the government appropriations process;
- curtailment of the U.S. government s outsourcing of services to private contractors including the expansion of insourcing;
- changes in the political climate, including with regard to the funding or operation of the services we provide; and
- general economic conditions, including a slowdown in the economy or unstable economic conditions in the United States or in the countries in which we operate.

These or other factors could cause U.S. government agencies to reduce their purchases under our contracts, to exercise their right to terminate our contracts in whole or in part, to issue temporary stop-work orders, or decline to exercise options to renew our contracts. The loss or significant curtailment of our material government contracts, or our failure to renew existing contracts or enter into new contracts could adversely affect our operating performance and lead to an unexpected loss of revenue.

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Our U.S. government contracts may be terminated by the U.S. government at any time prior to their completion and contain other unfavorable provisions, which could lead to an unexpected loss of revenue and a reduction in backlog.

Under the terms of our contracts, the U.S. government may unilaterally:

- terminate or modify existing contracts;
- reduce the value of existing contracts through partial termination;
- delay the payment of our invoices by government payment offices;
- audit our contract-related costs and fees; and
- suspend us from receiving new contracts, pending the resolution of alleged violations of procurement laws or regulations.

The U.S. government can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and adversely affect our operating performance and lead to an unexpected loss of revenue.

Our U.S. government contracts typically have an initial term of one year with multiple option periods, exercisable at the discretion of the government at previously negotiated prices. The government is not obligated to exercise any option under a contract. Furthermore, the government is typically required to compete all programs and, therefore, may not automatically renew a contract. In addition, at the time of completion of any of our government contracts, the contract is frequently required to be re-competed if the government still requires the services covered by the contract.

If the U.S. government terminates and/or materially modifies any of our contracts or if option periods are not exercised, our failure to replace revenue generated from such contracts would result in lower revenue and would likely adversely affect our earnings, which could have a material effect on our financial condition and results of operations.

Our U.S. government contracts are subject to competitive bidding, both upon initial issuance and re-competition. If we are unable to successfully compete in the bidding process or if we fail to win re-competitions, it could adversely affect our operating performance and lead to an unexpected loss of revenue.

Substantially all of our U.S. government contracts are awarded through a competitive bidding process upon initial award and renewal, and we expect that this will continue to be the case. There is often significant competition and pricing pressure as a result of this process. The competitive bidding process presents a number of risks, including the following:

- we may expend substantial funds and time to prepare bids and proposals for contracts that may ultimately be awarded to one of our competitors;
- we may be unable to accurately estimate the resources and costs that will be required to perform any contract we are awarded, which could result in substantial cost overruns; and

we may encounter expense and delay if our competitors protest or challenge awards of contracts, and any such protest or challenge could result in a requirement to resubmit bids on modified specifications or in the termination, reduction or modification of the awarded contract. Additionally, the protest of contracts awarded to us may result in the delay of program performance and the generation of revenue while the protest is pending.

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The government contracts for which we compete typically have multiple option periods, and if we fail to win a contract or a task order, we generally will be unable to compete again for that contract for several years. If we fail to win new contracts or to receive renewal contracts upon re-competition, it may result in additional costs and expenses and possible loss of revenue, and we will not have an opportunity to compete for these contract opportunities again until such contracts expire.

Because of the nature of our business, it is not unusual for us to lose contracts to competitors or to gain contracts once held by competitors during re-compete periods.

Additionally, some contracts simply end as projects are completed or funding is terminated. We have included our most significant contracts by reportable segment in our contract tables in Item 1. Business . Contract end dates are included within the tables to better inform investors regarding the potential impact for our most significant contracts for this risk.

Current or worsening economic conditions could impact our business.

Our business may be adversely affected by factors in the U.S. and other countries that are beyond our control, such as disruptions in financial markets or downturns in economic activity in specific countries or regions, or in the various industries in which we operate, adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which we operate. If for any reason we lose access to our currently available lines of credit, or if we are required to raise additional capital, we may be unable to do so in the current credit and stock market environment, or we may be able to do so only on unfavorable terms. Adverse changes to financial conditions could jeopardize certain counterparty obligations, including those of our insurers and financial institutions.

In particular, if the Federal government, due to budgetary considerations, accelerates the expected reduction in combat troops from Iraq, fails to sustain the troop increases in Afghanistan, reduces the DoD Operations and Maintenance budget or reduces funding for DoS initiatives in which we participate, our business, financial condition and results of operations could be adversely affected.

Furthermore, although we believe that our current sources of liquidity will enable us to continue to perform under our existing contracts and further grow our business, we cannot assure you that will be the case. A longer term credit crisis could adversely affect our ability to obtain additional liquidity or refinance existing indebtedness on acceptable terms or at all, which could adversely affect our business, financial condition and results of operations. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional discussion regarding liquidity.

Our operations involve considerable risks and hazards. An accident or incident involving our employees or third parties could harm our reputation, affect our ability to compete for business, and if not adequately insured or indemnified, could adversely affect our results of operations and financial condition.

We are exposed to liabilities that arise from the services we provide. Such liabilities may relate to an accident or incident involving our employees or third parties, particularly where we are deployed on-site at active military installations or in locations experiencing political or civil unrest, or they may relate to an accident or incident involving aircraft or other equipment we have serviced or used in the course of our business. Any of these types of accidents or incidents could involve significant potential claims of injured employees and other third parties and claims relating to loss of or damage to government or third-party property.

We maintain insurance policies that mitigate risk and potential liabilities related to our operations. Our insurance coverage may not be adequate to cover those claims or liabilities, and we may be forced to bear

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substantial costs from an accident or incident. Substantial claims in excess of our related insurance coverage could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

Furthermore, any accident or incident for which we are liable, even if fully insured, may result in negative publicity which could adversely affect our reputation among our customers, including our government customers, and the public, which could result in the loss of existing and future contracts or make it more difficult to compete effectively for future contracts. This could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

Political destabilization or insurgency in the regions in which we operate may have a material adverse effect on our operating performance.

Certain regions in which we operate are highly unstable. Insurgent activities in the areas in which we operate may cause further destabilization in these regions. There can be no assurance that the regions in which we operate will continue to be stable enough to allow us to operate profitably or at all. During fiscal years 2010, 2009 and 2008, revenue generated from our operations in the Middle East contributed 73%, 64%, and 52% of our revenue, respectively. Insurgents in Iraq and Afghanistan have targeted installations where we have personnel, and these insurgents have contributed to instability in these countries. This could impair our ability to attract and deploy personnel to perform services in either or both locations. In addition, we have been required to increase compensation to our personnel as an incentive to deploy them to these regions. To date, we have been able to recover this added cost under the contracts, but there is no guarantee that future increases, if required, will be able to be transferred to our customers through our contracts. To the extent that we are unable to transfer such increased compensation costs to our customers, our operating margins would be adversely impacted, which could adversely affect our operating performance. In addition, increased insurgent activities or destabilization, including civil unrest or a civil war in Iraq or Afghanistan, may lead to a determination by the U.S. government to halt our operations in a particular location, country or region and to perform the services using military personnel. Furthermore, in extreme circumstances, the U.S. government may decide to terminate all U.S. government activities, including our operations under U.S. government contracts in a particular location, country or region and to withdraw all military personnel. The Obama administration has made policy changes with respect to U.S. government activities in Iraq or Afghanistan. Congressional pressure to reduce, if not eliminate, the number of U.S. troops in Iraq or Afghanistan may also lead to U.S. government procurement actions that reduce or terminate the services and support we provide in that theater of conflict. Any of the foregoing could adversely affect our operating performance and may result in additional costs and expenses and loss of revenue.

We are exposed to risks associated with operating internationally.

A large portion of our business is conducted internationally. Consequently, we are subject to a variety of risks that are specific to international operations, including the following:

- export regulations that could erode profit margins or restrict exports;
- compliance with the U.S. Foreign Corrupt Practices Act;
- the burden and cost of compliance with foreign laws, treaties and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;
- foreign currency fluctuations;
- import and export duties and value added taxes;

- transportation delays and interruptions;
- uncertainties arising from foreign local business practices and cultural considerations;
- requirements by foreign governments that we locally invest a minimum level as part of our contracts with them, which may not yield any return; and
- potential military conflicts, civil strife and political risks.

While we have and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of our foreign business, we cannot ensure that such measures will be adequate.

Our IDIQ contracts are not firm orders for services, and we may never receive revenue from these contracts, which could adversely affect our operating performance.

Many of our government contracts are IDIQ contracts, which are often awarded to multiple contractors. The award of an IDIQ contract does not represent a firm order for services. Generally, under an IDIQ contract, the government is not obligated to order a minimum of services or supplies from its contractor, irrespective of the total estimated contract value. Furthermore, under an IDIQ contract, the customer develops requirements for task orders that are competitively bid against all of the contract awardees, usually under a best-value approach. However, many contracts also permit the government customer to direct work to a specific contractor. Our Civilian Police, Contract Field Team and LOGCAP IV programs are three of our contracts performed under IDIQ contracts. We may not win new task orders under these contracts for various reasons, such as failing to rapidly deploy personnel or high prices, which would have an adverse effect on our operating performance and may result in additional expenses and loss of revenue. There can be no assurance that our existing IDIQ contracts will result in actual revenue during any particular period or at all. In fiscal years 2010, 2009 and 2008, 76%, 73% and 70% of our revenue, respectively, was attributable to IDIQ contracts.

Our cost of performing under time-and-materials and fixed-price contracts may exceed our revenue, which would result in a recorded loss on the contracts.

Our government contract services have three distinct pricing structures: cost-reimbursement, time-and-materials and fixed-price. With cost-reimbursement contracts, so long as actual costs incurred are within the contract funding and allowable under the terms of the contract, we are entitled to reimbursement of the costs plus a stipulated fixed-fee and, in some cases, an incentive-based award fee. We assume additional financial risk on time-and-materials and fixed-price contracts, however, because we assume the risk of performing those contracts at the stipulated prices or negotiated hourly/daily rates. If we do not accurately estimate ultimate costs and control costs during performance of the work, we could lose money on a particular contract or have lower than anticipated margins. Also, we assume the risk of damage or loss to government property, and we are responsible for third-party claims under fixed-price contracts. The failure to meet contractually defined performance standards may result in a loss of a particular contract or lower-than-anticipated margins. This could adversely affect our operating performance and may result in additional costs and expenses and possible loss of revenue.

A negative audit or other actions by the U.S. government could adversely affect our operating performance.

At any given time, many of our contracts are under review by the DCAA and other government agencies. These agencies review our contract performance, cost structure and compliance with applicable laws, regulations and standards. Such DCAA audits may include contracts under which we have performed services in Iraq and Afghanistan under especially demanding circumstances.

The DCAA also reviews the adequacy of, and our compliance with, our internal control systems and policies, including our labor, billing, accounting, purchasing, property, estimating, billing, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed. In addition, government contract payments received by us 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.

Audits have been completed on our incurred contract costs through fiscal year 2005 and the Defense Contract Management Agency has approved these costs through fiscal year 2004. Audits and approvals are continuing for subsequent periods. We cannot predict the outcome of such audits and what, if any, impact such audits may have on our future operating performance. For further discussion, see Item 3. Legal Proceedings below.

We are subject to investigation by the U.S. government, which could result in our inability to receive government contracts and could adversely affect our future operating performance.

As a U.S. government contractor, we must comply with laws and regulations relating to U.S. government contracts that do not apply to a commercial company. From time to time we are investigated by government agencies with respect to our compliance with these laws and regulations. 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 prohibition from doing business with U.S. government agencies. For example, many of the contracts we perform in the U.S. are subject to the Service Contract Act, which requires hourly employees to be paid certain specified wages and benefits. If the U.S. Department of Labor determines that we violated the Service Contract Act or its implementing regulations, we could be suspended from being awarded new government contracts or renewals of existing contracts for a period of time, which could adversely affect our future operating performance. We are subject to a greater risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities than companies with solely commercial customers. In addition, if an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government.

Furthermore, our reputation could suffer serious harm if allegations of impropriety were made against us. If we were suspended or prohibited from contracting with the U.S. government, or any significant U.S. government agency, if our reputation or relationship with U.S. government agencies was impaired or if the U.S. government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, it could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

U.S. government contractors like us that provide support services in theaters of conflict such as Iraq and Afghanistan have come under increased scrutiny by agency inspector generals, government auditors and congressional committees. Investigations pursued by any or all of these groups may result in adverse publicity for us and consequent reputational harm, regardless of the underlying merit of the allegations being investigated. As a matter of general policy, we have cooperated and expect to continue to cooperate with government inquiries of this nature.

The expiration of our collective bargaining agreements could result in increased operating costs or work disruptions, which could potentially affect our operating performance.

As of April 2, 2010, we had approximately 22,300 employees located in 38 countries around the world. Of these employees, approximately 3,000 are represented by labor unions. As of April 2, 2010, we had approximately 76 collective bargaining agreements with these unions. The length of these agreements varies, with the longest expiring in September 2012. There can be no assurance that we will not experience labor disruptions associated with the expiration or renegotiation of collective bargaining agreements or otherwise. We

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could experience a significant disruption of operations and increased operating costs as a result of higher wages or benefits paid to union members, which could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

Proceedings against us in domestic and foreign courts could result in legal costs and adverse monetary judgments, adversely affecting our operating performance and causing harm to our reputation.

We are involved in various claims and lawsuits from time to time. For example, we are a defendant in two consolidated lawsuits seeking unspecified damages brought by citizens and certain provinces of Ecuador. The basis for the actions, both pending in the U.S. District Court for the District of Columbia, arises from our performance of a DoS contract for the eradication of narcotic plant crops in Colombia. The lawsuits allege personal injury, property damage and wrongful death as a consequence of the spraying of narcotic crops along the Colombian border adjacent to Ecuador. In the event that a court decides against us in these lawsuits, and we are unable to obtain indemnification from the government, Computer Sciences Corporation in one of the cases, or contributions from the other defendants, we may incur substantial costs, which could have a material adverse effect on our results. An adverse ruling in these cases could also adversely affect our reputation and have a material adverse effect on our ability to win future government contracts.

Other litigation in which we are involved includes wrongful termination and other adverse employment actions, breach of contract, personal injury and property damage actions filed by third parties. Actions involving third-party liability claims generally are covered by insurance; however, in the event our insurance coverage is inadequate to cover such claims, we will be forced to bear the costs arising from a judgment. We do not have insurance coverage for adverse employment and breach of contract actions, and we bear all costs associated with such litigation and claims.

We are subject to certain U.S. laws and regulations, which are the subject of rigorous enforcement by the U.S. government; our noncompliance with such laws and regulations could adversely affect our future operating performance.

We may be subject to qui tam litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, which could include claims for treble damages. Government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit, and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation. Any interruption or termination of our government contractor status could significantly reduce our future revenue and profits.

To the extent that we export products, technical data and services outside the United States, we are subject to U.S. laws and regulations governing international trade and exports, including but not limited to, the International Traffic in Arms Regulations, the Export Administration Regulations and trade sanctions against embargoed countries, which are administered by the Office of Foreign Assets Control within the Department of the Treasury. Failure to comply with these laws and regulations could result in civil and/or criminal sanctions, including the imposition of fines upon us as well as the denial of export privileges and debarment from participation in U.S. government contracts.

We do business in certain parts of the world that have experienced, or may be susceptible to, governmental corruption. Our corporate policy requires strict compliance with the U.S. Foreign Corrupt Practices Act and with local laws prohibiting payments to government officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. Improper actions by our employees or agents could subject us to civil or criminal penalties, including substantial monetary fines, as well as disgorgement, and could damage our reputation and, therefore, our ability to do business.

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Competition in our industry could limit our ability to attract and retain customers or employees, which could result in a loss of revenue and/or a reduction in margins, which could adversely affect our operating performance.

We compete with various entities across geographic and business lines. Competitors of our GSDS operating segment are typically various solution providers that compete in any one of the service areas provided by those business units. Competitors of our GPSS operating segment are typically large defense services contractors that offer services associated with maintenance, training and other activities. Competitors of our GLS operating segment are typically contractors that provide services in Iraq and Afghanistan or companies that provide language interpretation and translation services both domestically and internationally.

We compete on a number of factors, including our broad range of services, geographic reach, mobility and response time. Foreign competitors may obtain an advantage over us in competing for U.S. government contracts and attracting employees to the extent we are required by U.S. laws and regulations to remit to the U.S. government statutory payroll withholding amounts for U.S. nationals working on U.S. government contracts while employed by our majority-owned foreign subsidiaries, since foreign competitors may not be similarly obligated by their governments.

Some of our competitors may have greater resources or are otherwise better positioned to compete for contract opportunities. For example, original equipment manufacturers that also provide aftermarket support services have a distinct advantage in obtaining service contracts for aircraft they have manufactured, as they frequently have better access to replacement and service parts, as well as an existing technical understanding of the platform they have manufactured. In addition, we are at a disadvantage when bidding for contracts up for re-competition for which we are not the incumbent provider, because incumbent providers are frequently able to capitalize on customer relationships, technical knowledge and pricing experience gained from their prior service.

In addition to the competition we face in bidding for contracts and task orders, we must also compete to attract the skilled and experienced personnel integral to our continued operations. We hire from a limited pool of potential employees, as military and law enforcement experience, specialized technical skill sets and security clearances are prerequisites for many positions. Our failure to compete effectively for employees, or excessive attrition among our skilled personnel, could reduce our ability to satisfy our customers needs and increase the costs and time required to perform our contractual obligations. This could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

Loss of our skilled personnel, including members of senior management, may have an adverse effect on our operations and/or our operating performance.

Our continued success depends in large part on our ability to recruit and retain the skilled personnel necessary to serve our customers effectively, including personnel with extensive military and law enforcement training and backgrounds. The proper execution of our contract objectives depends upon the availability of quality resources, especially qualified personnel. Given the nature of our business, we have substantial need for personnel who are willing to work overseas, frequently in locations experiencing political or civil unrest, for extended periods of time and often on short notice. We may not be able to meet the need for qualified personnel as such need arises.

In addition, we must comply with provisions in U.S. government contracts that require employment of persons with specified work experience and security clearances. An inability to maintain employees with the required security clearances could have a material adverse effect on our ability to win new business and satisfy our existing contractual obligations, and could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

The loss of services of any of the members of our senior management could adversely affect our business until a suitable replacement can be found. There may be a limited number of personnel with the requisite skills to serve in these positions, and we may be unable to locate and employ such qualified personnel on acceptable terms.

If our subcontractors or joint venture partners fail to perform their contractual obligations, then our performance as the prime contractor and our ability to obtain future business could be materially and adversely impacted.

Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services we must provide to our customers. These subcontractors generally perform niche or specialty services for which they have more direct experience, such as construction, catering services or specialized technical services, or they have local knowledge of the region in which we will be performing and the ability to communicate with local nationals and assist in making arrangements for commencement of performance. Often, we enter into subcontract arrangements in order to meet government requirements to award certain categories of services to small businesses. A failure by one or more of our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Such subcontractor performance deficiencies could result in a customer terminating our contract for default. A default termination could expose us to liability and adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

We often enter into joint ventures so that we can jointly bid and perform on a particular project. The success of these and other joint ventures depends, in large part, on the satisfactory performance of the contractual obligations by our joint venture partners. If our partners do not meet their obligations, the joint ventures may be unable to adequately perform and deliver their contracted services. Under these circumstances, we may be required to make additional investments and provide additional services to ensure the adequate performance and delivery of the contracted services. These additional obligations could result in reduced profits or, in some cases, significant losses for us with respect to the joint venture, which could also affect our reputation in the industries we serve.

Environmental laws and regulations may subject us to significant costs and liabilities that could adversely affect our operating performance.

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the U.S., these laws and regulations include those governing the management and disposal of hazardous substances and wastes and the maintenance of a safe workplace, primarily associated with our aviation services activities, including painting aircraft and handling substances that may qualify as hazardous waste, such as used batteries and petroleum products. In addition to U.S. federal laws and regulations, states and other countries where we do business have numerous environmental, legal and regulatory requirements by which we must abide. We could incur substantial costs, including clean-up costs, as a result of violations of, or liabilities under, environmental laws. This could adversely affect our operating performance and may result in additional expenses and possible loss of revenue.

Our substantial level of indebtedness may make it difficult for us to satisfy our debt obligations and may adversely affect our ability to obtain financing for working capital, capitalize on business opportunities or respond to adverse changes in our industry.

As of April 2, 2010, we had $552.9 million of total indebtedness excluding $170.0 million of additional borrowing capacity under our senior secured credit facility (which gives effect to $30.0 million of outstanding letters of credit). Based on our indebtedness and other obligations as of April 2, 2010, without considering any refinancing (or new financing) in connection with the Merger, we estimate our remaining contractual commitments, including interest associated with our indebtedness and other obligations, will be $800.4 million in

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the aggregate for the remaining period from April 2, 2010 through fiscal the end of year 2015 and thereafter (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Commitments). Such indebtedness could have material consequences for our business, operations and liquidity position, including the following:

- our ability to obtain additional financing for working capital, debt service requirements, acquisitions, general corporate or other purposes may be impaired;
- we must use a substantial portion of our cash flow to pay interest and principal on our indebtedness, which will reduce the funds available for other purposes;
- our substantial interest expense may make us less competitive on bidding on contracts than our competitors;
- we are more vulnerable to economic downturns and adverse industry conditions;
- our ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in our industry as compared to our competitors may be compromised due to the high level of indebtedness;
- our subordinated notes cannot be prepaid without a penalty which may limit our ability to proactively reduce our debt levels; and
- our ability to refinance indebtedness may be limited.

The indenture governing our senior subordinated notes and our senior secured credit facility contain various covenants limiting the discretion of our management in operating our business.

Our indenture governing our senior subordinated notes (the Notes) and the agreements governing our senior secured credit facility contain various restrictive covenants that limit our management s discretion in operating our business. These instruments limit our ability to engage in, among other things, the following activities, except as permitted by those instruments:

- incur additional indebtedness or guarantee obligations;
- repay indebtedness prior to stated maturities;
- make interest payments on the Notes and other indebtedness that is subordinate to our indebtedness under the senior secured credit facility;
- pay dividends or make certain other restricted payments;
- make investments, contribute capital to our unconsolidated partnerships or execute acquisitions;

- create liens or other encumbrances;
- repurchase our outstanding shares or our public debt;
- transfer or sell certain assets or merge or consolidate with another entity;
- maintain debt in excess of a percentage of our Accounts Receivable; and
- allow no more than 50% of our debt to be floating rate.

In addition, our senior secured credit facility also requires us to maintain certain financial ratios and limits our ability to make capital expenditures. These financial ratios include a minimum interest coverage ratio and a leverage ratio. The interest coverage ratio is the ratio of consolidated EBITDA (as defined in our senior secured credit facility) to interest expense for the preceding four quarters. The leverage ratio is a ratio of our indebtedness (as defined in our senior secured credit facility) to consolidated EBITDA for the preceding four quarters. The senior secured credit facility also restricts the maximum amount of our capital expenditures during each year of the term of the senior secured credit facility. Subject to certain exceptions, our capital expenditures may not exceed, in any fiscal year, the greater of $15 million or 5% of our consolidated EBITDA for the preceding fiscal year during the term of our senior secured credit facility. Capital expenditures are expenditures that are required by generally accepted accounting principles to be classified as capital expenditures in a statement of cash flows.

If we fail to comply with the restrictions in the indenture or our senior secured credit facility or any other subsequent financing agreements, a default may allow the creditors under the relevant instruments, in certain circumstances, to accelerate the related debt and to exercise their remedies there under, which will typically include the right to declare the principal amount of such debt, together with accrued and unpaid interest and other related amounts immediately due and payable, to exercise any remedies such creditors may have to foreclose on any of our assets that are subject to liens securing such debt and to terminate any commitments they had made to supply us with further funds. Moreover, any of our other debt that has a cross-default or cross-acceleration provision that would be triggered by such default or acceleration would also be subject to acceleration upon the occurrence of such default or acceleration.

Our ability to comply with these covenants may be affected by events beyond our control, and an adverse development affecting our business could require us to seek waivers or amendments of covenants, alternative or additional sources of financing or reductions in expenditures. We cannot assure you that such waivers, amendments or alternative or additional financings could be obtained, or if obtained, would be on terms acceptable to us. In addition, the holders of Notes have no control over any waivers or amendments with respect to any debt outstanding other than the debt outstanding under the indenture.

Servicing our indebtedness requires a significant amount of cash. Our ability to generate sufficient cash depends on numerous factors beyond our control, and we may be unable to generate sufficient cash flow to service our debt obligations, which could adversely affect our financial condition.

Our ability to make payments on and to refinance our indebtedness depends on our ability to generate cash. This, to a certain extent, is subject to general economic, political, financial, competitive, legislative, regulatory and other factors that are beyond our control. Additionally, the floating interest rates associated with our senior secured credit facility became unhedged as of May 24, 2010 and float with either the London Interbank Offered Rate (LIBOR) or the Prime rate.

We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured credit facility in an amount sufficient to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness. We cannot assure you that we will be able to refinance any of our indebtedness, including our senior secured credit facility, on commercially reasonable terms or at all. In addition, the terms of existing or future debt agreements, including our senior secured credit facility and the indenture governing our Notes may restrict us from carrying out any of these alternatives. If we are unable to generate sufficient cash flow or refinance our debt on favorable terms, it could significantly, adversely affect our financial condition.

Despite our current indebtedness level, our company, including our subsidiaries, may, subject to conditions in the Merger Agreement, incur substantially more debt, which could exacerbate the risks associated with our substantial leverage.

As of April 2, 2010, we had up to $170.0 million of additional availability under our senior secured credit facility (which gives effect to $30.0 million of outstanding letters of credit). The terms of the senior secured credit facility and the Notes do not fully prohibit us or our subsidiaries from incurring additional indebtedness. It is not possible to quantify the specific dollar amount of indebtedness we may incur because our senior secured credit facility does not provide for a specific dollar amount of indebtedness we may incur. The Merger Agreement, our senior secured credit facility and the Notes allow us to incur only certain indebtedness that is expressly enumerated in the Merger Agreement, our senior secured credit facility and the indenture governing the Notes, as applicable. If either we or our subsidiaries were to incur additional indebtedness, the related risks that we now face could increase.

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We have recently acquired two complementary businesses. Acquisition transactions require substantial management resources and may disrupt our business and divert our management from other responsibilities. Acquisitions are accompanied by other risks, including:

- the difficulty of integrating the operations and personnel of the acquired companies;
- the inability of our management to maximize our financial and strategic position by the successful incorporation of acquired personnel into our service offerings;
- we may not realize anticipated synergies or financial growth;
- we may assume material liabilities that were not identified during due diligence, including potential regulatory penalties resulting from the acquisition target s previous activities;
- difficulty maintaining uniform standards, controls, procedures and policies, with respect to accounting matters and otherwise;
- the potential loss of key employees of acquired companies;
- the impairment of relationships with employees and customers as a result of changes in management and operational structure; and
- acquisitions may require us to invest significant amounts of cash resulting in dilution of stockholder value.

Any inability to successfully integrate the operations and personnel associated with an acquired business and/or service line may harm our business and results of operation. The Merger Agreement restricts the ability of the Company to enter into acquisition transactions subject to certain exceptions.

We may not be able to profitably deploy all of our helicopter assets.

We have approximately $39.7 million in helicopter assets. These were originally purchased to support our new WPPS air services task order. Given the availability of customer assets to support this program, the parties mutually agreed to a task order modification under which the customer will now supply its own helicopters. As a result, we plan to utilize most of the purchased helicopter assets on another program. Due to the past military history of these helicopters and their associated restricted certification status with the FAA, the helicopters are limited to Public Use applications (Police, Fire, trash hauling) or movement of our people and supplies on programs like LOGCAP IV. The 13 Huey helicopters are being remanufactured under a contract with a vendor. To date, this vendor is behind schedule on delivery of the helicopters. Even though the first seven helicopters are substantially complete, this vendor continues to be plagued by material shortages and challenging communication with the FAA in completing helicopter production, conformance and certification. We sold one helicopter and plan to sell the remaining two small bird helicopters (i.e., MD 530FF) that we do not intend to use in other programs. Thus, the main risks related to the helicopters are as follows:

- we may not be able to profitably utilize all of these assets on our contracts;
- the inability to deploy some of these helicopter assets could lead to a material impairment charge; and

delays in deploying the helicopters could extend the period that it takes to recoup our investment, which would negatively affect liquidity.

We are subject to the Internal Control Evaluation and Attestation Requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. Furthermore, Deloitte & Touche, LLP, our independent registered public accounting firm (the Independent Registered Public Accounting Firm) is required to report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of each fiscal year. In future years, if we fail to timely complete this assessment, or if our Independent Registered Public Accounting Firm cannot timely attest to the effectiveness of our internal control over financial reporting, we could be subject to regulatory sanctions and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

We are significantly influenced by Veritas Capital, whose interests may not be aligned with yours

As of June 1, 2010, Veritas Capital owned a majority of the outstanding membership interest in our controlling stockholder, DIV Holding LLC (DIV). Veritas Capital indirectly controls approximately 37.1% of our Class A common stock. As long as Veritas Capital continues to beneficially own a significant amount of the outstanding shares of our Class A common stock, it will continue to be able to strongly influence or effectively control our decisions, including the election of our directors, determine our corporate and management policies and determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including potential mergers or acquisitions, asset sales and other significant corporate transactions. Two of our thirteen directors are employees of Veritas Capital. Concurrently with the execution of the Merger Agreement, DIV Holding entered into the Voting Agreement with Parent and Merger Sub whereby DIV Holding and its affiliates, committed, among other things, subject to the terms and conditions of the Voting Agreement, to vote 34.9% of the outstanding shares of Common Stock for the adoption of the Merger Agreement. DIV Holding and certain of its affiliates also agreed not to transfer, sell or encumber any of their shares, and to notify Parent of any additional shares or rights to acquire additional shares acquired after the execution of the Voting Agreement. The Voting Agreement automatically terminates upon the termination of the Merger Agreement.

Even if Veritas Capital no longer significantly influences us in the future, and if the Merger is not consummated certain provisions of our charter documents and agreements, as well as Delaware law, could discourage, delay or prevent a merger or acquisition at a premium price.

Our Amended and Restated Certificate of Incorporation and Bylaws contain provisions that:

- permit us to issue, without any further vote or action by our shareholders, 50 million shares of preferred stock in one or more series and, with respect to each series, to fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares;

- provide for a classified board of directors serving staggered three-year terms; and

- limit our shareholders ability to call special meetings.

In addition, we have a plan that grants shareholders the right to purchase from us additional shares at preferential prices in the event of a hostile attempt to acquire control of us. All of the foregoing provisions may impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing shareholders. Notwithstanding the foregoing, as a result of our execution of the Merger Agreement and until the earlier of receipt of requisite stockholder approval and the termination of the Merger Agreement, Delaware corporate law requires our Board to exercise certain fiduciary duties that could, in certain circumstances involving the receipt of an acquisition proposal that constitutes or would reasonably be expected to result in a superior proposal (as defined in the Merger Agreement), require the Board to take certain actions to facilitate such acquisition proposal.

The Merger is subject to satisfaction or waiver of certain customary conditions, including the approval of the Merger by our stockholders.

Completion of the Merger is subject to the satisfaction or waiver of certain customary conditions, including the adoption of the Merger Agreement by our stockholders, receipt of required antitrust approvals (or termination or expiration of applicable waiting periods), the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the Merger Agreement and no court or other governmental entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (including any injunction) that restrains, enjoins or otherwise prohibits consummation of the Merger or otherwise makes the consummation of the Merger illegal. The transaction is expected to close in the third or fourth quarter of calendar year 2010, but could close as early as late June. However, no assurances can be given that the transaction contemplated by the Merger Agreement will be consummated or, if not consummated, that we will enter into a comparable or superior transaction with another party.

The Merger may not be completed if sufficient financing is not funded.

Parent has obtained equity and debt financing commitments. The funding under those commitments is subject to conditions, including conditions that do not relate directly to the Merger Agreement. We believe the committed amounts will be sufficient to complete the Merger, but we cannot assure you of that. Those amounts might be insufficient if, among other things, we have substantially less cash on hand or Parent has substantially less net proceeds from the equity and debt financings than we currently expect. Although obtaining the equity or debt financing is not a condition to the completion of the Merger, the failure of Parent and Merger Sub to obtain sufficient financing is likely to result in the failure of the Merger to be completed. We believe the committed amounts will be sufficient to complete the transaction, but cannot provide any assurance to that effect.

Although the debt financing described herein is not subject to due diligence or a typical market out provision, which allows lenders not to fund their commitments if certain conditions in the financial markets prevail, there is still a risk that such financing may not be funded when required. As of the date of this Annual Report on Form 10-K, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described herein is not available as anticipated. Even though obtaining the equity or debt financing is not a condition to the completion of the Merger, the failure of Parent and Merger Sub to obtain sufficient financing is likely to result in the failure of the Merger to be completed. In that case, Parent may be obligated to pay us a termination fee, which obligation is guaranteed under the Limited Guarantee by an affiliate of Cerberus.

Our future business and financial position may be adversely affected if the Merger is not completed.

If the Merger Agreement is terminated and the Merger is not consummated, we will have incurred substantial expenses without realizing the expected benefits of the Merger. In addition, we may also be subject to additional risks including, without limitation:

- upon termination of the Merger Agreement under specified circumstances, the Company may be required to pay Parent a termination fee of $30 million or to reimburse transaction expenses incurred by Parent and Merger Sub up to $12 million. In addition, under certain circumstances involving Parent s termination of the Merger Agreement where we have committed a Willful Breach (as defined in the Merger Agreement) of the Merger Agreement, we will be required to pay Parent liquidated damages in the amount of $300 million;

- substantial costs related to the Merger, such as legal, accounting and financial advisory fees, must be paid regardless of whether the Merger is completed; and

- potential disruption to the current plan, operations, businesses and distraction of our workforce and management team.

Since announcing the proposed Merger, two class action lawsuits have been filed against the Company and its directors. The outcome or settlement of these claims may have an adverse effect upon the Company s results of operation.

Since the announcement of the proposed Merger, two putative class action lawsuits seeking to enjoin the Merger, among other things, have been filed on behalf of stockholders of DynCorp International in federal and state court. Descriptions of these lawsuits, are set forth in Note 8 to the consolidated financial statements, in

Item 8. Financial Statements and Supplementary Data of this Form 10-K and is incorporated herein by reference. The cost of defending such law suits and paying any judgment or settlement in connection therewith could have an adverse impact on our financial results.

The Merger creates unique risks in the time leading up to closing, and there are also risks of completing the conditions to closing.

The Merger Agreement generally requires us to operate our business in the ordinary course pending consummation of the proposed combination, but restricts us, without Parent s consent, from taking certain specified actions until the Merger is complete or the Merger Agreement is terminated. Further, the pending Merger increases the Company s risk of loss of key employees due to, among other things, uncertainty concerning the post-Merger operation of the Company.

Until all conditions to the Merger are satisfied and the related debt financing is ready to be funded, we cannot be certain that the Merger will close. We will incur significant transaction costs relating to the proposed Merger, whether or not the proposed Merger is completed. Additionally, matters relating to the Merger (including integration planning) may require substantial commitments of time and resources, which could otherwise have been devoted to other beneficial opportunities and there may be potential difficulties in employee retention as a result of the Merger.

Any loss of business opportunities or key personnel could have an adverse impact on future business, and, as a result, result in lower future sales and earnings.

If we are unable to complete our proposed Merger with affiliates of Cerberus our stock price could suffer.

The termination of the Merger Agreement would likely result in a decline in our stock price to the extent that our stock price reflects a market assumption that we will complete the Merger and our stockholders will receive the Per Share Merger Consideration specified in the Merger Agreement.

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ITEM 1B. ***UNRESOLVED STAFF COMMENTS.***

None.

ITEM 2. ***PROPERTIES.***

We are headquartered in Falls Church, Virginia with major administrative offices in Fort Worth, Texas. As of April 2, 2010, we leased 31 commercial facilities in 6 countries used in connection with the various services rendered to our customers. Lease expirations range from month-to-month to ten years. Upon expiration of our leases, we do not anticipate any difficulty in obtaining renewals or alternative space. Many of our current leases are non-cancelable. We do not own any real property.

The following locations represent our primary leased properties as of April 2, 2010.

Location	Description	Business Segment	Size (sq ft)
Fort Worth, TX	Executive offices finance and administration	Corporate	194,335
Salalah Port, Oman	Warehouse and storage WRM contract	GSDS	125,000
Falls Church, VA	Executive offices headquarters	Corporate	105,814
Alexandria, VA	Executive offices ITS Business Area	GSDS	54,712
Kabul, Afghanistan	Offices and residence	GSDS	42,008
McClellan, CA	Warehouse California Fire Program	GPSS	18,800
Dubai, UAE	Executive offices finance and administration	Corporate	18,021
Alexandria, VA	Executive offices Casals division	GSDS	14,174
Muscat, Oman	Offices and residence supports WRM contract	GSDS	13,778
Herndon, VA	Offices GLS recruiting center	GLS	11,400
San Diego, CA	Offices GLS recruiting center	GLS	9,400

We believe that substantially all of our property and equipment is in good condition, subject to normal use and that our facilities have sufficient capacity to meet the current and projected needs of our business.

ITEM 3. ***LEGAL PROCEEDINGS.***

Information required with respect to this item is set forth in Note 8 to the consolidated financial statements, in Item 8. Financial Statements and Supplementary Data of this Form 10-K and is incorporated herein by reference.

ITEM 4. **[*REMOVED AND RESERVED*]**

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PART II

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

Market Information

Our Class A Common Stock is traded on the NYSE under the symbol DCP . The table below sets forth the high and low sales prices of our common stock based on intra-day high and low prices for the periods indicated:

Fiscal year 2010	High	Low
Fiscal quarter ended:		
April 2, 2010	$ 14.70	$ 10.10
January 1, 2010	$ 18.39	$ 12.86
October 2, 2009	$ 22.03	$ 15.74
July 3, 2009	$ 17.75	$ 12.73

Fiscal year 2009	High	Low
Fiscal quarter ended:		
April 3, 2009	$ 16.26	$ 10.61
January 2, 2009	$ 16.07	$ 9.95
October 3, 2008	$ 18.75	$ 14.05
July 4, 2008	$ 18.28	$ 14.00

At June 1, 2010, the closing price of our common stock was $16.90 per share. There were 56,307,871 shares of our common stock outstanding and there were approximately 68 holders of record of our common stock.

Dividends

We are a holding company that does not conduct any business operations of our own. As a result, we are dependent upon cash dividends, distributions and other transfers from our subsidiaries to make dividend payments on our Class A Common Stock. However, we have never paid, and do not intend to pay in the foreseeable future, cash dividends on our Class A Common Stock. The amounts available to us to pay cash dividends are restricted by our subsidiaries debt agreements. The declaration and payment of dividends are also subject to the discretion of our board of directors and depend on various factors, including our net income attributable to DynCorp International Inc., financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

Issuer Repurchases of Equity Securities

Our board of directors authorized us to repurchase up to $25.0 million per fiscal year of our outstanding Class A Common Stock and/or senior subordinated notes during fiscal years 2009 and 2010. The Class A Common Stock portion was repurchased periodically in the open market or through privately negotiated transactions at our discretion, subject to market conditions, and in accordance with applicable federal and state securities laws and regulations. Shares of common stock repurchased under this authorization are held as treasury shares. Some of these treasury shares were issued to settle vested restricted stock. There were no stock repurchases in the fourth quarter of fiscal year 2010.

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Equity Compensation Plan Information

The following table provides information as of April 2, 2010 with respect to the Class A Common Stock that may be issued under the DynCorp International 2007 Omnibus Incentive Plan (OIP), approved by our stockholders on August 8, 2007. See further information regarding our equity stock plans in Note 11 to our consolidated financial statements.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (1)
Equity compensation plans approved by security holders	782,398	N/A(2)	1,433,306
Equity compensation plans not approved by security holders	None	N/A(2)	None
Total	782,398	N/A(2)	1,433,306

(1) Excluding securities to be issued upon exercise of outstanding options, warrants and rights.
(2) Currently, we have issued both service based and performance based restricted stock units awards within our OIP, which do not have an exercise price.

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Stock Performance Graph

The chart below compares the cumulative total shareholder return on our Class A Common Stock from our initial public offering on May 4, 2006 to the end of the fiscal year 2010 with the cumulative total return on the Russell 1000 Growth Index and our peer group, indicated below the table, for the same period. The comparison assumes the investment of $100.00 on May 4, 2006, and reinvestment of all dividends where applicable. Each company in our peer group is equally weighted. The shareholder return is not necessarily indicative of future performance.

Figure 1

(1) Our peer group is composed of the following U.S. Federal Government service providers with whom we compete and/or have common business characteristics: AECOM Technology Corp. (ACM), CACI International Inc. (CAI), ITT Corporation (ITT), KBR Inc. (KBR), L-3 Communications Holdings Inc. (LLL), ManTech International Corp. (MANT), SAIC Inc. (SAI), SRA International Inc. (SRX), and Stanley, Inc. (SXE).

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ITEM 6. ***SELECTED FINANCIAL DATA.***

The selected historical consolidated financial data the fiscal years ended April 2, 2010, April 3, 2009, March 28, 2008, March 30, 2007, and March 31, 2006 is presented the table below.

This information should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report.

	Fiscal Years Ended				
	April 2, 2010	**April 3, 2009**	**March 28, 2008**	**March 30, 2007**	**March 31, 2006**
			(Amounts in thousands)		
Results of operations:					
Revenue	$ 3,585,262	$ 3,101,093	$ 2,139,761	$ 2,082,274	$ 1,966,993
Cost of services	(3,225,593)	(2,768,962)	(1,859,666)	(1,817,707)	(1,722,089)
Selling, general and administrative expenses	(106,401)	(103,583)	(117,919)	(107,681)	(97,520)
Depreciation and amortization	(41,639)	(40,557)	(42,173)	(43,401)	(46,147)
Operating income	211,629	187,991	120,003	113,485	101,237
Interest expense	(55,650)	(58,782)	(55,374)	(58,412)	(56,686)
Interest on mandatory redeemable shares				(3,002)	(21,142)
Loss on early extinguishment of debt, net	(146)	(4,131)		(3,484)	
Loss on early extinguishment of preferred stock				(5,717)	
Earnings from affiliates	5,202	5,223	4,758	2,913	
Interest income	542	2,195	3,062	1,789	461
Other income, net	1,035	145	199		
Provision for income taxes	(51,893)	(41,995)	(27,999)	(20,549)	(16,627)
Net income	110,719	90,646	44,649	27,023	7,243
Noncontrolling interests	(24,631)	(20,876)	3,306		
Net income attributable to DynCorp International Inc.	86,088	69,770	47,955	27,023	7,243
Basic earnings per share	1.53	1.22	0.84	0.49	0.23
Diluted earnings per share	1.52	1.22	0.84	0.49	0.23
Cash flows provided by operating activities	90,473	140,871	42,361	86,836	55,111
Cash flows used by investing activities	(88,875)	(9,148)	(11,306)	(7,595)	(6,231)
Cash flows used in financing activities	(79,387)	(16,880)	(48,131)	2,641	(41,781)
Balance sheet data (end of period):					
Cash and cash equivalents	122,433	200,222	85,379	102,455	20,573
Working capital (1)	426,118	439,997	361,813	282,929	251,329
Total assets	1,782,617	1,539,214	1,402,709	1,362,901	1,239,089
Total debt (including Series A Preferred Stock)	552,147	599,912	593,162	630,994	881,372
Total shareholders equity attributable to DynCorp International Inc.	587,456	497,521	424,285	379,674	106,338
Total equity	593,278	508,257	420,979	379,674	106,338
Other financial data:					
EBITDA (2)	236,857	217,557	174,820	163,438	148,718
Backlog (3)	5,571,636	6,297,903	5,961,000	6,132,011	2,641,000
Purchases of PP&E and software	46,046	7,280	7,738	9,317	6,180

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