UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 26, 2008

OR

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

Commission File No. 001-33083

STANLEY, INC.

(Exact name of registrant as specified in its charter)

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

(703) 684-1125

(Registrant s telephone number,

including area code)

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

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

o Large accelerated filer x Accelerated filer o Non-accelerated filer (do not check if a smaller reporting company) o Smaller reporting company

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

As of January 26, 2009, there were 23,535,925 shares of our Common Stock, par value $0.01 per share, outstanding.

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STANLEY, INC.

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 26, 2008

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FORWARD-LOOKING STATEMENTS

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

The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management s beliefs and assumptions. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, including as a result of risks discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008 and in Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 2008. These forward-looking statements include, but are not limited to, statements relating to:

- our ability to retain customers and contracts, as well as our ability to win new customers and engagements;
- our backlog;
- risks associated with the acquisition and integration of new companies, including our recent acquisition of Oberon Associates, Inc.;
- our beliefs about trends in our market, available government contracts and outsourcing to companies like ours;
- expected spending on information technology and other professional services by federal government agencies, including the Department of Defense; and
- other risks discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008 in the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, and in any other documents we file with the Securities and Exchange Commission.

We do not assume any obligation to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STANLEY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(unaudited)

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	December 26, 2008	December 31, 2007	December 26, 2008	December 31, 2007
Revenues	$ 203,597	$ 147,083	$ 567,242	$ 430,803
Operating costs and expenses:				
Cost of revenues	170,091	123,660	475,775	363,538
Selling, general and administrative	13,220	9,431	36,103	28,181
Amortization of deferred compensation	62	62	187	205
Depreciation and amortization	2,741	1,694	7,044	5,005
Total operating costs and expenses	186,114	134,847	519,109	396,929
Operating income	17,483	12,236	48,133	33,874
Other income (expense):				
Other income	17	10	20	16
Interest expense net	(1,970)	(919)	(4,141)	(3,120)
Total other expenses	(1,953)	(909)	(4,121)	(3,104)
Income before taxes	15,530	11,327	44,012	30,770
Provision for income taxes	(5,852)	(4,576)	(17,289)	(12,320)
Net income	$ 9,678	$ 6,751	$ 26,723	$ 18,450
Earnings per share:				
Basic	$ 0.42	$ 0.31	$ 1.17	$ 0.84
Diluted	$ 0.41	$ 0.29	$ 1.12	$ 0.79
Weighted-average shares:				
Basic	22,832	22,129	22,785	22,021
Diluted	23,818	23,552	23,798	23,340

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

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STANLEY, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except share and per share data)

	December 26, 2008	March 31, 2008
Assets		
Current assets:		
Cash	$ 5,542	$ 271
Accounts receivable - net	183,181	160,928
Prepaid and other current assets	6,463	4,644
Total current assets	195,186	165,843
Property and equipment - net	18,147	12,894
Goodwill	262,692	113,615
Intangible assets - net	17,135	8,088
Deferred taxes		3,343
Other assets	2,558	2,272
Total assets	$ 495,718	$ 306,055
Liabilities and Stockholders Equity		
Current liabilities:		
Line of credit	$ 142,869	$
Accounts payable	26,591	29,628
Accrued expenses and other liabilities	77,291	62,649
Current portion of long-term debt	1,000	1,000
Income taxes payable		5,836
Total current liabilities	247,751	99,113
Long-term debt net of current portion	35,000	35,500
Other long-term liabilities	11,041	4,738
Total liabilities	293,792	139,351
Commitments and contingencies:		
Stockholders equity		
Common stock, $0.01 par value 200,000,000 shares authorized; 23,513,718 and 22,822,697 issued, respectively	235	228
Additional paid-in capital	92,346	83,970
Retained earnings	110,927	84,204
Accumulated other comprehensive loss	(1,000)	(929)
Deferred compensation	(582)	(769)
Total stockholders equity	201,926	166,704
Total liabilities and stockholders equity	$ 495,718	$ 306,055

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

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STANLEY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Nine months ended	
	December 26, 2008	**December 31, 2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 26,723	$ 18,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,044	5,005
Amortization of deferred compensation	187	205
Loss on disposal of property and equipment	151	46
Deferred taxes	1,555	(38)
Income tax benefit from stock-based compensation	2,438	2,134
Stock compensation expense	4,555	1,508
Changes in assets and liabilities net of acquisition effects:		
Increase in accounts receivable	(667)	(31,679)
Decrease (increase) in prepaid income tax	271	(1,538)
Increase in prepaid expenses and other current assets	(362)	(576)
Increase in other assets	(187)	(108)
Decrease in accounts payable	(4,852)	(5,050)
Increase in accrued expenses	5,229	15,840
Increase (decrease) in other liabilities	4,297	(117)
Decrease in income taxes payable	(7,835)	(817)
Net cash provided by operating activities	38,547	3,265
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Techrizon net of cash acquired		(30,559)
Purchase of Oberon net of cash acquired	(170,795)	
Acquisition of property and equipment	(6,036)	(2,406)
Net cash used in investing activities	(176,831)	(32,965)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under line-of-credit agreements	142,869	16,816
Repayments on long-term debt	(500)	(1,000)
Payments under capital lease obligations	(203)	(112)
Purchase of treasury stock	(196)	(260)
Proceeds from exercise of stock options	996	1,424
Proceeds from sale of stock	143	
Excess tax benefit from share-based compensation	446	96
Net cash provided by financing activities	143,555	16,964
NET INCREASE (DECREASE) IN CASH	5,271	(12,736)
CASH Beginning of period	271	12,736
CASH End of period	$ 5,542	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 19,364	$ 12,403

Interest	$	3,880	$	2,853
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:				
Lease incentive	$	942	$	

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

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STANLEY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(in thousands)

	Three Months Ended		Nine Months Ended	
	December 26, 2008	December 31, 2007	December 26, 2008	December 31, 2007
Net income	$ 9,678	$ 6,751	$ 26,723	$ 18,450
Other comprehensive income:				
Unrealized (loss) gain on interest rate swap	(518)	(807)	(166)	325
Translation adjustments	(5)		95	
Total other comprehensive income	(523)	(807)	(71)	325
Comprehensive income	$ 9,155	$ 5,944	$ 26,652	$ 18,775

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

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STANLEY, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(in thousands, except share and per share data, or as otherwise noted)

1. DESCRIPTION OF BUSINESS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, these statements reflect all adjustments necessary to fairly present the Company s financial position as of December 26, 2008, and its results of operations for the three and nine months ended December 26, 2008 and December 31, 2007, and its cash flows for the nine months ended December 26, 2008 and December 31, 2007. The results of operations for the interim periods are not necessarily indicative of the results for the full year. For further information, refer to the financial statements and footnotes presented in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

Reporting Periods The Company s fiscal year begins on April 1 and ends on March 31. For the fiscal years ending prior to April 1, 2008, the Company s fiscal quarters ended on the last day of the third calendar month. For fiscal years beginning after April 1, 2008, the Company s first three fiscal quarters end on the 13th Friday after the first day of the quarter and the fourth quarter will end on March 31. Fiscal quarters will typically be 13 weeks. The third quarter of fiscal year 2009 ended on December 26, 2008. The Company does not believe that there is a material impact to the comparability of the periods presented.

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

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

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

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

Under cost-plus-fee contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. For level of effort or term cost-plus-fee contracts, fixed fees are earned in proportion to the percentage of required effort delivered. The Company considers fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs actually incurred in performance of the contract for level of effort contracts. For completion type cost-plus-fee contracts, fixed fees are earned in proportion to the percentage of work completed. For time-and-materials contracts, revenues are computed by multiplying the number of direct labor-hours expended in performance of the contract by the contractual billing rates and adding other billable direct and indirect costs. For fixed-price contracts, revenues are recognized as services are performed, using the percentage-of-completion method, applying the cost-to-cost or units of delivery method, in

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accordance with Accounting Research Bulletin No. 45, *Accounting for Long-Term Construction-Type Contracts* (ARB 45) and American Institute of Certified Public Accountants (AICPA) Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1).

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

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

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

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

Concentration of Risk Contracts funded by federal government agencies account for substantially all of our revenues. For the three months ended December 26, 2008 and December 31, 2007, we derived approximately 76% and 68% of our revenues, respectively, from the Department of Defense, including agencies within the intelligence community, and approximately 24% and 32% of our revenues, respectively, from federal civilian government agencies. The Company s contracts with the Department of State for the provision of passport processing and support services, and with the Department of the Navy for production engineering and integration services under various Space and Naval Warfare Systems Center (SPAWAR) programs accounted for approximately 8% and 10%, respectively, of our revenues for the three months ended December 26, 2008.

For the nine months ended December 26, 2008 and December 31, 2007, we derived approximately 70% and 68% of our revenues, respectively, from the Department of Defense, including agencies within the intelligence community, and approximately 30% and 32% of our revenues,

respectively, from federal civilian government agencies. The Company s contracts with the Department of State for the provision of passport processing and support services and with the Department of the Navy for production engineering and integration services under various SPAWAR programs, accounted for approximately 12% and 10%, respectively, of our revenues for the nine months ended December 26, 2008.

Property and Equipment Property and equipment are carried at cost, less accumulated depreciation. Depreciation of property and equipment is calculated using the straight-line method over the useful lives. The estimated useful lives of computers, peripherals and software typically range from three to five years. The estimated useful lives of furniture and equipment typically range from five to ten years. Leasehold improvements are amortized over the lesser of the useful life or the term of the lease. Repairs and maintenance are expensed as incurred. Depreciation expense related to property and equipment was $1.1 million and $0.7 million for the three months ended December 26, 2008 and December 31, 2007, respectively and $3.0 million and $2.1 million for the nine months ended December 26, 2008 and December 31, 2007, respectively.

Goodwill and Intangible Assets Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired companies. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), the Company does not amortize goodwill; rather it tests goodwill for impairment at least on an annual basis.

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Testing for impairment is a two-step process as prescribed by SFAS No. 142. The first step is a test for potential impairment, while the second step measures the amount of impairment, if any. Under the guidelines of SFAS No. 142, the Company is required to perform an impairment test at least on an annual basis at any time during the fiscal year provided the test is performed at the same time every year. An impairment loss would be recognized when the assets fair value is below their carrying value. Stanley has elected the last day of its third fiscal quarter as its testing date. Based on the testing performed as of December 26, 2008, the Company determined that no impairments existed as of December 26, 2008. Customer relationships are amortized on a straight-line basis over periods ranging from five to seven years. Non-competition agreements are amortized on a straight-line basis over periods ranging from one to five years. Backlog and contracts are amortized on a straight-line basis over periods ranging from two to five years.

Impairment of Long-Lived Assets Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be fully recoverable, Stanley evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If any impairment were indicated as a result of this review, Stanley would recognize a loss based on the amount by which the carrying amount exceeds the estimated fair value. Stanley believes that no impairments existed as of December 26, 2008.

Earnings per share Basic earnings per share has been computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Restricted shares of common stock that vest based on the satisfaction of certain conditions are treated as contingently issuable shares until the conditions are satisfied. These shares are included in the computation of basic earnings per share only after the shares vest. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Diluted earnings per share consider the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Shares that are anti-dilutive are not included in the computation of diluted earnings per share. The weighted-average number of common shares outstanding is computed as follows:

	Three Months Ended		Nine Months Ended	
	December 26, 2008	December 31, 2007	December 26, 2008	December 31, 2007
	(in thousands)			
Basic weighted-average common shares outstanding	22,832	22,129	22,785	22,021
Effect of stock options and unvested restricted stock grants	986	1,423	1,013	1,319
Diluted weighted-average common shares outstanding	23,818	23,552	23,798	23,340

Derivative Instruments and Hedging Activities In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS 133* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* the fair value of the hedge arrangement is recorded as an asset or a liability in the accompanying unaudited condensed consolidated balance sheet at December 26, 2008. For qualifying cash flow hedges, SFAS No. 133, as amended, states that the effective portion of derivative gains and losses be recorded as a component of other comprehensive income and be reclassified into earnings in the same period in which the hedged transaction affects such earnings. Any ineffectiveness is reported currently in earnings.

Stanley entered into an interest rate swap agreement on October 27, 2006 with a maturity date of January 31, 2012, an annual fixed rate of 5.28% and a notional amount of $19.0 million. The Company designated this swap agreement, at its inception, as a qualifying cash flow hedge. The fair value of the swap at December 26, 2008 of $1.7 million has been reported in Accrued expenses and other liabilities with an offset, net of tax, included in Accumulated other comprehensive loss in the accompanying unaudited condensed consolidated balance sheets. None of the $1.7 million unrealized loss was recognized in earnings during the nine months ended December 26, 2008 based on hedge ineffectiveness and none of the swap s unrealized loss was excluded from the assessment of hedge effectiveness. Amounts in accumulated other comprehensive loss will be reclassified into earnings in the period in which variable interest payments (the hedged transaction) are made under the Senior Credit Facility (defined below). As of December 26, 2008, the estimated net amount of existing losses expected to be reclassified into earnings within the next 12 months is zero.

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

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and

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liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include revenue recognition, carrying amount and useful lives of long-lived assets, valuation allowances for accounts receivable and deferred tax assets, software development costs and loss contingencies such as litigation, claims and assessments.

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

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

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

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

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

As of December 26, 2008, the financial liability measured at fair value consisted of an interest rate swap agreement. The value is based on model-driven valuations whose inputs are observable. The following table summarizes the financial liability measured at fair value on a recurring basis as of December 26, 2008 and the level it falls within the fair value hierarchy:

	Fair Value Measurement Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total December 26, 2008**
Liabilities:				
Interest rate swap	$	$ 1,704	$	$ 1,704

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 deferring the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The Company is assessing the impact that the adoption of SFAS 157 for

nonfinancial assets and liabilities will have on its financial position, results of operations or cash flows.

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

The effective date of SFAS 141R is for fiscal years beginning after December 15, 2008. For transactions consummated after the effective date of SFAS 141R, prospective application of the new standard is applied. For business combinations consummated prior to the effective date of SFAS 141R, the guidance in SFAS 141 is applied.

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

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In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 expands and amends the disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is in the process of determining what effect, if any, the application of the provisions of SFAS 161 will have on its financial position, results of operations or cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	As of December 26, 2008	As of March 31, 2008
Billed receivables	$ 113,486	$ 120,504
Unbilled receivables:		
Amounts billable	62,462	35,259
Revenues recorded in excess of contract funding	7,755	5,410
Retainage and contract fee withholding	447	415
Allowance for doubtful accounts	(969)	(660)
Total	$ 183,181	$ 160,928

Amounts billable consist primarily of amounts to be billed within a month. Revenues recorded in excess of contract funding are billable upon receipt of contractual amendments or modifications adding additional funding. The retainage and fee withholding is billable upon completion of the contract performance and approval of final indirect expense rates by the government. Consistent with industry practice, certain receivables related to long-term contracts are classified as current, although a portion of these amounts is not expected to be billed and collected within one year. Unbilled accounts receivable at December 26, 2008 are expected to be billed and collected within one year except for approximately $0.4 million.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	As of December 26, 2008	As of March 31, 2008
Computers and peripherals	$ 5,270	$ 4,554
Software	4,080	2,429
Furniture and equipment	5,527	4,390
Leasehold improvements	12,559	8,270
	27,436	19,643
Less: Accumulated depreciation and amortization	(9,289)	(6,749)
Property and equipment net	$ 18,147	$ 12,894

Property and equipment included above that are under capital lease obligations include:				
Software	$	637	$	637
Furniture and equipment		198		176
Less: Accumulated depreciation		(462)		(328)
Total	$	373	$	485

5. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

		As of December 26, 2008		As of March 31, 2008
Accrued payroll-related costs	$	28,185	$	20,534
Accrued contract costs		35,545		34,759
Accrued indirect costs		6,940		3,923
Other payables		6,621		3,433
Total accrued expenses	$	77,291	$	62,649

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6. DEBT

On October 10, 2007, Stanley entered into an Amended and Restated Revolving Credit and Term Loan Agreement (Senior Credit Facility or Amended Credit Agreement) with a group of lenders for which SunTrust Robinson Humphrey, Inc. acted as sole book manager and lead arranger, SunTrust Bank acted as administrative agent and M&T Bank and BB&T Bank acted as co-documentation agents. The Amended Credit Agreement amends and restates the previous credit agreement entered into in February 2006. The Amended Credit Agreement increased the amount of the lenders aggregate commitment under the Senior Credit Facility from $87.0 million to $187.0 million, which includes a $150.0 million revolving credit facility (Revolver) and a $37.0 million term loan (Term Loan). The Term Loan matures on January 31, 2012 and the Revolver matures on October 31, 2012. The Amended Credit Agreement also increased the letter of credit commitment from $5.0 million to $10.0 million and increased the swing line facility from $5.0 million to $20.0 million, both of which are part of the Revolver and have the same maturity date as the Revolver. The Amended Credit Agreement also eliminated the requirement to hedge a portion of the Company s outstanding indebtedness under the Senior Credit Facility. In connection with the Amended Credit Agreement, Stanley paid fees of approximately $0.5 million.

On July 15, 2008, Stanley exercised, in part, the accordion option feature under the Senior Credit Facility to increase the aggregate commitment under the Revolver contemplated by the Senior Credit Facility by $69.1 million. The exercise of the accordion feature increased the amount of the lenders current aggregate commitment under the Senior Credit Facility from $186.5 million to $255.6 million, which is comprised of a $219.1 million Revolver and a $36.5 million Term Loan. Stanley paid aggregate lender fees equal to $0.6 million in connection with the exercise of the accordion feature.

Immediately following the exercise of the accordion feature under the Senior Credit Facility, Stanley borrowed under the Revolver to fund the purchase price for its acquisition of Oberon (see Note 7).

As of December 26, 2008, Stanley had $36.0 million of Term Loan indebtedness and $142.9 million of Revolver indebtedness outstanding under its Senior Credit Facility, with a weighted-average interest rate of approximately 3.81% and 7.00% for the nine months ended December 26, 2008 and December 31, 2007, respectively. As of December 26, 2008, Stanley s borrowing availability under its $219.1 million Revolver was $76.1 million (including outstanding letters of credit). At December 26, 2008, the Company was in compliance with all covenants under its Senior Credit Facility. The obligations under the Senior Credit Facility are unconditionally guaranteed by each of Stanley s existing and subsequently acquired or organized subsidiaries and are secured on a first-priority basis by security interests (subject to permitted liens) in substantially all assets owned by the Company and each of its subsidiaries, including the shares of capital stock of its subsidiaries, subject to certain exceptions.

7. ACQUISITIONS

Oberon Associates, Inc.

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

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

In accordance with SFAS No. 141, *Business Combinations* (SFAS No. 141), the acquisition was accounted for under the purchase method of accounting. Accordingly, the results of Oberon have been included in the accompanying condensed consolidated financial statements since the date of acquisition. The purchase price has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values. Of the purchase consideration, $149.1 million has been allocated to goodwill, based upon the excess of the purchase price over the $8.6 million estimated fair value of net tangible assets and $13.1 million has been assigned to other identifiable intangible assets. The Company is continuing to evaluate the fair value of the assets and liabilities of Oberon and will complete the purchase accounting entries relating to the acquisition prior to the end of the Company s fiscal 2010 second quarter. None of the amount allocated to goodwill is expected to be deductible for tax purposes.

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

The following unaudited pro forma financial information presents consolidated results of operations data for the three and nine months ended December 26, 2008 and December 31, 2007, respectively, as if the acquisition of Oberon had occurred on April 1, 2007. The pro forma information is provided based on historical data that does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of operations of the combined entity.

	Three months ended		Nine months ended	
	December 26, 2008	December 31, 2007	December 26, 2008	December 31, 2007
Revenue	$ 203,597	$ 164,827	$ 597,906	$ 478,315
Net Income	$ 9,678	$ 8,299	$ 28,636	$ 23,109
Basic earnings per share	$ 0.42	$ 0.38	$ 1.26	$ 1.05
Diluted earnings per share	$ 0.41	$ 0.35	$ 1.20	$ 0.99

Techrizon, LLC

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

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

In accordance with SFAS No. 141, the acquisition was accounted for under the purchase method of accounting. Accordingly, the results of Techrizon have been included in the accompanying condensed consolidated financial statements since the date of acquisition. The purchase price has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values. Of the purchase consideration, $25.4 million has been allocated to goodwill, based upon the excess of the purchase price over the $2.7 million estimated fair value of net tangible assets and $2.5 million has been assigned to other identifiable intangible assets. The entire amount allocated to goodwill is expected to be deductible for tax purposes.

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

8. STOCKHOLDERS EQUITY

Common Stock

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

Stanley repurchased 7,715 shares of stock from its employees for $0.2 million during the nine months ended December 26, 2008. The repurchases were made to satisfy certain employees tax obligations upon the vesting of restricted stock on May 3, 2008. The shares were recorded at market price using the cost method of accounting.

Stanley sold 4,084 shares of common stock to its employees for $0.1 million under the Employee Stock Purchase Plan during the nine months ended December 26, 2008.

Deferred Compensation and Stock Options

Under the 2006 Omnibus Incentive Compensation Plan (the Omnibus Plan), Stanley is authorized to provide awards for a maximum of 4,000,000 shares of common stock to directors, officers, employees or consultants. The Omnibus Plan allows

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for cash awards, restricted stock awards, restricted stock units, stock appreciation rights, performance units, fully vested shares, option awards and other equity-related awards. Vesting periods of these awards vary. Except as otherwise determined by the board of directors, the option awards may not have an exercise price less than the fair market value of the common stock on the date the option is granted.

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

Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123(R) using the prospective-transition method. Under that transition method, compensation cost recognized in the nine months ended December 26, 2008 includes compensation cost for all share-based payments granted on or after April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company is required to account for any portion of awards outstanding at the date of adoption of SFAS No. 123(R) using the accounting principles originally applied to those awards.

The Company has presented all tax benefits resulting from stock-based compensation awarded prior to the adoption of SFAS No. 123(R) as operating cash flows in the accompanying unaudited condensed consolidated statements of cash flows. The tax benefits associated with share-based compensation in effect prior to the adoption of SFAS No. 123(R) were $2.4 million and $2.1 million for the nine months ended December 26, 2008 and December 31, 2007, respectively. For share-based payment transactions awarded subsequent to the adoption of SFAS No. 123(R), the tax benefits in excess of the compensation cost recognized are classified as financing cash flows. The excess tax benefits associated with share-based payment transactions accounted for after the adoption of SFAS No. 123(R) were $0.4 million and $0.1million for the nine months ended December 26, 2008 and December 31, 2007, respectively, and are disclosed within financing activities in the accompanying Condensed Consolidated Statements of Cash Flows.

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

A summary of the weighted average assumptions is presented below.

	Nine Months Ended

	December 26, 2008	December 31, 2007

Expected volatility	**32.3%**	**34.5%**

Expected dividends	**0.0%**	**0.0%**

%

Expected term (in years)	**3.5**	**3.5**

%

Risk-free rate	**2.6%**	**4.6%**

During the nine months ended December 26, 2008, the Company granted 445,210 stock option awards at a weighted-average exercise price of $26.43, which reflects the fair value of the shares on the date of grant. These options vest ratably over three years and have a contractual term of five years. The options have a weighted-average fair value of $7.22 per share. The weighted-average fair value of stock option awards granted during the nine months ended December 26, 2008 and December 31, 2007, as determined by the Black-Scholes-Merton closed-form option-pricing model, was $7.22 and $5.03, respectively. The stock option awards that vested during the nine months ended December 26, 2008 and December 31, 2007 had a combined fair value of $1.3 million and $0.5 million, respectively.

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A summary of option activity for the year ended March 31, 2008, and the nine months ended December 26, 2008 is presented below.

Options	**Number of Underlying Shares**	**Weighted-Average Exercise Price**	**Aggregate Intrinsic Value (in thousands)**

Outstanding at April 1, 2007	**2,014,986**	**$**	**4.87**		
Granted	**570,125**	**$**	**16.21**		
Exercised	**(784,636)**	**$**	**3.14**	**$**	**16,998**
Forfeited	**(191,000)**	**$**	**9.83**		
Outstanding at April 1, 2008	**1,609,475**	**$**	**9.15**		
Granted	**445,210**	**$**	**26.43**		
Exercised	**(105,385)**	**$**	**9.45**	**$**	**2,327**
Forfeited	**(74,624)**	**$**	**14.49**		
Outstanding at December 26, 2008	**1,874,676**	**$**	**13.02**	**$**	**33,255**

A summary of nonvested stock option activity for the nine months ended December 26, 2008 is presented below.

Nonvested Options	**Number of Underlying Shares**	**Weighted-Average Fair Value**

Outstanding at April 1, 2008	**1,010,625**	**$**	**4.30**
Granted	**445,210**	**$**	**7.22**
Vested	**(292,726)**	**$**	**4.38**
Forfeited	**(72,674)**	**$**	**4.82**
Outstanding at December 26, 2008	**1,090,435**	**$**	**5.44**

A summary of vested stock options at December 26, 2008, and stock options expected to vest in future periods is presented below.

Options	**Number of Underlying Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value (in thousands)**

Exercisable	**784,241**	**$**	**6.34**	**4.3**	**$**	**19,148**
Expected to vest	**1,008,652**	**$**	**17.82**	**4.6**	**$**	**13,049**
Exercisable and expected to vest	**1,792,893**					

Prior to fiscal 2009, the Company primarily granted restricted stock awards to employees that vest ratably over the service period. Beginning in fiscal 2009, in addition to time vested awards, the Company granted certain restricted stock awards that vest only if the Company meets certain revenue and earnings targets determined by the Board of Directors. During the nine months ended December 26, 2008, the Company granted 543,714 of such performance-based restricted stock awards at $25.12 per share with a vesting period of four years subject to the Company meeting the revenue and earnings targets. Additionally, during the nine months ended December 26, 2008, the Company granted 54,186 restricted stock awards at a weighted-average fair value of $28.01 per share that vest ratably over periods of one to three years. The weighted-average fair value of restricted stock awards granted during the nine months ended December 26, 2008 and December 31, 2007 was $25.38 and $15.81, respectively. The restricted stock awards that vested during the nine months ended December 26, 2008 and December 31, 2007 had a combined fair value of $1.0 million and $0.2 million, respectively.

A summary of restricted stock activity for the nine months ended December 26, 2008 is presented below.

Restricted Stock	**Number of Shares**	**Weighted-Average Fair Value**

Outstanding at April 1, 2008	**149,967**	**$**	**16.17**
Granted	**597,900**	**$**	**25.38**
Vested	**(57,690)**	**$**	**16.50**
Forfeited	**(8,633)**	**$**	**16.52**
Outstanding at December 26, 2008	**681,544**	**$**	**24.22**

During the nine months ended December 26, 2008 and December 31, 2007, the Company recognized $4.6 million and $1.5 million of share-based compensation costs, respectively. As of December 26, 2008, there was $17.7 million of total

unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 2.9 years.

Prior to the adoption of SFAS No. 123(R), the fair market value of each issuance and grant was determined by the Company on a contemporaneous basis. The Company recorded stock-based deferred compensation in aggregate of approximately $1.4 million in connection with compensatory grants of stock options and shares of restricted stock awarded during fiscal 2006 and 2007. Approximately $0.2 million of compensation expense was recognized during the nine months ended December 26, 2008. The remaining deferred compensation of $0.6 million will be amortized over the final two years of the vesting period of the awards.

9. COMMITMENTS AND CONTINGENCIES

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

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the unaudited and audited consolidated financial statements and the accompanying notes included in this Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended March 31, 2008, filed by us with the Securities and Exchange Commission on May 28, 2008. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in or implied by any of the forward-looking statements as a result of various factors, including but not limited to, those listed in the Risk Factors section of this Report, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of the filing of this Form 10-Q.

Overview

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

Contracts funded by federal government agencies account for substantially all of our revenues. As of December 26, 2008, we had more than 300 active contractual engagements across 50 federal government agencies. Our customers include the Department of Defense (including all major agencies within the Department of Defense), the Department of State, the Department of Homeland Security, the Department of Transportation, the Department of the Treasury, NASA, the Department of Justice and the Department of Health and Human Services.

Key Metrics Evaluated By Management

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

Revenue Growth

We closely monitor revenue growth in order to assess the performance of our business. In monitoring this growth, we focus on both internal revenue growth and revenue growth through acquisitions. Our internal revenue growth is driven primarily by two factors. First, internal revenue

growth is driven by adding new customers. For example, over the past several years we have added the National Guard Bureau, the Department of Transportation and agencies in the intelligence community as new customers. Second, internal revenue growth is driven by increasing revenues with existing customers by adding new contracts or expanding existing contracts. For example, since the initial award of our contract with the Department of State for the provision of passport processing and support services, the scope of services provided by us, and the revenues generated by those services, have grown significantly.

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

Acquired Company	**Date of Acquisition**

-

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

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Backlog

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

As of

December 26, 2008	December 31, 2007

(in millions)

Backlog:				
Funded	**$**	**359.1**	**$**	**326.6**
Unfunded		**1,775.5**		**970.6**
Total Backlog	**$**	**2,134.6**	**$**	**1,297.2**

Each year, a significant portion of our revenues is derived from our backlog, and a substantial portion of our backlog represents work related to the continuation of services under existing contracts or projects.

We define backlog as the amount of revenues we expect to realize (i) over the remaining base contract performance period and (ii) from the exercise by the customer of option periods that we reasonably believe will be exercised, in each case from signed contracts in existence as of the measurement date. We do not include contract ceiling values, which represent the maximum amount of contract awards that could be awarded to all contractors under government-wide acquisition contracts (GWACs) or agency-specific indefinite delivery/indefinite quantity (ID/IQ) contracts in our backlog calculation. We also do not include in backlog (i) the expected amount of revenues that would be realized if, and when, we were successful in the re-compete of signed contracts in existence as of the measurement date or (ii) the expected amount of revenues that would be realized from future unidentified growth on signed contracts and task orders in existence as of the measurement date.

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

Contract Mix

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

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

	Three Months Ended	Nine Months Ended

December 26, 2008	December 31, 2007	December 26, 2008	December 31, 2007

Cost-plus-fee	**30%**	**47%**	**31%**	**48%**
Time-and-materials	**51%**	**38%**	**51%**	**36%**
Fixed-price	**19%**	**15%**	**18%**	**16%**

Headcount and Labor Utilization

We generate revenues primarily from services provided by our employees and subcontractors, with services provided by our employees generally yielding higher profits than services provided by our subcontractors. Our ability to hire and

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deploy additional qualified employees is a key driver of our ability to generate additional revenues, and our successful deployment of existing employees on direct-billable jobs is a key driver of our profitability.

Indirect Costs

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

Days Sales Outstanding

Days sales outstanding, or DSO, is a measure of how efficiently we manage the billing and collection of our accounts receivable, our most significant working capital requirement. For the three months ended December 26, 2008, we reported DSO of 78 days, a decrease from 80 days for the three months ended September 26, 2008. The decrease in DSO was primarily the result of stronger cash collections and higher daily revenues during the quarter.

Unbilled Receivables

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

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

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our condensed consolidated financial statements requires management

to make estimates and assumptions that affect reported amounts, and actual results may differ from the estimates. Our significant accounting policies are described in Note 2 to our unaudited condensed consolidated financial statements included in this report. We consider the following accounting policies to be critical to the understanding of our financial condition and results of operations because these policies require the most difficult, subjective or complex judgments on the part of our management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain, and are the most important to our financial condition and operating results.

Revenue Recognition

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

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

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Under cost-plus-fee contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. For level of effort or term cost-plus-fee contracts, fixed fees are earned in proportion to the percentage of required effort delivered. We consider fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs actually incurred in performance of the contract for level of effort contracts. For completion type cost-plus-fee contracts, fixed fees are earned in proportion to the percentage of work completed. For time-and-materials contracts, revenues are computed by multiplying the number of direct labor-hours expended in performance of the contract by the contractual billing rates and adding other billable direct and indirect costs. For fixed-price contracts, revenues are recognized as services are performed, using the percentage-of-completion method, applying the cost-to-cost or units of delivery method, in accordance with ARB 45 and SOP 81-1.

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

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

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

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

Contract Cost Accounting

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

costs to ensure we comply with these requirements. Our unallowable costs include a portion of our executive compensation, certain employee morale activities, certain types of legal and consulting costs, interest expense and the amortization of identified intangible assets, among others.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired companies. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), we do not amortize goodwill. Rather, we test goodwill for impairment at least on an annual basis. Testing for impairment is a two-step process as prescribed by SFAS No. 142. The first step is a test for potential impairment, while the second step measures the amount of impairment, if any. Under the guidelines of SFAS No. 142, we are required to perform an impairment test at least on an

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annual basis at any time during the fiscal year, provided that the test is performed at the same time every year. An impairment loss would be recognized when the assets   fair value is below their carrying value. Stanley has elected the last day of its third fiscal quarter as its testing date. Based on the testing performed as of December 26, 2008, we determined that no impairments existed as of December 26, 2008. Customer relationships are amortized on a straight-line basis over periods ranging from five to seven years. Non-competition agreements are amortized on a straight-line basis over periods ranging from one to five years. Backlog and contracts are amortized on a straight-line basis over periods ranging from two to five years.

Results of Operations

Our historical financial statements reflect the operating results of our acquisitions from the date of acquisition (April 1, 2007 for the acquisition of Techrizon and July 15, 2008 for the acquisition of Oberon). The following unaudited tables set forth the results of operations expressed in dollars (in thousands) and as a percentage of revenues, for the periods below:

	Three Months Ended	Nine Months Ended

December 26,	December 31,	December 26,	December 31,

Consolidated Statements of Income Data	2008	2007	2008	2007

Revenues	$	**203,597**	$	**147,083**	$	**567,242**	$	**430,803**
Operating costs and expenses:								
Cost of revenues		**170,091**		**123,660**		**475,775**		**363,538**
Selling, general and administrative		**13,220**		**9,431**		**36,103**		**28,181**
Amortization of deferred compensation		**62**		**62**		**187**		**205**
Depreciation and amortization		**2,741**		**1,694**		**7,044**		**5,005**
Total operating costs and expenses		**186,114**		**134,847**		**519,109**		**396,929**
Operating income		**17,483**		**12,236**		**48,133**		**33,874**
Other income (expense):								
Other income		**17**		**10**		**20**		**16**
Interest expense net		**(1,970)**		**(919)**		**(4,141)**		**(3,120)**
Total other expenses		**(1,953)**		**(909)**		**(4,121)**		**(3,104)**
Income before taxes		**15,530**		**11,327**		**44,012**		**30,770**
Provision for income taxes		**(5,852)**		**(4,576)**		**(17,289)**		**(12,320)**
Net income	$	**9,678**	$	**6,751**	$	**26,723**	$	**18,450**

Three Months Ended **Nine Months Ended**

December 26,	December 31,	December 26,	December 31,

As a Percentage of Revenues	2008	2007	2008	2007

Revenues	**100.0%**	**100.0%**	**100%**	**100.0%**
Operating costs and expenses:				
Cost of revenues	**83.5**	**84.1**	**83.9**	**84.4**
Selling, general and administrative	**6.5**	**6.4**	**6.4**	**6.5**
Amortization of deferred compensation				
Depreciation and amortization	**1.3**	**1.2**	**1.2**	**1.2**
Total operating costs and expenses	**91.4**	**91.7**	**91.5**	**92.1**
Operating income	**8.6**	**8.3**	**8.5**	**7.9**
Other income (expense):				
Other income				
Interest expense net	**(1.0)**	**(0.6)**	**(0.7)**	**(0.7)**
Total other expenses	**(1.0)**	**(0.6)**	**(0.7)**	**(0.7)**
Income before taxes	**7.6**	**7.7**	**7.8**	**7.2**
Provision for income taxes	**(2.9)**	**(3.1)**	**(3.0)**	**(2.9)**
Net income	**4.8%**	**4.6%**	**4.7%**	**4.3%**

We generate revenues primarily from services provided by our employees and subcontractors, with services provided by our employees generally yielding higher profits than services provided by our subcontractors. To a lesser degree, we earn revenues through reimbursable travel and other reimbursable direct and indirect costs to support the contractual effort and third-party hardware and software that we purchase and integrate for customers as part of the solutions we provide.

Our most significant expense is cost of revenues, which includes the costs of direct labor, subcontractors, materials, equipment, non-reimbursable travel and an allocation of indirect costs (other than selling, general and administrative expenses and depreciation). Indirect costs consist primarily of fringe benefits, human resources, recruiting, training, other

overhead and certain other non-direct costs that are necessary to support direct labor. The number and types of personnel, their salaries and other costs, can have a significant impact on our cost of revenues.

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

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

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

Comparison of Results of Operations for the Three Months Ended December 26, 2008 and December 31, 2007

Revenues. Our consolidated revenues increased $56.5 million, or 38.4%, from $147.1 million for the three months ended December 31, 2007, to $203.6 million for the three months ended December 26, 2008. The increase was primarily due to $9.2 million of increased revenues attributable to engineering and technical support services for the U.S. Air Force and the Defense Information Systems Agency (DISA), $6.0 million of increased revenues attributable to information technology life cycle support and logistics management services for the U.S. Army, $8.1 million of increased revenues attributable to operational intelligence services, $8.0 million of increased revenues attributable to biometric software development, training and support, $7.8 million of increased revenues attributable to military intelligence training and operations support for the U.S. Army, $6.2 million of increased revenues attributable to immigration and naturalization services for the Department of Homeland Security, and $5.0 million of increased revenues attributable to systems and software engineering services for the U.S. Army s Communications-Electronics Life Cycle Management Command and Fires Center of Excellence (Army CELCMC & FCE).

Cost of Revenues. Our cost of revenues increased $46.4 million, or 37.5%, from $123.7 million for the three months ended December 31, 2007, to $170.1 million for the three months ended December 26, 2008. This increase was primarily the result of additional costs attributable to revenues associated with the increased services provided under the contracts referred to above. Cost of revenues represented 83.5% of revenues for the three months ended December 26, 2008, as compared to 84.1% of revenues for the three months ended December 31, 2007. This decrease was primarily the result of a greater percentage of more profitable time-and-material and fixed price contracts.

Selling, General and Administrative. Our selling, general and administrative expense increased $3.8 million, or 40.2%, from $9.4 million for the three months ended December 31, 2007, to $13.2 million for the three months ended December 26, 2008. This increase was primarily due to higher selling, general and administrative expenses attributable to our Oberon acquisition and to higher SFAS 123(R) share-based payment expenses. Selling, general and administrative expense represented 6.5% of revenues for the three months ended December 26, 2008, as compared to 6.4% of revenues for the three months ended December 31, 2007. This increase was primarily a result of Oberon s higher selling, general and administrative expense as a percentage of revenues.

Depreciation and Amortization. Our depreciation and amortization expense increased $1.0 million, or 61.8%, from $1.7 million for the three months ended December 31, 2007, to $2.7 million for the three months ended December 26, 2008. The increase in depreciation and amortization was primarily due to the amortization of intangible assets associated with the acquisition of Oberon as well as depreciation expense associated with capital expenditures and leasehold improvements.

Interest Expense, Net. Our net interest expense increased $1.1 million from $0.9 million for the three months ended December 31, 2007, to $2.0 million for the three months ended December 26, 2008. The increase in net interest expense was primarily due to borrowings under our Senior Credit Facility relating to the Oberon acquisition, partially offset by a lower overall borrowing rate.

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Provision for Income Taxes. Our effective tax rate decreased by 2.7% from 40.4% for the three months ended December 31, 2007, to 37.7% for the three months ended December 26, 2008. The decrease was primarily attributable to a lower consolidated effective state income tax rate and the realization of federal and state tax credits.

Net Income. Our net income increased $2.9 million from $6.8 million for the three months ended December 31, 2007, to $9.7 million for the three months ended December 26, 2008. The primary reasons for the increase in net income were higher revenues and increased operating income as well as improved margins primarily due to a larger percentage of more profitable time-and-material and fixed-price contracts.

Comparison of Results of Operations for the Nine Months Ended December 26, 2008 and December 31, 2007

Revenues. Our consolidated revenues increased $136.4 million, or 31.7%, from $430.8 million for the nine months ended December 31, 2007, to $567.2 million for the nine months ended December 26, 2008. The increase was primarily due to $22.3 million of increased revenues attributable to information technology lifecycle support and logistics services under our prime contract with the U.S. Army, $29.1 million of increased revenues attributable to immigration and naturalization services provided to the Department of Homeland Security, $17.3 million of increased revenues attributable to engineering and technical support services for the U.S. Air Force and DISA, $14.9 million of increased revenues attributable to systems and software engineering services for the Army CELCMC & FCE, $14.5 million of increased revenues attributable to biometric software development, training and support, $13.6 million of increased revenues attributable to military intelligence training and operations support for the U.S. Army, $11.5 million of increased revenues attributable to operational intelligence services, $4.8 million of increased revenues attributable to contracts that include specialized engineering and technology services provided to the U.S. Army Program Office Executive Office for Simulation, Training and Instrumentation, and $4.3 million of increased revenues attributable to information systems support provided to the U.S. Marine Corps.

Cost of Revenues. Our cost of revenues increased $112.3 million, or 30.9%, from $363.5 million for the nine months ended December 31, 2007, to $475.8 million for the nine months ended December 26, 2008. This increase was primarily the result of additional costs attributable to revenues associated with the increased services provided under the contracts referred to above. Cost of revenues represented 83.9% of revenues for the nine months ended December 26, 2008, as compared to 84.4% of revenues for the nine months ended December 31, 2007. This decrease was primarily the result of a greater percentage of more profitable time-and-material contracts.

Selling, General and Administrative. Our selling, general and administrative expense increased $7.9 million, or 28.1%, from $28.2 million for the nine months ended December 31, 2007, to $36.1 million for the nine months ended December 26, 2008. This increase was primarily due to higher selling, general and administrative expenses attributable to our Oberon acquisition, higher SFAS 123(R) share-based payment expenses and increased recruiting costs to expand our workforce. Selling, general and administrative expenses represented 6.4% of revenues for the nine

months ended December 26, 2008, as compared to 6.5% of revenues for the nine months ended December 31, 2007. This decrease was primarily the result of continued realization of efficiencies in our corporate infrastructure.

Depreciation and Amortization.

%