This Quarterly Report is not filed with the Securities and Exchange Commission. This Quarterly Report is being furnished pursuant to the Indenture governing the 10.375% Senior Notes due 2017 and the $720 million Senior Secured Credit Facilities of DynCorp International Inc.

QUARTERLY REPORT

For the quarterly period ended July 2, 2010

DYNCORP INTERNATIONAL INC.

(Exact name of Company as specified in its charter)

Delaware	**52-2287126**
(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)

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Disclosure Regarding Forward-Looking Information

Although this is not a filing with the Securities and Exchange Commission ("SEC"), this Quarterly Report contains various forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements 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, projections 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 amount of the costs, fees, expenses and charges incurred by the Company related to the merger with affiliates of Cerberus Capital Management L.P. ("the Merger");
- the future impact of mergers (including the Merger) acquisitions, joint ventures or teaming agreements;
- our substantial level of indebtedness and changes in availability of our 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, any subsequent administration or Congress;
- termination or modification of key United States ("U.S.") government or commercial contracts, including subcontracts;
- 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 ("LOGCAP IV") 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;
- general political, economic and business conditions in the U.S. or in other countries in which we operate;
- 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; the timing of any award fee granted under our government contracts, including, but not limited to, LOGCAP IV;
- the timing of any award fee granted under our government contracts, including, but not limited to, LOGCAP IV;
- 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;
- 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; and
- termination or modification of key subcontractor performance or delivery.

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. Fiscal year 2011 and 2010 are both 52-week years. Throughout this report, each quarter of the fiscal year contains 13 weeks.

FINANCIAL INFORMATION

FINANCIAL STATEMENTS

DYNCORP INTERNATIONAL INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	For the Fiscal Quarter Ended	
	July 2, 2010	July 3, 2009
Revenue	$ 947,503	$ 785,177
Cost of services	(857,897)	(699,093)
Selling, general and administrative expenses	(38,513)	(23,438)
Depreciation and amortization expense	(10,263)	(10,145)
Operating income	40,830	52,501
Interest expense	(12,678)	(14,610)
Earnings from affiliates	709	1,054
Interest income	51	339
Other income/(loss), net	225	(213)
Income before income taxes	29,137	39,071
Provision for income taxes	(10,017)	(12,627)
Net income	19,120	26,444
Noncontrolling interests	(5,004)	(5,799)
Net income attributable to DynCorp International Inc.	$ 14,116	$ 20,645
Basic and diluted earnings per share	$ 0.25	$ 0.36

See notes to consolidated financial statements.

DYNCORP INTERNATIONAL INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	As of	
	July 2, 2010	April 2, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 135,849	$ 122,433
Restricted cash	8,183	15,265
Accounts receivable, net of allowances of $62 and $68	859,012	865,156
Prepaid expenses and other current assets	109,804	96,159
Total current assets	1,112,848	1,099,013
Property and equipment, net	55,955	55,233
Goodwill	451,868	451,868
Tradename, net	18,941	18,976
Other intangibles, net	114,160	122,040
Deferred income taxes	5,831	5,071
Other assets, net	30,682	30,416
Total assets	$ 1,790,285	$ 1,782,617
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,275	$ 44,137
Accounts payable	348,051	347,068
Accrued payroll and employee costs	128,174	141,132
Deferred income taxes	25,923	18,002
Other accrued liabilities	114,334	111,198
Income taxes payable	5,071	11,358
Total current liabilities	625,828	672,895
Long-term debt, less current portion	547,934	508,010
Other long-term liabilities	9,098	8,434
Total liabilities	1,182,860	1,189,339
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value – 232,000,000 shares authorized; 57,000,000 shares issued and 56,307,871 and 56,286,196 shares outstanding, respectively	570	570
Additional paid-in capital	367,761	367,488
Retained earnings	243,577	229,461
Treasury shares, 692,129 shares and 713,804 shares, respectively	(8,697)	(8,942)
Accumulated other comprehensive loss, net of tax	(728)	(1,121)
Total stockholders' equity attributable to DynCorp International Inc.	602,483	587,456
Noncontrolling interests	4,942	5,822
Total equity	607,425	593,278
Total liabilities and stockholders' equity	$ 1,790,285	$ 1,782,617

See notes to consolidated financial statements.

DYNCORP INTERNATIONAL INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For the Fiscal Quarter Ended	
	July 2, 2010	July 3, 2009
Cash flows from operating activities		
Net income	$ 19,120	$ 26,444
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,524	10,424
Amortization of deferred loan costs	963	1,000
Allowance for losses on accounts receivable	33	264
Earnings from affiliates	(709)	(1,054)
Deferred income taxes	8,077	8,229
Equity-based compensation	3,518	866
Other	557	(4)
Changes in assets and liabilities:		
Restricted cash	7,082	235
Accounts receivable	6,111	(75,302)
Prepaid expenses and other current assets	(15,201)	14,035
Accounts payable and accrued liabilities	(11,001)	23,131
Income taxes payable	(7,351)	(2,820)
Net cash provided by operating activities	21,723	5,448
Cash flows from investing activities		
Purchase of property and equipment	(1,809)	(780)
Purchase of computer software	(1,065)	(514)
Net cash used in investing activities	(2,874)	(1,294)
Cash flows from financing activities		
Borrowings on long-term debt	85,600	–
Payments on long-term debt	(85,600)	(34,337)
Purchases of treasury stock	–	(712)
Payments of dividends to noncontrolling interests	(5,416)	(10,034)
Other financing activities	(17)	–
Net cash used in financing activities	(5,433)	(45,083)
Net increase/(decrease) in cash and cash equivalents	13,416	(40,929)
Cash and cash equivalents, beginning of period	122,433	200,222
Cash and cash equivalents, end of period	$ 135,849	$ 159,293
Income taxes paid (net of refunds)	$ 8,001	$ 614
Interest paid	$ 3,181	$ 4,599

See notes to consolidated financial statements.

DYNCORP INTERNATIONAL INC.
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income	Stockholders' Equity Attributable to DynCorp International Inc.	Noncontrolling Interests	Total Equity
					(Amounts in thousands)				
Balance at April 3, 2009	**56,307**	**$ 570**	**$ 366,620**	**$ 143,373**	**$ (8,618)**	**$ (4,424)**	**$ 497,521**	**$ 10,736**	**$ 508,257**
Comprehensive income (loss):									
Net income			—	26,444	—	—	26,444	—	26,444
Interest rate swap, net of tax			—	—	—	566	566	—	566
Currency translation adjustment, net of tax			—	—	—	348	348	—	348
Comprehensive income			—	26,444	—	914	27,358	—	27,358
Noncontrolling interests			—	(5,799)	—	—	(5,799)	—	(5,799)
Comprehensive income attributable to DynCorp International Inc.			—	20,645	—	914	21,559	—	21,559
Net income and comprehensive income attributable to noncontrolling interests			—	—	—	—	—	5,799	5,799
DIFZ financing, net of tax			112	—	—	—	112	—	112
Treasury share repurchases	(55)	—	—	—	(712)	—	(712)	—	(712)
Equity-based compensation			191	—	—	—	191	—	191
Tax benefit associated with equity-based compensation			(13)	—	—	—	(13)	—	(13)
Dividends declared to noncontrolling interests				—	—	—	—	(10,700)	(10,700)
Balance at July 3, 2009	**56,252**	**$ 570**	**$ 366,910**	**$ 164,018**	**$ (9,330)**	**$ (3,510)**	**$ 518,658**	**$ 5,835**	**$ 524,493**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income	Stockholders' Equity Attributable to DynCorp International Inc.	Noncontrolling Interests	Total Equity
					(Amounts in thousands)				
Balance at April 2, 2010	**56,286**	**$ 570**	**$ 367,488**	**$ 229,461**	**$ (8,942)**	**$ (1,121)**	**$ 587,456**	**$ 5,822**	**$ 593,278**
Comprehensive income (loss):									
Net income			—	19,120	—	—	19,120	—	19,120
Interest rate swap, net of tax			—	—	—	717	717	—	717
Currency translation adjustment, net of tax			—	—	—	(324)	(324)	—	(324)
Comprehensive income			—	19,120	—	393	19,513	—	19,513
Noncontrolling interests			—	(5,004)	—	—	(5,004)	—	(5,004)
Comprehensive income attributable to DynCorp International Inc.			—	14,116	—	393	14,509	—	14,509
Net income and comprehensive income attributable to noncontrolling interests			—	—	—	—	—	5,004	5,004
DIFZ financing, net of tax			109	—	—	—	109	—	109
Treasury Shares issued to settle RSU liability	22	—	124	—	245	—	369	—	369
Equity-based compensation			57	—	—	—	57	—	57
Tax benefit associated with equity-based compensation			(17)	—	—	—	(17)	—	(17)
Dividends declared to noncontrolling interests				—	—	—	—	(5,884)	(5,884)
Balance at July 2, 2010	**56,308**	**$ 570**	**$ 367,761**	**$ 243,577**	**$ (8,697)**	**$ (728)**	**$ 602,483**	**$ 4,942**	**$ 607,425**

See notes to consolidated financial statements

DYNCORP INTERNATIONAL INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Basis of Presentation and Accounting Policies

Basis of Presentation

We are a leading provider of specialized, mission-critical professional and support services outsourced by the United States ("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, international development, ground vehicle support, counter-narcotics aviation, platform services and operations, and linguist services. We also provide logistics support for all our services. References herein to "DynCorp International", the "Company", "we", "our", or "us" refer to DynCorp International Inc. and its subsidiaries unless otherwise stated or indicated by the context.

The consolidated financial statements include the accounts of the Company and our domestic and foreign subsidiaries. These consolidated financial statements have been prepared, without audit, pursuant to accounting principles generally accepted in the United States of America ("GAAP") for interim financial information.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, we believe that all disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the related notes thereto included in the Company's fiscal 2010 Annual Report on Form 10-K, filed with the Security and Exchange Commission ("SEC") on June 4, 2010.

In the opinion of management, all adjustments necessary to fairly present our financial position at July 2, 2010 and April 2, 2010, the results of operations for the quarters ended July 2, 2010 and July 3, 2009, and cash flows for the quarters ended July 2, 2010 and July 3, 2009 have been included. The results of operations for the quarter ended July 2, 2010 are not necessarily indicative of the results to be expected for the full fiscal year or for any future periods.

We use estimates and assumptions required for preparation of the financial statements. The estimates are primarily based on historical experience and business knowledge and are revised as circumstances change. However, actual results can differ from the estimates.

As further discussed in Note 15 to the unaudited consolidated financial statements, on July 7, 2010, DynCorp International Inc., ("DynCorp International"), completed its merger (the "Merger") with Delta Tucker Sub, Inc. ("Merger Sub"), a Delaware corporation and a wholly owned subsidiary of Delta Tucker Holdings, Inc., a Delaware corporation ("Parent"), pursuant to the Agreement and Plan of Merger dated as of April 11, 2010, by and among DynCorp International, Parent and Merger Sub (the "Merger Agreement"). Pursuant to the Merger Agreement, Merger Sub merged with and into DynCorp International. DynCorp International was the surviving corporation in the Merger (the "Surviving Corporation") and, as a result of the Merger, became a wholly-owned subsidiary of the Parent. The Parent and Merger Sub were entities created on behalf of affiliated funds and/or managed accounts of Cerberus Capital Management, L.P., a private investment firm ("Cerberus"). The Merger consideration of approximately $1.4 billion, including debt issuance costs and Merger related expenses, net of cash acquired, was funded through equity financing provided by affiliates of Cerberus, borrowings under DynCorp International's new senior credit facility, sale of new senior unsecured notes. The new senior credit facility and new senior unsecured notes are further discussed in Note 6 to the unaudited consolidated financial statements.

The consolidated financial statements include the accounts of both our domestic and foreign subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. We have investments in five active joint ventures that are considered variable interest entities ("VIEs"). We account for our investments in VIEs in accordance with Financial Accounting Standards Board Codification ("ASC") ASC 810 — *Consolidation*. In cases where we have (i) the power to direct the activities of the VIE that most significantly impact its economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant or the right to receive benefits from the entity that could potentially be significant to the VIE, we consolidate the entity. Alternatively, in cases where we do not meet all of the aforementioned criteria, we account for our investment under the equity method.

We have ownership interests in three active joint ventures that are not consolidated into our unaudited consolidated financial statements as of July 2, 2010, and are accounted for using the equity method. Economic rights in active joint ventures are indicated by the ownership percentages in the table listed below.

Contingency Response Services LLC	45.0	%
Babcock DynCorp Limited	44.0	%
Partnership for Temporary Housing LLC	40.0	%

The following table sets forth our ownership in joint ventures that are consolidated into our unaudited consolidated financial statements as of July 2, 2010. For the entities listed below, we are the primary beneficiary as defined in ASC 810 — *Consolidation.*

Global Linguist Solutions LLC	51.0	%
DynCorp International FZ-LLC	50.0	%

Noncontrolling Interests

We record the impact of our joint venture partners' interests in the consolidated joint ventures as noncontrolling interests. Noncontrolling interests is presented on the face of the income statement as an increase or reduction in arriving at net income attributable to DynCorp International Inc. Noncontrolling interests on the balance sheet is located in the equity section.

Restricted Cash

Restricted cash represents cash restricted by certain contracts in which advance payments are not available for use except to pay specified costs and vendors for work performed on the specific contract and cash restricted and invested as collateral as required by our letters of credit. Changes in restricted cash related to our contracts are included as operating activities whereas changes in restricted cash for funds invested as collateral are included as investing activities in the consolidated statements of cash flows.

Accounting Policies

There have been no material changes to our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 2, 2010 except for the adoption of Financial Accounting Standards Update ("ASU") 2009-17 ("ASU 2009-17")—*The issuance of Financial Accounting Standards Board ("FASB") Statement No. 167, Amendments to FASB Interpretation No. 46(R)* as discussed in the following paragraph.

Accounting Developments

Pronouncements Implemented in the first quarter of fiscal year 2011

In June 2009, the FASB issued Statement of Financial Standards No. 167— *Amendments to FASB Interpretation 46(R)* ("SFAS No. 167"). SFAS No. 167 was converted to ASU 2009-17 and was incorporated into Financial Accounting Standards Codification ("ASC") ASC 810 — *Consolidation*. This statement amends the guidance for (i) determining whether an entity is a VIE, (ii) determining the primary beneficiary of a variable interest entity, (iii) requiring ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and (iv) changing the disclosure requirements in FIN 46(R)-8. This statement was effective for us beginning April 3, 2010. The adoption of this statement did not impact our consolidation conclusions in the first quarter of fiscal year 2011. However, as a result of the Merger on July 7, 2010, we will deconsolidate Global Linguist Solutions ("GLS") effective July 7, 2010 in accordance with ASU 2009-17. See Note 15 to the unaudited consolidated financial statements for additional discussion on this matter.

Pronouncements not yet Implemented

In October 2009, the FASB issued ASU No. 2009-13—*Revenue Recognition Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13"). This update (i) removes the objective-and-reliable-evidence-of-fair-value criterion from the

separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, (ii) replaces references to "fair value" with "selling price" to distinguish from the fair value measurements required under the fair value measurements and disclosures guidance, (iii) provides a hierarchy that entities must use to estimate the selling price, (iv) eliminates the use of the residual method for allocation, and (v) expands the ongoing disclosure requirements. The amendments in this update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the effect that adoption of this ASU will have on our consolidated financial position and results of operations.

In October 2009, the FASB issued ASU No. 2009-14—*Certain Revenue Arrangements That Include Software Elements* ("ASU 2009-14"), which updates ASC Topic 985—*Software.* ASU 2009-14 clarifies which accounting guidance should be used for purposes of measuring and allocating revenue for arrangements that contain both tangible products and software, and where the software is more than incidental to the tangible product as a whole. The amendments in this update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the effect that adoption of this ASU will have on our consolidated financial position and results of operations.

In April 2010, the FASB issued ASU No. 2010-17—*Milestone Method of Revenue Recognition—a consensus of the FASB Emerging Issues Task Force* ("ASU-2010-17"), which amends Topic 605—*Revenue Recognition.* This ASU establishes authoritative guidance permitting the use of the milestone method of revenue recognition for research or development arrangements that contain payment provisions or consideration contingent on the achievement of specified events. This guidance is effective for milestones achieved in fiscal years beginning on or after June 15, 2010 and allows for either prospective or retrospective application, with early adoption permitted. Management is currently evaluating the effect that adoption of this ASU will have on our consolidated financial position and results of operations.

Note 2—Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period.

We calculated earnings per share under ASC 260—*Earnings Per Share* ("ASC 260"). Under ASC 260, common stock equivalents that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and, therefore, are included in the computation of basic earnings per share pursuant to the two-class method. As of July 2, 2010, we did not have any common stock equivalents that contained non-forfeitable rights to dividends or dividend equivalents.

During the quarters ended July 2, 2010 and July 3, 2009, our only common stock equivalents were service or performance based restricted stock units ("RSUs"). Our RSUs may be dilutive and included in diluted earnings per share calculations or anti-dilutive and excluded from such calculations (see Note 9 to the unaudited consolidated financial statements for additional discussion of RSUs). The following table reconciles the numerators and denominators used in the computations of basic and diluted earnings per share:

	For the Quarter Ended	
	July 2, 2010	July 3, 2009
	(Amounts in thousands, except per share data)	
Numerator		
Net income attributable to DynCorp International Inc.	$ 14,116	$ 20,645
Denominator		
Weighted average common shares — basic	56,297	56,258
Weighted average common shares — diluted	56,638	56,258
Basic and diluted earnings per share	$ 0.25	$ 0.36

Note 3—Goodwill and Other Intangible Assets

The following tables provide information about our Goodwill balances:

	GSDS	GPSS	GLS	Total
		(Amounts in thousands)		
Goodwill balance as of July 2, 2010	$ 240,761	$ 211,107	$ —	$ 451,868
Goodwill balance as of April 2, 2010	$ 240,761	$ 211,107	$ —	$ 451,868

The following tables provide information about changes relating to intangible assets:

	As of July 2, 2010			
	Weighted Average Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net
		(Amounts in thousands, except years)		
Other intangible assets:				
Customer-related intangible assets	8.5	$293,807	($198,466)	$ 95,341
Other	6.7	31,511	(12,692)	18,819
Total other intangibles		$325,318	($211,158)	$ 114,160
Tradename:				
Finite-lived	5.0	$ 706	($83)	$ 623
Indefinite-lived		18,318	—	18,318
Total tradename		$19,024	($83)	$ 18,941

	As of April 2, 2010			
	Weighted Average Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net
		(Amounts in thousands, except years)		
Other intangible assets:				
Customer-related intangible assets	8.5	$293,807	($189,847)	$103,960
Other	6.6	29,923	(11,843)	18,080
Total other intangibles		$323,730	($201,690)	$122,040
Tradename:				
Finite-lived	5.0	$706	($48)	$658
Indefinite-lived		18,318	—	18,318
Total tradename		$19,024	($48)	$18,976

Amortization expense for customer-related and other intangibles was $9.5 million during the fiscal quarter ended July 2, 2010 and July 3, 2009, respectively.

Note 4— Income Taxes

The provision for income taxes consists of the following:

	Fiscal Quarter Ended	
	July 2, 2010	July 3, 2009
	(Amounts in thousands)	
Current portion:		
Federal	$ 1,168	$ 3,162
State	278	393
Foreign	494	843
	1,940	4,398
Deferred portion:		
Federal	7,852	7,959
State	219	266
Foreign	6	4
	8,077	8,229
Provision for income taxes	$ 10,017	$ 12,627

Deferred tax assets and liabilities are reported as:

	As of	
	July 2, 2010	April 2, 2010
	(Amounts in thousands)	
Current deferred tax liabilities	$ (25,923)	($18,002)
Non-current deferred tax assets	5,831	5,071
Deferred tax liabilities, net	$ (20,092)	($12,931)

As of July 2, 2010 and April 2, 2010, we had $14.2 million and $12.7 million, respectively, of total unrecognized tax benefits. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $2.0 million and $0.2 million as of July 2, 2010 and July 3, 2009, respectively.

It is expected that the amount of unrecognized tax benefits will change in the next twelve months; however, we do not expect the change to have a significant impact on the results of operations or our financial position.

We recognize interest accrued related to uncertain tax positions in interest expense and penalties in income tax expense in our unaudited consolidated statements of income, which is consistent with the recognition of these items in prior periods. We have recorded a liability of approximately $1.0 million and $0.8 million for the payment of interest and penalties as of July 2, 2010 and April 2, 2010, respectively.

We file income tax returns in U.S. federal and state jurisdictions and in various foreign jurisdictions. The statute of limitations is open for U.S. federal income tax returns for our fiscal year 2008 and forward. The statute of limitations for state income tax returns is open for our fiscal year 2005 and forward, with few exceptions, and foreign income tax examinations for the calendar year 2007 and forward.

For the fiscal quarter ended July 2, 2010, our effective tax rate was 34.4% as compared to 32.3% for the fiscal quarter ended July 3, 2009. The calculation of the effective tax rate below the U.S. marginal federal statutory rate of 35% was primarily due to the impact of our consolidated joint ventures which are GLS and DynCorp International FZ-LLC ("DIFZ"). These are consolidated for financial reporting purposes, but are considered unconsolidated entities for U.S. income tax purposes.

Note 5— Accounts Receivable

Accounts Receivable, net of allowances consisted of the following:

	As of	
	July 2, 2010	April 2, 2010
	(Amounts in thousands)	
Billed	$ 306,577	$ 250,166
Unbilled	552,435	614,990
Total	$ 859,012	$ 865,156

Unbilled receivables as of July 2, 2010 and April 2, 2010 include $47.4 million and $44.5 million, respectively, related to costs incurred on projects for which we have been requested by the customer to begin work under a new contract or extend work under an existing contract, and for which formal contracts or contract modifications have not been executed at the end of the respective periods. This amount includes contract claims of $0.3 million and $0.9 million as of July 2, 2010 and April 2, 2010, respectively. The balance of unbilled receivables consists of costs and fees billable immediately, on contract completion or other specified events, virtually all of which is expected to be billed and collected within one year.

Note 6—Debt

Our debt consisted of the following as of July 2, 2010 and April 2, 2010:

	As of	
	July 2, 2010	**April 2, 2010**
	(Amounts in thousands)	
Term loans	$ 176,637	$ 176,637
9.5% Senior subordinated notes[1]	375,572	375,510
Total debt	552,209	552,147
Less current portion of long-term debt	(4,275)	(44,137)
Total long-term debt	$ 547,934	$ 508,010

(1) This includes the impact of the discount, which had a carrying value of $0.6 million and $0.7 million as of July 2, 2010 and April 2, 2010 respectively.

In connection with the Merger on July 7, 2010, substantially all of our debt outstanding as of July 2, 2010 was extinguished and replaced with new debt described below. As of August 4, 2010, the date the financial statements were available to be issued, there was $0.6 million of 9.5% senior subordinated notes still outstanding. We classified our outstanding debt between current and long-term during the quarter ended July 2, 2010 due to our intent and ability to refinance the majority of the outstanding debt on a long-term basis. See Note 15 to the unaudited consolidated financial statements for further discussion related to the Merger.

Pre-Merger Long-Term Debt

For a full description of our pre-merger indebtedness, see Note 7- *Long-Term Debt*, to the audited consolidated financial statements in the fiscal year 2010 Annual Report on Form 10-K filed with the SEC on June 4, 2010.

Pre-Merger Senior Secured Credit Facility

We were required, under certain circumstances as defined in our credit agreement, to use a percentage of excess cash generated from operations to reduce the applicable principal of the term loans in the following fiscal year. Such payments are typically due near the end of the first quarter of the following fiscal year. We had no payment under the excess cash flow requirement in fiscal year 2011 based on our fiscal year 2010 results. The excess cash flow measurement was an annual requirement of the *pre-merger* credit agreement.

At July 2, 2010, availability under the *pre-merger* revolving credit facility for additional borrowings was approximately $174.2 million, which gave effect to approximately $25.8 million of outstanding letters of credit under the letter of credit subfacility. The credit agreement required an unused line fee equal to 0.38% per annum, payable quarterly in arrears, for the unused portion of the revolving credit facility. The fair value of our borrowings under our legacy senior secured credit facility approximated 100% of the carrying amount based on the cash paid to extinguish the debt on July 7, 2010.

Pre-Merger 9.5% Senior Subordinated Notes

As of July 2, 2010, the quoted market value of the senior subordinated notes was approximately 103% of stated value based on market trades just prior to the July 7, 2010 extinguishment.

New Senior Credit Facility

In connection with the Merger, we entered into new senior secured credit facilities on July 7, 2010 (the "Senior Credit Facility"), with a banking syndicate including joint lead arrangers and joint book runners Banc of America Securities LLC, Citigroup Global Markets Inc., Barclays Capital and Deutsche Bank Securities Inc.

Our new Senior Credit Facility provides for a six year, $570 million term loan facility ("Term Loan") and a four year, $150 million revolving credit facility ("Revolver"), including a $100 million letter of credit subfacility. As of July 7, 2010, the additional available borrowing capacity under the Senior Credit Facility was approximately $123.6 million, which gives effect to our $26.4 million in letters of credit. The maturity date on the Term Loan is July 7, 2016 and the maturity date on the Revolver is July 7, 2014.

Interest Rates on Term Loan & Revolver

Both the Term Loan and Revolver bear interest at one of two options, based on our election, using either the (i) base rate ("Base Rate") as defined in the new Senior Credit Facility plus an applicable margin or the (ii) London Interbank Offered Rate ("Eurocurrency Rate") as defined in the new Senior Credit Facility plus an applicable margin. The applicable margin for the Term Loan is fixed at 3.5% for the Base Rate option and 4.5% for the Eurocurrency Rate option. The applicable margin for the Revolver ranges from 3.0% to 3.5% for the Base Rate option and from 4.0% to 4.5% for the Eurocurrency Rate option. Interest payments on both the Term Loan and Revolver are payable at the end of the interest period defined in the new Senior Credit Facility, but not less than quarterly.

The applicable margin for the Revolver is based on the secured leverage ratio ("Secured Leverage Ratio") as defined in the new Senior Credit Facility. The Secured Leverage Ratio is calculated by the ratio of total consolidated debt (as defined in the new Senior Credit Facility) to consolidated earnings before interest, taxes, and depreciation & amortization ("EBITDA"), as defined in the new Senior Credit Facility.

The Base Rate option is equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its prime rate; provided that in no event shall the Base Rate be less than 1.00% plus the Eurocurrency Rate applicable to one month interest periods on the date of determination of the Base Rate. The variable Base Rate has a floor of 2.75%.

The Eurocurrency Rate is the rate per annum equal to the British Bankers Association London Interbank Offered Rate ("BBA LIBOR") as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) two Business Days prior to the commencement of such interest period. The variable Eurocurrency rate has a floor of 1.75%.

Interest Rates on Letter of Credit Subfacility and Unused Commitment Fees

The letter of credit subfacility bears interest at the applicable margin for Eurocurrency Loans, which ranges from 4.0% to 4.5%. The unused commitment fee ranges from 0.50% to 0.75% depending on the Secured Leverage Ratio. Payments on both the letter of credit subfacility and unused commitments are payable quarterly.

Principal Payments

Our new Term Loan facility provides for quarterly principal payments of $1,425,000 beginning in December 2010. Additionally, there is an annual excess cash flow requirement, which is defined in the new Senior Credit Facility. This excess cash flow principal payment requirement begins in fiscal year 2013, based on our annual financial results in fiscal year 2012. The quarterly principal payment requirement is reduced by the amount of the excess cash flow amount that is paid. Furthermore, certain transactions can trigger mandatory principal payments such as a disposition of a portion of the business or a significant asset sale.

Covenants

Our new Senior Credit Facility contains financial, affirmative and negative covenants that we believe are usual and customary. The negative covenants in the new Senior Credit Facility include, among other things, limits on our ability to:

- declare dividends and make other distributions;
- redeem or repurchase our capital stock;
- prepay, redeem or repurchase certain of our indebtedness;
- grant liens;
- make loans or investments (including acquisitions);
- incur additional indebtedness;
- modify the terms of certain debt;
- restrict dividends from our subsidiaries;
- change our business or business of our subsidiaries;
- merge or enter into acquisitions;
- sell our assets;
- enter into transactions with our affiliates; and
- make capital expenditures.

In addition, our new Senior Credit Facility stipulates a maximum total leverage ratio (as defined in the new Senior Credit Facility) and minimum interest coverage ratio (as defined in the new Senior Credit Facility) that we must maintain.

The total leverage ratio is the Consolidated Total Debt (as defined in the new Senior Credit Facility) less unrestricted cash and cash equivalents (up to $25 million) to Consolidated EBITDA (as defined in the new Senior Credit Facility) for the applicable period. Our total leverage ratio cannot be greater than 5.0 to 1.0 for the period of July 3, 2010 to April 1, 2011. The maximum total leverage ratio diminishes annually thereafter.

The interest coverage ratio is the ratio of Consolidated EBITDA to Consolidated Interest Expense (as defined in the new Senior Credit Facility). The interest coverage ratio must not be less than 2.35 to 1.0 for the July 3, 2010 to July 1, 2011 period. The minimum total leverage ratio increases annually thereafter.

New Senior Unsecured Notes

On July 7, 2010, DynCorp International issued $455 million in aggregate principal of 10.375% senior unsecured notes due 2017 (the "Senior Unsecured Notes") pursuant to the purchase agreement entered into on June 29, 2010 by and among Merger Sub and Banc of America Securities LLC, Citigroup Global Markets Inc., Barclays Capital Inc. and Deutsche Bank Securities Inc., the initial purchasers of the new Senior Unsecured Notes (the "Initial Purchasers"), as amended by the Joinder Agreement dated July 7, 2010, by and among DynCorp International, the Guarantors (as defined below) and the Initial Purchasers. The new Senior Unsecured Notes were issued under an indenture dated July 7, 2010, by and among us, the guarantors party thereto (the "Guarantors") and Wilmington Trust FSB, as trustee. The new Senior Unsecured Notes mature on July 1, 2017. Interest on the new Senior Unsecured Notes is payable on January 1 and July 1 of each year, commencing on January 1, 2011.

The new Senior Unsecured Notes contain various covenants that restrict our ability to:

- incur additional indebtedness;
- make certain payments including declaring or paying certain dividends;
- purchase or retire certain equity interests;
- retire subordinated indebtedness;
- make certain investments;
- sell assets;
- engage in certain transactions with affiliates;
- create liens on assets;
- make acquisitions;
- engage in mergers or consolidations; and
- restrict certain corporate activities.

The aforementioned restrictions are considered to be in place unless we meet certain financial thresholds including a Fixed Coverage Ratio as defined in the new Senior Unsecured Note Indenture ("Indenture Agreement").

We can redeem the new Senior Unsecured Notes, in whole or in part, at defined call prices, plus accrued interest through the redemption date. The Indenture Agreement may require us to repurchase the new Senior Unsecured Notes at defined prices in the event of certain specified triggering events, including but not limited to, certain asset sales, change of control events, and debt covenant violations.

Call and Put Options

We can voluntarily settle all or a portion of the new Senior Unsecured Notes at any time prior to July 1, 2014. Such a voluntary settlement would require payment of 100% of the principal amount plus the applicable premium (or make-whole premium), and accrued and unpaid interest and additional interest, if any, as of the applicable redemption date. The applicable premium with respect to any new Senior Unsecured Notes on any applicable redemption date is the greater of (1) 1.0% of the then outstanding principal amount of the new Senior Unsecured Notes; and (2) the excess of (a) the present value at such redemption date of (i) the redemption price of the new Senior Unsecured Notes at July 1, 2014 plus (ii) all required interest payments due on the Note through July 1, 2014 (excluding accrued but unpaid interest), computed using a discount rate equal to the treasury rate as of such redemption date plus 50 basis points; over (b) the then outstanding principal amount of the new Senior Unsecured Notes.

We can also voluntarily settle all or a portion of the new Senior Unsecured Notes at defined prices during defined periods listed below, plus accrued interest.

Timeframe	Call Price
July 1, 2014 through June 30, 2015	105.19%
July 1,2015 through June 1, 2016	102.59%
June 2, 2016 through July 1, 2017	100.00%

A change of control as defined in the new Indenture Agreement under the new Senior Unsecured Notes requires a cash tender offer for the outstanding bonds at a set price of 101% of the principal plus accrued and unpaid interest. The holders under the new Senior Unsecured Notes have the right to reject the tender offer and if so, these notes would remain outstanding.

Guarantor

Substantially all of our domestic subsidiaries jointly and severally guarantee the new Senior Unsecured Notes including the 51% owned GLS subsidiary.

Additional Indebtedness

Our new Senior Credit Facility also permits us to obtain, subject to certain conditions, up to $275 million of additional borrowing, limited by covenants in the Senior Credit Facility, covenants in the Senior Unsecured Notes, and the discretion of the lenders.

Uses of Proceeds

The proceeds from both the new Senior Credit Facility and new Senior Unsecured Notes were primarily used to extinguish the pre-merger debt and purchase DynCorp International Inc. stock including the outstanding RSUs.

Note 7— Interest Rate Derivatives

Our interest rate swap instruments entered into on April 27, 2007 expired on May 24, 2010. During the quarter ended July 2, 2010, we paid $1.6 million in net settlements and incurred $1.1 million of expenses, of which $1.1 million was recorded to interest expense. In the quarter ended July 3, 2009, we paid $1.9 million in net settlements and incurred $2.1 million of expenses, of which $1.9 million was recorded to interest expense and $0.2 million was recorded to Other income/(loss), net.

Note 8—Commitments and Contingencies

Commitments

We have operating leases for the use of real estate and certain property and equipment, which are either non-cancelable, cancelable only by the payment of penalties or cancelable upon one month's notice. All lease payments are based on the lapse of time but include, in some cases, payments for insurance, maintenance and property taxes. There are no purchase options on operating leases at favorable terms, but most leases have one or more renewal options. Certain leases on real estate are subject to annual escalations for increases in base rents, utilities and property taxes. Rental expense was $13.7 million and $13.1 million for the first quarter ended July 2, 2010 and July 3, 2009, respectively.

Contingencies

General Legal Matters

We are involved in various lawsuits and claims that have arisen in the normal course of business. In most cases, we have denied, or believe we have a basis to deny any liability. Related to these matters, we have recorded reserves totaling approximately $6.7 million as of July 2, 2010. It is not possible to predict with certainty the outcome of litigation and other matters discussed below. Liabilities in excess of those recorded, if any, arising from such matters may have a material adverse effect on our results of operations, consolidated financial condition or liquidity over the long term.

Pending litigation and claims

On May 14, 2008, a jury in the Eastern District of Virginia found against us in a case brought by a former subcontractor, Worldwide Network Services ("WWNS"), on two Department of State ("DoS") contracts, in which WWNS alleged racial discrimination, tortious interference and certain other claims. WWNS was awarded approximately $20.5 million in compensatory, contractual and punitive damages and attorneys' fees, and we were awarded approximately $0.2 million on a counterclaim. On February 2, 2009, we filed an appeal with respect to this matter. On February 12, 2010, the Court of Appeals vacated $10 million in punitive damages, remanded the case for a new trial on punitive damages, and imposed a $350,000 cap on any possible new punitive damages award. WWNS filed a petition seeking re-hearings, which the Court denied. In the fourth quarter of fiscal year 2010, we reversed the previously accrued punitive damages of $10 million, creating a reduction in Selling, general and administrative expenses. On June 7, 2010, we paid WWNS the amount of the awarded non-punitive damages, approximately $5.8 million. On June 25, 2010, WWNS filed a Petition for a Writ of Certiori to the Supreme Court.

On December 4, 2006, December 29, 2006, March 14, 2007 and April 24, 2007, four lawsuits were served, seeking unspecified monetary damages against DynCorp International LLC and several of its former affiliates in the U.S. District Court for the Southern District of Florida, concerning the spraying of narcotic plant crops along the Colombian border adjacent to Ecuador. Three of the lawsuits, filed on behalf of the Provinces of Esmeraldas, Sucumbíos, and Carchi in Ecuador, allege violations of Ecuadorian law, international law, and statutory and common law tort violations, including negligence, trespass, and nuisance. The fourth lawsuit, filed on behalf of citizens of the Ecuadorian provinces of Esmeraldas and Sucumbíos, alleges personal injury, various counts of negligence, trespass, battery, assault, intentional infliction of emotional distress, violations of the Alien Tort Claims Act and various violations of international law. The four lawsuits were consolidated, and based on our motion granted by the court, the case was subsequently transferred to the U.S. District Court for the District of Columbia. On March 26, 2008, a First Amended Consolidated Complaint was filed that identified 3,266 individual plaintiffs. As of January 12, 2010, 1,256 of the plaintiffs have been dismissed by court orders. The amended complaint does not demand any specific monetary damages; however, a court decision against us, although we believe to be remote, could have a material adverse effect on our results of operations and financial condition, if we are unable to seek reimbursement from the DoS. The aerial spraying operations were and continue to be managed by us under a DoS contract in cooperation with the Colombian government. The DoS contract provides indemnification to us against third-party liabilities arising out of the contract, subject to available funding.

A lawsuit filed on September 11, 2001, and amended on March 24, 2008, seeking unspecified damages on behalf of twenty-six residents of the Sucumbíos Province in Ecuador, was brought against our operating company and several of its former affiliates in the U.S. District Court for the District of Columbia. The action alleges violations of the laws of nations and U.S. treaties, negligence, emotional distress, nuisance, battery, trespass, strict liability, and medical monitoring arising

from the spraying of herbicides near the Ecuador-Colombia border in connection with the performance of the DoS, International Narcotics and Law Enforcement contract for the eradication of narcotic plant crops in Colombia. As of January 12, 2010, fifteen of the plaintiffs have been dismissed by court order. The terms of the DoS contract provide that the DoS will indemnify our operating company against third-party liabilities arising out of the contract, subject to available funding. We are also entitled to indemnification by Computer Sciences Corporation in connection with this lawsuit, subject to certain limitations. Additionally, any damage award would have to be apportioned between the other defendants and our operating company. We believe that the likelihood of an unfavorable judgment in this matter is remote and that, even if that were to occur, the judgment is unlikely to result in a material adverse effect on our results of operations or financial condition as a result of the third party indemnification and apportionment of damages described above.

Arising out of the litigation described in the preceding two paragraphs, on September 22, 2008, we filed a separate lawsuit against our aviation insurance carriers seeking defense and coverage of the referenced claims. On November 9, 2009, the court granted our Partial Motion for Summary Judgment regarding the duty to defend, and the carriers have paid the majority of the litigation expenses. In a related action, the carriers filed a lawsuit against us on February 5, 2009, seeking rescission of certain aviation insurance policies based on an alleged misrepresentation by us concerning the existence of certain of the lawsuits relating to the eradication of narcotic plant crops. On May 19, 2010, our aviation insurance carriers filed a complaint against us seeking reformation of previously provided insurance policies and the elimination of coverage for aerial spraying. The Company believes that the claims asserted by the insurance carriers are without merit and we will defend against them vigorously.

Litigation Relating to the Merger

On April 16, 2010, a putative class action complaint was commenced against us, our directors, Cerberus, and Cerberus' acquisition entities in the Delaware Court. In this action, captioned Shawn K. Naito v. DynCorp International Inc. et al., C.A. No. 5419–VCS, the plaintiff purports to bring the action on behalf of the public stockholders of the Company, and seeks, among other things, equitable relief, enjoining the consummation of the Merger, and fees and costs. Plaintiff alleges in the complaint that our directors breached their fiduciary duties by, among other things, agreeing to the proposed Merger in which the consideration is unfair and inadequate, failing to take steps to maximize stockholder value, and putting their own interests above those of our stockholders. The complaint further alleges that Cerberus, Parent and Merger Sub aided and abetted the directors' alleged breaches of their fiduciary duties. On May 7, 2010, we filed an answer that denied the material substantive allegations of the complaint. On May 10, 2010, Cerberus and its acquisition entities filed an answer that denied the material substantive allegations of the complaint. On May 14, 2010, plaintiff filed a motion to amend its complaint to assert certain alleged failures of disclosure in the Company's preliminary proxy statement previously filed with the SEC. Such motion was granted by the Court on May 18, 2010. The proposed amended complaint continues to challenge the Board's discharge of its fiduciary duties in connection with the negotiation of the Merger. On June 2, 2010, we and our directors, as well as Cerberus and its acquisition entities, filed respective answers denying the material substantive allegations of the amended complaint. Meanwhile, plaintiff filed a motion for a preliminary injunction of the Merger on May 17, 2010, and the court has scheduled a hearing to adjudicate that motion on June 17, 2010. Following the completion of discovery in this matter, the parties engaged in settlement negotiations. On June 17, 2010, a Memorandum of Understanding setting forth the terms of a tentative settlement was reached. That settlement called for the mailing of additional disclosure to shareholders, which was accomplished on the following day, June 18. On July 30, 2010, the parties submitted a stipulation of settlement to the Court for its approval. The Court has not yet set a date for a hearing to consider the fairness of the settlement, but the parties anticipate that such a hearing will be held in the near future, upon further notice to all members of the putative class.

On April 30, 2010, we, our directors and Cerberus' acquisition entities were named as defendants in a putative class action complaint, captioned Kevin V. Meehan v. Robert McKeon et al., C.A. No. 1:10CV 446, filed in the U.S. District Court in the Eastern District of Virginia. In the complaint, the plaintiff purports to represent a class of stockholders and seeks, among other things, equitable relief, including enjoining us and Cerberus' acquisition entities from consummating the Merger, in addition to fees and costs. Plaintiff alleges in the complaint that our directors breached their fiduciary duties by, among other things, failing to engage in an honest and fair sale process. The complaint further alleges that the Company and Cerberus' acquisition entities aided and abetted the directors' purported breaches. On May 17, 2010 plaintiff filed an amended complaint asserting claims under Section 14a of the Exchange Act, challenging disclosures and alleged omissions in the Company's proxy statement. On May 19, 2010 plaintiff filed a motion to expedite the case. On May 21, 2010 defendants filed a motion to dismiss the amended complaint and, on May 24, 2010, filed a motion for abstention, asking the court to abstain from proceeding with the case in favor of the substantively similar and earlier-filed action in Delaware

described above. On May 27, 2010, the court denied plaintiff's motion to expedite discovery and plaintiff's counsel agreed to coordinate his discovery efforts with the plaintiffs in the Delaware action. The Federal Court set a hearing on our motions to dismiss and for abstention for June 18, 2010, which was subsequently adjourned and was originally rescheduled for July 30, 2010. The Court has since agreed to remove the motion from the calendar pending the approval of the settlement of the Delaware action.

U.S. Government Investigations

We primarily sell our services to the U.S. government. These contracts are subject to extensive legal and regulatory requirements, and we are occasionally the subject of investigations by various agencies of the U.S. government who investigate whether our operations are being conducted in accordance with these requirements, including as previously disclosed in our periodic filings, the Special Inspector General for Iraq Reconstruction report regarding certain reimbursements and the U.S. Department of State Office of Inspector General's records subpoena with respect to CivPol. Such investigations, whether related to our U.S. government contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, or could lead to suspension or debarment from future U.S. government contracting. U.S. government investigations often take years to complete and many result in no adverse action against us. We do not believe that any adverse actions arising from such matters would have a material adverse effect on our results of operations, consolidated financial condition or liquidity over the long term.

On September 17, 2008, the U.S. Department of State Office of Inspector General ("OIG") served us with a records subpoena for the production of documents relating to our Civilian Police Program in Iraq. Among other items, the subpoena seeks documents relating to our business dealings with a former subcontractor, Corporate Bank. We have been cooperating with the OIG's investigation. In October 2009, we were notified by the Department of Justice that this investigation is being done in connection with a *qui tam* litigation brought by a private individual on behalf of the U.S. government and our conversations with the Department of Justice regarding this matter are ongoing. The complaint remains under seal. If our operations are found to be in violation of any laws or government regulations, we may be subject to penalties, damages or fines, any or all of which could adversely affect our financial results.

As previously disclosed in our periodic filings, we identified certain payments made on our behalf by two subcontractors to expedite the issuance of a limited number of visas and licenses from a foreign government's agencies that may raise compliance issues under the U.S. Foreign Corrupt Practices Act. We retained outside counsel to investigate these payments. In November 2009, we voluntarily brought this matter to the attention of the U.S. Department of Justice and the SEC. We are cooperating with the government's review of this matter. We are also continuing our evaluation of our internal policies and procedures. We cannot predict the ultimate consequences of this matter at this time, nor can we reasonably estimate the potential liability, if any, related to this matter. However, based on the facts currently known, we do not believe that this matter will have a material adverse effect on our business, financial condition, results of operations or cash flow. We have not recorded any reserves with respect to this matter.

U.S. Government Audits

Our contracts are regularly audited by the Defense Contract Audit Agency ("DCAA") and other government agencies. These agencies review our contract performance, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of, and our compliance with, our internal control systems and policies, including our purchasing, property, estimating, compensation and management information systems. Any 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.

The Defense Contract Management Agency ("DCMA") formally notified us of non-compliance with Cost Accounting Standard 403, Allocation of Home Office Expenses to Segments, on April 11, 2007. We issued a response to the DCMA on April 26, 2007 with a proposed solution to resolve the area of non-compliance, which related to the allocation of corporate general and administrative costs between our divisions. On August 13, 2007, the DCMA notified us that additional information would be necessary to justify the proposed solution. We issued responses on September 17, 2007, April 28, 2008 and September 10, 2009 and the matter is pending resolution. Based on facts currently known, we do not believe the matters

described in this and the preceding paragraph will have a material adverse effect on our results of operations or financial condition.

We are currently under audit by the Internal Revenue Service ("IRS") for employment taxes covering the calendar years 2005 through 2007. In the course of the audit process, the IRS has questioned our treatment of exempting from U.S. employment taxes all U.S. residents working abroad for a foreign subsidiary. While we believe our treatment with respect to employment taxes for these employees was appropriate, a negative outcome on this matter could result in a potential liability, including penalties, up to approximately $113.8 million related to these calendar years.

Contract Matters

During the first quarter of fiscal year 2009, we terminated for cause a contract to build the Akwa Ibom International Airport for the State of Akwa Ibom in Nigeria. Consequently, we terminated certain subcontracts and purchase orders the customer advised us it did not want to assume. Based on our experience with this particular Nigerian state government customer, we believe it likely the customer will challenge our termination of the contract for cause and initiate legal action against us. Our termination of certain subcontracts not assumed by the customer, including our actions to recover against advance payment and performance guarantees established by the subcontractors for our benefit is being challenged in certain instances. Although we believe our right to terminate this contract and such subcontracts was justified and permissible under the terms of the contracts, and we intend to rigorously contest any claims brought against us arising out of such terminations, if courts were to conclude that we were not entitled to terminate one or more of the contracts and damages were assessed against us, such damages could have a material adverse effect on our results of operations or financial condition. At this time, any such damages are not estimable.

In November 2009, a U.S. grand jury indicted one of our subcontractors on the Logistics Civil Augmentation Program ("LOGCAP IV") contract, Agility, on charges of fraud and conspiracy, alleging that it overcharged the U.S. Army on $8.5 billion worth of contracts to provide food to soldiers in Iraq, Kuwait and Jordan. These allegations were in no way related to the work performed under LOGCAP IV. Effective December 16, 2009, we removed Agility as a subcontractor on the LOGCAP IV contract and terminated the work under existing task orders. In April 2010, Agility filed an arbitration demand, asserting claims for breach of contract, breach of fiduciary duty and unjust enrichment. Agility is seeking a declaration that it is entitled to a 30% share of the LOGCAP IV fees over the life of the contract. We have filed a request to dismiss the arbitration demand. We believe our right to remove Agility was justified and permissible. We intend to vigorously defend against Agility's claims.

Note 9—Equity-Based Compensation

As of July 2, 2010, we had provided equity-based compensation through the granting of Class B interests in DIV Holding LLC, the largest holder of our common stock as of July 2, 2010 and the granting of RSUs under our 2007 Omnibus Incentive Plan, as amended from time to time (the "2007 Plan"). All of our equity-based compensation is accounted for under ASC 718 — *Compensation-Stock Compensation*. Under this method, we recorded equity-based compensation expense of $3.5 million and $0.9 million for the quarter ended July 2, 2010 and July 3, 2009, respectively.

Class B Equity

Pursuant to the terms of the operating agreement governing DIV Holding LLC, since our shares were publicly traded, Class B interests could be redeemed at the end of any fiscal quarter for our stock or cash at the discretion of Veritas Capital on thirty days written notice upon the later of June 30, 2010 or the date said Class B member was no longer subject to reduction. Class B members remain subject to reduction until the earlier of such Class B member's fourth or fifth employment/directorship anniversary, depending upon the terms of such member's employment agreement, date of termination, or change in our control.

During the fiscal quarter, we had no new Class B grants or forfeiture events. Consequently, the expenses recognized were the result of the quarterly amortization from the graded vesting schedule.

A summary of Class B activity during the first quarter of fiscal year 2011 is as follows:

	% Interest in DIV Holding	Grant Date Fair Value
	(Amounts in thousands, except percentages)	
Balance April 2, 2010	4.6%	9,315
First quarter fiscal year 2011 grants	0.0%	—
First quarter fiscal year 2011 forfeitures	0.0%	—
Balance July 2, 2010	4.6%	$ 9,315
April 2, 2010 vested	4.3%	$8,247
First quarter fiscal year 2011 vesting	0.0%	173
July 2, 2010 vested	4.3%	$ 8,420
April 2, 2010 nonvested	0.3%	$ 1,068
July 2, 2010 nonvested	0.3%	$ 895

In connection with the Merger on July 7, 2010, all Class B interests vested. See Note 15 to the unaudited consolidated financial statements for further discussion related to the Merger.

Restricted Stock Units

During the first quarter of fiscal year 2011, we granted 207,309 RSUs to our employees and 39,100 RSUs vested. We settled 37,500 RSUs that vested in the first quarter with treasury shares and had no cash settlements. These settlements were made net of payroll tax withholding. As of July 2, 2010, 17,395 units were vested but unsettled, including 1,600 RSUs that vested during the first quarter ended July 2, 2010.

In accordance with ASC 718 and our policy, we recognize compensation expense related to the RSUs on a graded schedule over the requisite service period, net of estimated forfeitures. In connection with the Merger, we reduced the RSU forfeiture rate to zero, which increased the RSU expenses incurred in the first quarter of fiscal year 2011. This also increased RSU liabilities as of July 2, 2010.

Compensation expense related to RSUs was $3.4 million and $0.7 million for the first quarter ended July 2, 2010 and July 3, 2009, respectively. All RSUs were determined to be liability awards; therefore, the fair value of the RSUs is remeasured at each financial reporting date and will be as long as they remain liability awards. The estimated fair value of the RSUs as of July 2, 2010 was approximately $16.7 million based on the closing market price of our stock on July 2, 2010. Of this amount, approximately $10.7 million was yet to be recognized as expense.

A summary of the combined RSU activity during the first quarter of fiscal year 2011 is as follows:

	Outstanding RSUs	Weighted Average Grant Date Value
Outstanding, April 2, 2010	782,398	$16.75
Units granted	207,309	$ 16.95
Units vested and settled	(37,500)	$ 15.74
Outstanding July 2, 2010	952,207	$ 16.83

The RSUs outstanding as of July 2, 2010 included 1,250 units associated with the DIFZ incentive plan. In connection with the Merger, all RSUs held by our directors and employees vested on July 7, 2010 and were settled in cash. See Note 15 to the unaudited consolidated financial statements for further discussion related to the Merger.

Note 10—Composition of Certain Financial Statement Captions

The following tables present financial information of certain consolidated balance sheet captions.

Prepaid expenses and other current assets — Prepaid expenses and other current assets were:

	As of	
	July 2, 2010	April 2, 2010
	(Amounts in thousands)	
Prepaid expenses	$ 55,123	$ 37,974
Inventories	12,739	14,797
Available-for-sale inventory	2,250	2,250
Work-in-process	21,627	22,034
Joint venture receivables	10,581	5,188
Other current assets	7,484	13,916
Total	$ 109,804	$ 96,159

Prepaid expenses include prepaid insurance, prepaid vendor deposits, and prepaid rent, none of which individually exceed 5% of current assets. We value our inventory at lower of cost or market. Available-for-sale-inventory is made up of two helicopters that will not be deployed on existing programs.

Property and equipment, net — Property and equipment, net were:

	As of	
	July 2, 2010	April 2, 2010
	(Amounts in thousands)	
Helicopters	$ 37,156	$ 37,011
Computers and other equipment	14,823	13,668
Leasehold improvements	9,262	8,818
Office furniture and fixtures	6,697	6,697
Gross property and equipment	67,938	66,194
Less accumulated depreciation	(11,983)	(10,961)
Property and equipment, net	$ 55,955	$ 55,233

Depreciation expense was $1.0 million for the quarter ended July 2, 2010 and July 3, 2009, respectively, including certain depreciation amounts classified as Cost of services. The helicopters that are included with Property and equipment were not placed in service as of July 2, 2010.

Other assets, net — Other assets, net were:

	As of	
	July 2, 2010	April 2, 2010
	(Amounts in thousands)	
Deferred financing costs, net	$ 8,760	$ 9,661
Investment in affiliates	8,211	7,696
Palm promissory notes, long-term portion	7,313	5,900
Phoenix retention asset	4,226	4,765
Other	2,172	2,394
Total	$ 30,682	$ 30,416

Deferred financing cost is amortized through interest expense. Amortization related to deferred financing costs was $0.9 million and $1.1 million during the quarter ended July 2, 2010 and July 3, 2009, respectively.

Accrued payroll and employee costs — Accrued payroll and employee costs were:

As of

	July 2, 2010	April 2, 2010
	(Amounts in thousands)	
Wages, compensation and other benefits	$ 95,137	$ 109,827
Accrued vacation	28,172	28,958
Accrued contributions to employee benefit plans	4,865	2,347
Total	$ 128,174	$ 141,132

Other accrued liabilities — Accrued liabilities were:

	As of	
	July 2, 2010	April 2, 2010
	(Amounts in thousands)	
Deferred revenue	$ 29,564	$ 30,524
Insurance expense	29,671	29,912
Interest expense and short-term swap liability	13,875	6,681
Contract losses	1,651	8,615
Legal matters	6,670	11,402
Unrecognized tax benefit	11,422	10,211
Subcontractor retention	11,624	4,365
Other	9,857	9,488
Total	$ 114,334	$ 111,198

Deferred revenue was primarily due to payments in excess of revenue recognized. Contract losses relate to accrued losses recorded on certain Afghanistan construction contracts.

Note 11 — Related Parties, Variable Interest Entities & Joint Ventures

Management Fee

We have historically paid Veritas Capital an annual management fee of $0.3 million plus expenses to provide us with general business management, financial, strategic and consulting services. We paid $0.1 million to Veritas in the quarter ended July 2, 2010 and July 3, 2009, respectively. Our obligation to pay this fee was terminated on July 7, 2010 due to the change of control resulting from the Merger. See Note 15 to the unaudited consolidated financial statements for further discussion related to the Merger.

On July 7, 2010, we entered into a Master Consulting and Advisory Services Agreement (the "COAC Agreement") with Cerberus Operations and Advisory Company, LLC, an affiliate of Cerberus. Pursuant to the terms of the COAC Agreement, Cerberus Operations and Advisory Company, LLC will make personnel available to us for the purpose of providing reasonably requested business advisory services. This will be priced on a case by case basis depending on the requirements of the project and agreements in pricing.

Variable Interest Entities

In the aggregate, our maximum exposure to losses as a result of our investment in VIEs consists of our (i) $8.2 million investment in unconsolidated subsidiaries, (ii) $10.6 million in receivables from our unconsolidated joint ventures, (iii) $7.8 million of notes receivable from Palm Trading Investment Corp, (iv) working capital funding to GLS and (v) contingent liabilities that were neither probable nor reasonably estimable as of July 2, 2010. While the amount of funding we provide to GLS can vary significantly due to timing of payments to vendors and collections from its customer, the average balance over the prior 12 months was approximately $24.1 million.

GLS assets and liabilities were $140.8 million and $132.1 million as of July 2, 2010, as compared to $125.6 million and $115.5 million as of April 2, 2010. The GLS liabilities are inclusive of the intercompany note payable between us and GLS, which is eliminated in consolidation. Additionally, GLS revenue was $149.3 million for the quarter ended July 2, 2010 as compared to $198.4 million for the quarter ended July 3, 2009.

DIFZ assets and liabilities were $85.9 million and $84.3 million, respectively, as of July 2, 2010, as compared to $74.7 million and $72.9 million at April 2, 2010. Additionally, DIFZ revenue was $95.2 million and $94.6 million for the quarter ended July 2, 2010 and July 3, 2009, respectively. These intercompany revenue and costs are eliminated in consolidation.

Joint Ventures

Amounts due from our unconsolidated joint ventures totaled $10.6 million and $5.2 million as of July 2, 2010 and April 2, 2010, respectively. These receivables are a result of items purchased and services rendered by us on behalf of our unconsolidated joint ventures. We have assessed these receivables as having minimal collection risk based on our historic experience with these joint ventures and our inherent influence through our ownership interests. The related revenue associated with our unconsolidated joint ventures totaled $5.4 million and $1.3 million for the quarter ended July 2, 2010 and July 3, 2009, respectively. Additionally, we earned $0.7 million and $1.1 million in equity method income during the quarter ended July 2, 2010 and July 3, 2009, respectively.

As a result of the sale of 50% of our ownership interest in DIFZ in fiscal year 2009, we currently hold three promissory notes from our joint venture partner, which had an aggregate initial value of $9.7 million as a result of the sales price. The notes are included in (i) Prepaid expenses and other current assets and in (ii) Other assets on our unaudited consolidated balance sheet for the short and long-term portions, respectively. The loan balance outstanding was $7.8 million and $8.1 million as of July 2, 2010 and April 3, 2010, respectively, reflecting the initial value plus accrued interest, less payments against the promissory notes. The fair value of the loan is not materially different from its carrying value.

Note 12—Collaborative Arrangement

We have executed a subcontract with CH2M Hill with respect to operations on the LOGCAP IV program, which is considered a collaborative arrangement under GAAP. The purpose of this arrangement is to share some of the risks and rewards associated with this U.S. government contract. We receive working capital contributions to mitigate the risks associated with the timing of cash inflows and outflows. We also share the profits. Our current share of certain profits and working capital funding requirements is 70%.

We account for this collaborative arrangement under ASC 808 — *Collaborative Arrangements*. We record revenue gross as the prime contractor. The cash inflows, outflows, as well as expenses incurred are recorded in Cost of services in the period realized or incurred. Revenue on LOGCAP IV was $285.3 million and $17.2 million during the quarter ended July 2, 2010 and July 3, 2009, respectively. Our share of the total LOGCAP IV profits was $4.1 million during the quarter ended July 2, 2010 and a $0.4 million loss during the quarter ended July 3, 2009.

Note 13—Segment Information

We group our various programs within each operating segment into service offerings to manage, review and assess our business performance at a program level. The following is a summary of the financial information of the reportable segments reconciled to the amounts reported in the consolidated financial statements:

	Fiscal Quarter Ended	
	July 2, 2010	July 3, 2009
	(Amounts in thousands)	
Revenue		
Global Stabilization and Development Solutions	$ 509,852	$ 284,085
Global Platform Support Solutions	288,647	303,648
Global Linguist Solutions	149,254	198,354
Other/elimination	(250)	(910)
Total revenue	$ 947,503	$ 785,177
Operating income		
Global Stabilization and Development Solutions	$ 18,081	$ 15,874
Global Platform Support Solutions	13,971	25,910
Global Linguist Solutions	8,778	10,717
Total operating income	$ 40,830	$ 52,501

Depreciation and amortization		
Global Stabilization and Development Solutions	$ 5,515	$ 4,940
Global Platform Support Solutions	4,683	5,009
Global Linguist Solutions	65	196
Total depreciation and amortization	$ 10,263	$ 10,145

	As of	
	July 2, 2010	**April 2, 2010**
Assets	**(Amounts in thousands)**	
Global Stabilization and Development Solutions	$1,010,630	$1,056,732
Global Platform Support Solutions	495,677	492,759
Global Linguist Solutions	140,771	125,570
Corporate activities (1)	143,207	107,556
Total assets	$1,790,285	$1,782,617

(1) Assets primarily include cash, deferred income taxes and deferred debt issuance cost.

Note 14—Fair Value of Financial Assets and Liabilities

ASC 820 — *Fair Value Measurements and Disclosures* establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1, defined as observable inputs such as quoted prices in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of July 2, 2010, we held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These included the following:

- Cash equivalents including restricted cash, which consists of petty cash, cash in-bank and short-term, highly liquid, income-producing investments with original maturities of 90 days or less. This is categorized as a Level 1 input.
- Contingent earn-out consideration, which relates to the consideration to be paid to the selling stockholders of Phoenix Consulting Group, LLC ("Phoenix") based on calendar year 2010 results. The fair value of the contingent consideration arrangement was determined using a combination of (i) results from January 1, 2010 through July 2, 2010, (ii) the probability weighted forecasts of future results and (iii) discounting based on our weighted average cost of capital. As the valuation is based on internal models with inputs that are not observable, we have categorized the contingent earn-out consideration as Level 3.
- Contingent compensation related to the compensation to be paid to certain Phoenix employees, contingent upon calendar year 2010 results and upon the employees' continuous employment with the Company. The fair value of the contingent consideration arrangement was determined using a combination of (i) results from January 1, 2010 through July 2, 2010, (ii) the probability weighted forecasts of future results and (iii) discounting based on our weighted average cost of capital. As the valuation is based on internal models with inputs that are not observable, we have categorized the contingent earn-out consideration as Level 3.

Our assets and liabilities measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of July 2, 2010, were as follows:

Fair Value Measurements at Reporting Date Using

	Book value of financial assets/liabilities as of July 2, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Amounts in thousands)			
Assets				
Cash equivalents[1]	$ 144,032	$ 144,032	$ -	$ -
Total assets measured at fair value	$ 144,032	$ 144,032	$ -	$ -
Liabilities				
Contingent earn-out consideration and compensation	$ 1,230	$ -	$ -	$ 1,230
Total liabilities measured at fair value	$ 1,230	$ -	$ -	$ 1,230

(1) Includes cash and cash equivalents and restricted cash

The table below provides reconciliation between the beginning and ending balance of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs ("Level 3") for the quarter ended July 2, 2010.

	Change during the quarter
	(Amounts in thousands)
Beginning contingent earn-out consideration and compensation balance at April 3, 2010	$ 1,173
Total loss included in earnings	57
Transfers in and/or out of Level 3	—
Ending balance at July 2, 2010	$ 1,230

Note 15—Subsequent Events

Subsequent events were reviewed through the date that the financial statements were available to be issued, which was August 4, 2010.

Completion of Planned Merger

On July 7, 2010, the planned Merger with affiliates of Cerberus was completed. In connection with the Merger, substantially all of the outstanding pre-merger debt was extinguished. Additionally, we issued a new Senior Credit Facility and new Senior Unsecured Notes, both of which are further discussed in Note 6 to the unaudited consolidated financial statements.

In connection with the closing of the Merger, we notified the New York Stock Exchange (the "NYSE") on July 7, 2010 that, at the effective time of the Merger, each share of Common Stock issued and outstanding immediately before the effective time of the Merger was canceled and automatically converted into the right to receive the per share merger consideration and (ii) requested the NYSE to file with the SEC an application on Form 25 to deregister the Common Stock under Section 12(b) of the Securities Exchange Act of 1934, as amended. As a result of the Merger and such notification and request, the last day of trading of our Common Stock on the NYSE was July 7, 2010.

Acquisition Accounting

Certain information necessary to perform the purchase accounting and determine the opening July 7, 2010 balance sheet of not available at the time of posting of this quarterly report. We expect to complete the preliminary purchase price allocation for the Merger by the end of the second quarter of fiscal year 2011. This transaction was recorded at carry-over basis for tax purposes. As a result, goodwill in excess of its historical cost basis will be non-deductable.

GLS Deconsolidation

As referenced in Notes 1 and 15 to our unconsolidated financial statements, we deconsolidated GLS effective July 7, 2010. We continued to consolidate GLS after the implementation of ASU 2009-17 through the date of the Merger based on the related party relationship between us and McNeil Technologies Inc. ("McNeil"), our GLS joint venture partner. Through the date of the Merger, our largest stockholder, Veritas, owned the majority of McNeil. This related party relationship ended on the date of Merger resulting in the deconsolidation of GLS on that date.

LCCS Claim

In July 2010, we reached an agreement in-principal with the U.S. Army related to a claim on our Life Cycle Support Services ("LCCS") program in the GPSS segment. The terms of the agreement-in-principal indicate that the U.S. Army will pay us $9.5 million, which has not been previously recognized as revenue.

CivPol Extension

In July 2010, the term of the Afghanistan based Civilian Police ("CivPol") task order was officially extended through June 2011. The original task order term was scheduled to end in July 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements, and the notes thereto, and other data contained elsewhere in this Quarterly Report. The following discussion and analysis should also be read in conjunction with our audited consolidated financial statements, and notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on June 4, 2010. References to "DynCorp International", the "Company", "we", "our", or "us" refer to DynCorp International Inc. and its subsidiaries unless otherwise stated or indicated by context.

Company Overview

We are a leading provider of specialized mission-critical professional and support services for the United States ("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. We have provided essential services to numerous U.S. government departments and agencies since 1951. Our current customers include the U.S. Department of Defense ("DoD"), the Department of State ("DoS"), foreign governments, commercial customers and certain other U.S. federal, state and local government departments and agencies.

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 follows.

Global Stabilization and Development Solutions

Global Stabilization and Development Solutions ("GSDS") provides a diverse collection of outsourced services primarily to government agencies worldwide. GSDS includes the four service offerings 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 including but not limited to: construction services, facilities management and maintenance, electrical power, water, sewage and waste management, laundry operations, food services and transportation motor pool operations.

Operations & Development. This service offering supports 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. The services we provide include peacekeeping logistics support; humanitarian relief; weapons removal and abatement; worldwide contingency planning and other rapid response services; inventory procurement, property control and tracking services; mobile repair services; facility and equipment maintenance and control; and engineering and construction management services.

Intelligence Training and Solutions. This service offering provides proprietary training courses, management consulting and augmentation services to the intelligence community and allows us to provide services to the intelligence community and national security clients. As part of our proprietary training courses, we offer a highly specialized human intelligence course curriculum taught by cleared intelligence professionals to other intelligence, counterintelligence, special operations and law enforcement personnel.

Global Platform Support Solutions

Global Platform Support Solutions ("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, host nation pilot and crew training, and transportation services. GPSS includes the four service offerings 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 is the most significant program in this service offering. This program deploys highly mobile, quick-response maintenance field teams to customer locations to supplement a customer's workforce. We have provided services under this program for over 58 years.

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 in multiple Latin American countries and Afghanistan in their efforts to locate and eradicate drug crops, interdict drug production and trafficking activities, and provides transportation services in Iraq.

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.

Global Linguist Solutions

Global Linguist Solutions. This consolidated joint venture between DynCorp International Inc. and McNeil Technologies Inc. ("McNeil") provides rapid recruitment, deployment and on-site management of in-theatre interpreters and translators to the U.S. military for a wide range of foreign languages. Our Global Linguist Solutions ("GLS") operating segment is comprised of a single linguist service offering.

CURRENT OPERATING CONDITIONS AND OUTLOOK

There have been no material changes to the Company's industry outlook, economic conditions, or internal strategy from those disclosed in the Company's Form 10-K for the fiscal year ended April 2, 2010. However, as disclosed in Note 15 to the unaudited consolidated financial statements, we were acquired by affiliates of Cerberus on July 7, 2010.

Notable Events occurring during and subsequent to the quarter ended July 2, 2010

- In April 2010, we entered into an Agreement and Plan of Merger (the "Merger 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 was merged with and into the Company, and as a result the Company will continue as the surviving corporation and will be a wholly owned subsidiary of Parent (the "Merger"). The Merger Agreement was approved by the Company's Board of Directors.

- In June 2010, at the Special Meeting, the stockholders of DynCorp International Inc. approved the proposal to adopt the Merger Agreement and Plan of Merger, dated as of April 11, 2010. The adoption of the Merger Agreement required the affirmative vote of the holders of a majority of the issued and outstanding shares of the Class A common stock, par value $0.01 per share, of the Company entitled to vote thereon.

- In June 2010, we were notified that we lost the re-compete on the Life Cycle Contractor Support ("LCCS") program with the U.S. Army. We filed a protest, which is expected to be evaluated in November 2010. In the interim, we are still providing full services under this program.

- In July 2010, we reached an agreement in-principal with the U.S. Army related to a claim on our Life Cycle Support Services ("LCCS") program in the GPSS segment. As a result, we expect to receive $9.5 million, which has not been previously recognized as revenue.

- In July 2010, the Afghanistan based CivPol task order term was officially extended another year, through June 2011. The original contract term was scheduled to end in July 2010.

CONTRACT TYPES

Our business is performed under fixed-price, time-and-materials or cost-reimbursement contracts. Each contract type 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. Fixed-price contracts received by us include firm fixed-price, fixed-price with economic adjustment, and fixed-price incentive.

- *Time-and-Materials Type Contracts:* A time-and-materials type contract provides 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 indefinite order indefinite quantity ("IDIQ") contract, which are often awarded to multiple contractors. An IDIQ contract does not represent a firm order for services. Our Civilian Police ("CivPol"), Contract Field Teams ("CFT"), and Logistics Civil Augmentation ("LOGCAP IV") programs are three examples of IDIQ contracts.

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

	Fiscal Quarter Ended	
	July 2, 2010	July 3, 2009
Fixed-Price	24%	26%
Time-and-Materials	12%	21%
Cost-Reimbursement	64%	53%
Total	100%	100%

We have seen an increase in our revenue attributable to cost-reimbursable type contracts with corresponding decreases to fixed-price and time-and-materials type contracts. This was primarily due to the LOGCAP IV contract, which is a cost-reimbursement contract, making up a significantly larger share of our consolidated revenue in the first quarter of fiscal year 2011 as compared to the same period of fiscal year 2010.

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. 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:

	As of	
	July 2, 2010	April 2, 2010
	(Amounts in millions)	
Funded Backlog	$ 1,518	$ 1,669
Unfunded Backlog	3,653	3,903
Total	$ 5,171	$ 5,572

Total backlog as of July 2, 2010 was $5.2 billion, which decreased by $0.4 billion as compared to $5.6 billion as of April 2, 2010. This was primarily due to revenue recognized on various contracts in the first quarter of fiscal year 2010, partially offset by new or modified task and delivery orders on programs including LOGCAP IV and INL. As of July 2, 2010 and April 2, 2010, total backlog related to GLS was $2.2 billion and $2.3 billion, respectively and is incorporated into the table above.

GLS will be deconsolidated in the second quarter of fiscal year 2011 as referenced in Note 1 to the unaudited consolidated financial statements. As a result, the portion of backlog attributable to GLS revenue will not be included in the consolidated backlog amounts in future quarters.

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. Future revenue represents management's estimate of revenue that will be recognized from future task or delivery orders through the end of the term of such IDIQ contracts, is based on our experience under such IDIQ contracts and our estimates as to future performance. Although we believe our estimates are reasonable, there can be no assurance that our existing contracts will result in actual revenue in 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 on IDIQ requests for proposals. As of July 2, 2010 and April 2, 2010, our estimated remaining contract value was $13.7 billion and $12.2 billion, respectively. The increase was primarily due to additional services expected to be provided on the LOGCAP IV program.

RESULTS OF OPERATIONS – Fiscal Quarters Ended July 2, 2010 and July 3, 2009

The following tables set forth, for the periods indicated, our unaudited consolidated results of operations, both in dollars and as a percentage of revenue:

	Fiscal Quarter Ended			
	July 2, 2010		July 3, 2009	
	(Amounts in thousands, except percentages)			
Revenue	$ 947,503	100.0%	$ 785,177	100.0%
Cost of services	(857,897)	(90.5%)	(699,093)	(89.0%)
Selling, general and administrative expenses	(38,513)	(4.1%)	(23,438)	(3.0%)
Depreciation and amortization expense	(10,263)	(1.1%)	(10,145)	(1.3%)
Operating income	40,830	4.3%	52,501	6.7%
Interest expense	(12,678)	(1.3%)	(14,610)	(1.9%)
Earnings from affiliates	709	0.1%	1,054	0.1%
Interest income	51	0.0%	339	0.0%
Other income/(loss), net	225	0.0%	(213)	(0.0%)
Income before income taxes	29,137	3.1%	39,071	5.0%
Provision for income taxes	(10,017)	(1.1%)	(12,627)	(1.6%)
Net income	19,120	2.0%	26,444	3.4%
Noncontrolling interests	(5,004)	(0.5%)	(5,799)	(0.7%)
Net income attributable to DynCorp International Inc.	$ 14,116	1.5%	$ 20,645	2.6%

Revenue – Revenue for the fiscal quarter ended July 2, 2010 of $947.5 million increased by $162.3 million, or 20.7%, as compared with the fiscal quarter ended July 3, 2009. The increase, as more fully described in the results by segment, was primarily due to a full quarter of revenue from the LOGCAP IV Afghanistan task order in the current fiscal quarter, which did not start ramping up until the end of the second quarter in fiscal year 2010.

Cost of services - Costs of services are comprised of direct labor, direct material, subcontractor costs, other direct costs and overhead. Other direct costs include travel, supplies and other miscellaneous costs. Costs of services for the fiscal quarter ended July 2, 2010 increased by $158.8 million, or 22.7%, compared with the fiscal quarter ended July 3, 2009 and was primarily a result of revenue growth. As a percentage of revenue, costs of services increased to 90.5% for the fiscal quarter ended July 2, 2010 from 89.0% for the fiscal quarter ended July 3, 2009. This increase was primarily due to higher LOGCAP IV revenue contribution, which carries relatively low margins primarily due to the inability to record award fees on the Afghanistan task order while we wait for our first performance evaluation on this task order. Also impacting the increase was a change in contract mix and declining margins on CFT programs. These drivers are discussed in greater detail in the segment comparisons below.

Selling, general and administrative expenses ("SG&A") - SG&A primarily relates to functions such as management, legal, financial accounting, contracts and administration, human resources, management information systems, purchasing and business development. SG&A for the fiscal quarter ended July 2, 2010 increased by $15.1 million, or 64.4%, compared with the fiscal quarter ended July 3, 2009. SG&A as a percentage of revenue increased to 4.1% for the fiscal quarter ended July 2, 2010 compared to 3.0% for the fiscal quarter ended July 3, 2009. This increase was primarily the result of overall revenue growth including an increase in bid and proposal costs to support diversification of the Company, and the timing of SG&A

expenses between quarters. Additionally, there were increases to SG&A including $3.4 million in Merger related costs, $2.9 million in stock-based compensation, retention bonuses, and acquisition earn-out related costs, and $1.5 million in increased compliance training and legal expenses. Going forward, we expect SG&A to run at approximately 3.2% of revenue for the remainder of fiscal year 2011, excluding the impact of Merger related costs.

Depreciation and amortization - Depreciation and amortization for the fiscal quarter ended July 2, 2010 increased $0.1 million, or 1.2%, as compared with the fiscal quarter ended July 3, 2009. The increase was primarily attributable to the amortization of Phoenix and Casals intangibles.

Interest expense - Interest expense for the fiscal quarter ended July 2, 2010 decreased by $1.9 million, or 13.2%, as compared with the fiscal quarter ended July 3, 2009. The interest expense incurred related to our pre-merger credit facility, pre-merger senior subordinated notes and amortization of deferred financing fees relating to our pre-merger debt. The decrease in interest expense was primarily due to a lower comparative principal balance which resulted from the fiscal year 2009 excess cash flow principal payment on our pre-merger senior credit facility which was paid in June 2009 and repurchases of senior subordinated notes that occurred during fiscal year 2010. Also impacting the decrease in interest expense was the expiration of the interest rate swaps in May 2010. See Note 6 to the unaudited consolidated financial statements for additional information about our new debt.

Income tax expense – Our effective tax rate increased to 34.4% for the fiscal quarter ended July 2, 2010 from 32.3% for the fiscal quarter ended July 3, 2009. The increase was primarily attributable to non-deductable costs associated with the Merger. Our effective tax rate was also impacted by the tax treatment of our GLS and DIFZ joint ventures, which are not consolidated for tax purposes but are instead taxed as a partnership under the Internal Revenue Code.

Noncontrolling interests — Noncontrolling interests reflect the impact of our joint venture partners' interest in our consolidated joint ventures, GLS and DIFZ. For the first quarter of fiscal year 2011, noncontrolling interests for GLS and DIFZ were $4.2 million and $0.8 million, respectively, as compared to $5.1 million and $0.7 million, respectively, for the first quarter of fiscal year 2010.

Results by Segment

The following table sets forth the revenue and operating income for our GSDS, GPSS and GLS operating segments, both in dollars and as a percentage of our consolidated revenue and operating income, for the fiscal quarter ended July 2, 2010 as compared to the fiscal quarter ended July 3, 2009.

	For the Fiscal Quarter Ended			
	July 2, 2010		July 3, 2009	
	(Amounts in thousands, except percentages)			
Revenue				
Global Stabilization and Development Solutions	$ 509,852	53.8%	$ 284,085	36.2%
Global Platform Support Solutions	288,647	30.5%	303,648	38.6%
Global Linguist Solutions	149,254	15.8%	198,354	25.3%
Other/elimination	(250)	(0.0%)	(910)	(0.1%)
Consolidated	$ 947,503	100%	$ 785,177	100.0%
Operating Income				
Global Stabilization and Development Solutions	$ 18,081	44.3%	$ 15,874	30.2%
Global Platform Support Solutions	13,971	34.2%	25,910	49.4%
Global Linguist Solutions	8,778	21.5%	10,717	20.4%
Consolidated	$ 40,830	100.0%	$ 52,501	100.0%

Global Stabilization and Development Solutions

Revenue – Revenue of $509.9 million for the fiscal quarter ended July 2, 2010 increased $225.8 million, or 79.5%, as compared with the fiscal quarter ended July 3, 2009. The increase was primarily the result of the following:

Training & Mentoring: Revenue of $153.3 million decreased $37.0 million, or 19.4%, primarily due to lower service

levels in Iraq on the CivPol program driven by the U.S. troop drawdown. Also contributing to the decrease was the wind-down of the Qatar Guards program as well as non-recurring equipment sales on our Pakistan based World Wide Personal Protection Services ("WPPS") program in the first quarter of fiscal year 2010. In July 2010, the Afghanistan based CivPol task order term was officially extended another year, through June 2011, to allow for full operational support while DoD conducts a full and open competition. We will continue to execute the police training mission pursuant to the original contract and current task order. We plan to bid on the new contract.

Logistics: Revenue of $285.3 million increased $268.1 million primarily due to the benefit of a full quarter of LOGCAP IV operations in Afghanistan, which did not ramp up until the end of the second quarter in fiscal year 2010.

Operations & Development: Revenue of $61.8 million decreased $14.9 million primarily due to the wind-down of the Afghanistan construction contracts.

Intelligence Training and Solutions: Revenue of $9.5 million increased by the same amount as a result of the Phoenix acquisition, which occurred in the third quarter of fiscal year 2010.

Operating Income – Operating income of $18.1 million for the fiscal quarter ended July 2, 2010 increased $2.2 million, or 13.9%, as compared with the fiscal quarter ended July 3, 2009. This increase was primarily driven by (i) higher LOGCAP IV Afghanistan revenue, which did not start ramping up until September 2009, (ii) contributions by the Intelligence and Training Solutions service offering as a result of the Phoenix acquisition and (iii) lower losses on the Afghanistan construction programs. This was partially offset by a lower contribution on the CivPol program resulting from the troop draw down in Iraq and reductions in WPPS Pakistan revenue.

Global Platform Support Solutions

Revenue – Revenue of $288.7 million for the fiscal quarter ended July 2, 2010 decreased $15.0 million, or 4.9%, as compared with the fiscal quarter ended July 3, 2009. The decrease primarily resulted from the following:

Aviation Maintenance & Support: Revenue of $100.8 million decreased $11.8 million, or 10.4%, for the fiscal quarter ended July 2, 2010, as compared to the fiscal quarter ended July 3, 2009. The decrease was primarily driven by a decline in our CFT program, which occurred due to the completion of certain CFT task orders in fiscal year 2010, for which we did not win the re-competes due to additional competitors in this service space bidding at what we believe to be are zero or negative margin levels. Also contributing to the decrease was the impact of lower time-and-materials rates as well as lower fixed-price ceilings on existing CFT task orders. This decline was partially offset by our new contract to provide aircraft maintenance support services at Sheppard Air Force Base.

Counter-Drug & Law Enforcement Aviation: Revenue of $86.1 million increased $25.8 million, or 42.7%, for the fiscal quarter ended July 2, 2010, as compared to the fiscal quarter ended July 3, 2009. This increase was primarily due to an increase in (i) service levels in Afghanistan and (ii) increased transportation services in Iraq, which began in the third quarter of fiscal year 2010.

Fleet: Revenue of $66.5 million decreased $20.3 million, or 23.4%, for the fiscal quarter ended July 2, 2010, as compared to the fiscal quarter ended July 3, 2009. This was primarily due to non-recurring services provided on a subcontract with Northrop Grumman in fiscal year 2010 that ended. This service offering was also negatively impacted by the timing of engine overhauls on the LCCS program. In June 2010, we were notified that we lost the re-compete on the LCCS-Army program. We filed a protest, which is scheduled to be evaluated in November 2010. We are continuing to provide services on the LCCS-Army program while we await the status on our protest.

Land Systems: Revenue of $35.3 million decreased $8.7 million, or 19.8%, for the fiscal quarter ended July 2, 2010, as compared to the fiscal quarter ended July 3, 2009, primarily due to the loss of the APS-3 program in fiscal year 2010.

Operating Income – Operating income of $14.0 million for the fiscal quarter ended July 2, 2010 decreased $11.9 million, or 46.1%, as compared with the fiscal quarter ended July 3, 2009. This was primarily due to lower margins on the CFT program driven by a lower revenue base from work lost to competitors as well as lower time-and-materials rates and fixed price ceilings on existing work. Also impacting the decrease was lower margins on the LCCS programs due to non-recurring engine overhauls that occurred in the first quarter of fiscal year 2010 as well as with non-recurring services provided in the first quarter of fiscal

year 2010 on a subcontract with Northrop Grumman. We expect quarterly GPSS operating income to decrease in comparison to fiscal year 2010 for the rest of fiscal year 2011 due to lower rates and ceilings on our CFT programs and declining services on the MRAP program. Additionally, the decision on the LCCS-Army protest will impact GPSS operating income in fiscal year 2011.

Global Linguist Solutions

Revenue of $149.3 million decreased $49.1 million, or 24.8%, for the fiscal quarter ended July 2, 2010, as compared to the fiscal quarter ended July 3, 2009. This decrease was primarily due to the U.S. troop drawdown in Iraq requiring fewer linguists.

Operating income of $8.8 million decreased $1.9 million for the fiscal quarter ended July 2, 2010, as compared to the fiscal quarter ended July 3, 2009. This was primarily due to lower revenue as discussed above. Operating income earned by GLS benefits net income attributable to DynCorp International Inc. by our 51% ownership of the joint venture.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated by operations and borrowings available under our new senior secured credit facility ("Senior Credit Facility") are our primary sources of short-term liquidity (refer to Note 6 to the unaudited consolidated financial statements for more detail). We believe our cash flow from operations and our available borrowings will be adequate to meet our liquidity needs for the next twelve months. Our primary use of short-term liquidity includes debt service and working capital needs sufficient to pay services or subcontractors prior to receiving payments from our customers.

We expect an increase in our cash requirements from during the remainder of fiscal year 2011 from (i) the continued expansion of the LOGCAP IV contract in Afghanistan and (ii) interest and principal payments on the new Senior Credit Facility and new senior unsecured notes ("Senior Unsecured Notes"). Additionally, our cash requirements can be impacted through significant new contract wins, the win of new task orders on existing programs, and business acquisitions we may invest in from time to time.

The aforementioned factors will produce demands on liquidity. We expect to fund these initiatives with cash on hand, which is heavily impacted by timely collections, and our available borrowing capacity under the new Senior Credit Facility. However, to support growth and service our new indebtedness over the remainder of the fiscal year, we may require additional capital beyond that currently provided from operations and by our new Senior Credit Facility. There can be no assurance that sufficient capital will continue to be available in the future or that it will be available on terms acceptable to us. Failure to obtain sufficient capital could materially affect our future expansion strategies.

Management believes Days Sales Outstanding ("DSO") is an appropriate way to measure our billing and collections effectiveness. DSO measures the efficiency in collecting our receivables as of the period end date. Our DSO as of July 2, 2010 was 80 days as compared to 71 days as of July 3, 2009. Going forward our expectation is that the quarterly DSO will be in the low 70s for the remainder of fiscal year 2011.

	Fiscal Quarter Ended	
	July 2, 2010	July 3, 2009
Cash Flow Analysis	(Amounts in thousands)	
Net Cash provided by operating activities	$ 21,723	$ 5,448
Net Cash used in investing activities	(2,874)	(1,294)
Net Cash used in financing activities	(5,433)	(45,083)

Cash provided by operating activities for the fiscal quarter ended July 2, 2010 was $21.7 million, as compared to $5.4 million during the fiscal quarter ended July 3, 2009. Cash generated from operations during the quarter ended July 2, 2010 benefited from favorable timing on our collections and payment activity during the period in spite of the Merger related costs' impact to net income. Operational cash flows were negatively impacted ongoing billing efforts with one of our major customers and the impact of delayed award fees on the Intelligence and Security Command ("INSCOM") contract as well as certain costs paid associated with the Merger.

Cash used in investing activities was $2.9 million for the fiscal quarter ended July 2, 2010 as compared to $1.3 million for the fiscal quarter ended July 3, 2009. The cash used was primarily for equipment additions.

Cash used in financing activities was $5.4 million for the fiscal quarter ended July 2, 2010, as compared to $45.1 million during the fiscal quarter ended July 3, 2009. The cash used in financing activities during the fiscal quarter ended July 2, 2010 was primarily due to the payments of noncontrolling interests dividends. Cash used in financing activities during the fiscal quarter ended July 3, 2009 included an excess cash flow principal payment of $23.4 million on the pre-merger term loan and $10.9 million of principal payments on the pre-merger senior subordinated notes.

Financing

As of July 2, 2010, no balance was outstanding under the pre-merger revolving facility, and $176.6 million was outstanding under the pre-merger term loan facility. Our available borrowing capacity under the pre-merger revolving facility totaled $174.2 million as of July 2, 2010, which gave effect to $25.8 million of outstanding letters of credit. The weighted-average interest rate as of July 2, 2010 for our borrowings under the pre-merger credit facility was 2.9%, excluding the impact of the expired interest rate swaps and the deferred financing fees. There were no interest rate hedges in place on July 2, 2010.

The new Senior Credit Facility includes a $570 million term loan with a $150 million revolving credit facility. As of July 7, 2010, we had approximately $123.6 million available to us under the revolving credit facility. The first scheduled quarterly term loan principal payment on December 31, 2010 is expected to be $1,425,000. We will also incur quarterly interest payments on the new term loan and the new revolving facility which is comprised of (i) revolver borrowings, (ii) letter of credit commitments and (iii) unused commitment fees. Refer to Note 6 to our unaudited consolidated financial statements for additional information related to the new Senior Credit Facility.

The new Senior Unsecured Notes carry $455 million of principal with a 10.375% interest rate. This debt agreement runs from July 7, 2010 through July 1, 2017 with the entire principal balance due on July 1, 2017. The interest payments are payable bi-annually is on January 1st and July 1st. The first scheduled interest payment is on January 1, 2011.

Debt Covenants and Other Matters

Our pre-merger credit facility contained various financial covenants, minimum interest and fixed charge coverage ratios, and maximum capital expenditures and total leverage ratio. Non-financial covenants restrict our ability to dispose of assets; incur additional indebtedness; prepay other indebtedness or amend certain debt instruments; pay dividends; create liens on assets; enter into sale and leaseback transactions; make investments, loans or advances; issue certain equity instruments; make acquisitions; engage in mergers or consolidations or engage in certain transactions with affiliates; and otherwise restrict certain corporate activities. We had no instances of noncompliance with our various financial and non-financial covenants as of July 2, 2010.

ACCOUNTING DEVELOPMENTS

We have presented the information about accounting pronouncements not yet implemented in Note 1 to the unaudited consolidated financial statements included in this Quarterly Report.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in the Company’s Annual Report on Form 10-K for the fiscal year ended April 2, 2010, filed with the SEC on June 4, 2010.

CONTROLS AND PROCEDURES

Not applicable.

OTHER INFORMATION

LEGAL PROCEEDINGS

Information related to various commitments and contingencies is described in Note 8 to the unaudited consolidated financial statements.

As previously disclosed in our periodic filings, we identified certain payments made on our behalf by two subcontractors to expedite the issuance of a limited number of visas and licenses from a foreign government's agencies that may raise compliance issues under the U.S. Foreign Corrupt Practices Act. We retained outside counsel to investigate these payments. In November 2009, we voluntarily brought this matter to the attention of the U.S. Department of Justice and the SEC. We are cooperating with the government's review of this matter. We are also continuing our evaluation of our internal policies and procedures. We cannot predict the ultimate consequences of this matter at this time, nor can we reasonably estimate the potential liability, if any, related to this matter. However, based on the facts currently known, we do not believe that this matter will have a material adverse effect on our business, financial condition, results of operations or cash flow. We have not recorded any reserves with respect to this matter.

RISK FACTORS

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Part I, Item 1A. "Risk Factors" in our Form 10-K (for the fiscal year ended April 2, 2010) filed with the Securities and Exchange Commission on June 4, 2010 ("2010 Form 10-K"). Except for those risks listed below, there have been no material changes in risk factors from those described in the 2010 Form 10-K, although we may disclose changes to such risk factors or disclose additional risk factors from time to time.

The Internal Revenue Service may successfully challenge our treatment of certain employment tax matters.

We are currently under audit by the Internal Revenue Service (''IRS'') for employment taxes covering the calendar years 2005 through 2007. In the course of the audit process, the IRS has questioned our treatment of exempting from U.S. employment taxes all U.S. residents working abroad for a foreign subsidiary. While we believe our treatment with respect to employment taxes for these employees was and continues to be appropriate, a negative outcome on this matter could result in a potential liability, including penalties of up to approximately $113.8 million related to the calendar years under audit, and additional adjustments for subsequent taxable years for which our employment tax position is successfully challenged. A successful challenge by the IRS with respect to the above matters could have an adverse effect on our financial condition. See Note 8 to the unaudited consolidated financial statements for additional information regarding employment taxes.

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 Defense Contract Audit Agency (''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, 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. Any negative results from any audit of our control systems and policies by the DCAA or any other government agency, including any findings that we have not complied with any required policies or procedures, could delay or materially adversely affect our ability to invoice and receive timely payment on our contracts, perform contracts or compete for contracts with the U.S. government and could have a material adverse effect on our operating performance. See Note 8 to the unaudited consolidated financial statements for additional information related to the DCAA.

We may compete with, or enter into transactions with, entities in which our controlling stockholder holds a substantial interest.

Cerberus is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly and indirectly with us. In particular, IAP Worldwide Services, Inc. (''IAP''), an entity in which Cerberus holds a controlling equity interest, may compete with us for certain contracts and other opportunities. Further, Steven F. Gaffney, who is the Chairman of our Board of Directors, currently serves as the Chairman of the Board and Chief Executive Officer of IAP. Corporate opportunities may arise in the area of potential competitive business activities that may be attractive to us as well as to Cerberus or IAP or their respective affiliates, including through potential acquisitions of competing businesses. Any competition could intensify if an affiliate or subsidiary of Cerberus, including IAP, were to enter into or acquire a business similar to ours. Cerberus is under no obligation to communicate or offer any corporate opportunity to us, even if such opportunity might reasonably have been expected to be of interest to us or our subsidiaries.

In addition, we may in the future make investments in, enter into co-investment or joint venture arrangements with, enter into business combinations with or otherwise collaborate with and invest in other firms or entities, such as our affiliates, including Cerberus or IAP. Any such transactions may not trigger a change of control, which means it would not cause an event of default under our new Senior Credit Facility and we would not be required to offer to repurchase the Senior Unsecured Notes at 101% of their principal amount plus accrued and unpaid interest. You should consider that the interests of Cerberus may differ from yours in material respects.

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our new debt.

Following the debt transactions that occurred on July 7, 2010, we are highly leveraged. As of July 7, 2010 we had total indebtedness of approximately $1.0 billion including $26.4 million for the letter of credit subfacility. As of July 7, 2010, we had an additional $123.6 million available for borrowing under the new revolving credit facility and the terms of the new Senior Credit Facility permit us to increase the amount available under the new term loan and/or revolving credit facilities by up to $275.0 million if we are able to obtain loan commitments from banks and satisfy certain other conditions, including our having capacity to incur such indebtedness under the indenture governing the new Senior Unsecured Notes.

Our high degree of leverage could have important consequences, including:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow for other purposes, including for our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates because certain of our borrowings, including borrowings under our new Senior Credit Facility, are at variable rates of interest;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness, including the new Senior Unsecured Notes, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indenture governing the new Senior Unsecured Notes and the agreements governing such other indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, business development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

Our interest expense could increase if interest rates increase because the entire amount of the indebtedness under our new Senior Credit Facility bears interest at a variable rate. As of July 7, 2010 a 100 basis point increase in variable interest rate on the $570 million term loan would increase the annual interest expense under the new Senior Credit Facility by $5.8 million. This excludes both the letter of credit subfacility and unused commitments, which are not subject to a variable eurocurrency or base rates and excludes the revolver which had a zero balance.

Despite our high indebtedness level, we and our subsidiaries still may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although the indenture governing the new Senior Unsecured Notes and our new Senior Credit Facility contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. In addition to the $123.6 million was available to us for borrowing under the new revolving credit facility (after giving effect to approximately $26.4 million of outstanding letters of credit. The terms of the new Senior Credit Facility enable us to increase the amount available under the new term loan and/or revolving credit facilities by up to an aggregate of $275.0 million if we are able to obtain loan commitments from banks and satisfy certain other conditions, including our having capacity to incur such indebtedness under the indenture governing the new Senior Unsecured Notes. If new debt is added to our and our subsidiaries' existing debt levels, the related risks that we face would increase. In addition, the indenture governing the new Senior Unsecured Notes does not prevent us from incurring obligations that do not constitute indebtedness under the indenture.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The indenture governing the new Senior Unsecured Notes and the agreement governing our new Senior Credit Facility contain, and any future indebtedness we incur may contain, various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs. In addition, the covenants in our new Senior Credit Facility require us to maintain a maximum total leverage ratio and interest coverage ratio and also limit our capital expenditures. A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross-default provisions and, in the case of the new revolving credit facility, permit the lenders to cease making loans to us. Upon the occurrence of an event of default under our new Senior Credit Facility, the lenders could elect to declare all amounts outstanding under our new Senior Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the lenders under our new Senior Credit Facility could proceed against the collateral granted to them to secure that indebtedness. We pledged a significant portion of our assets as collateral under our new Senior Credit Facility. If the lenders under the new Senior Credit Facility accelerate the repayment of borrowings, the proceeds from the sale or foreclosure upon such assets will first be used to repay debt under our new Senior Credit Facility and we may not have sufficient assets to repay our unsecured indebtedness thereafter, including the new Senior Unsecured Notes. See Note 6 to the unaudited consolidated financial statements for additional detail regarding the new Senior Credit Facility and new Senior Unsecured Notes.

We may not be able to generate sufficient cash to service all of our indebtedness, including the new Senior Unsecured Notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the new Senior Unsecured Notes. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be

forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the new Senior Unsecured Notes. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments and the indenture governing the new Senior Unsecured Notes may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

DEFAULTS UPON SENIOR SECURITIES

None.

OTHER INFORMATION

None.

EXHIBITS

Not applicable.