

DYNCORP INTERNATIONAL INC.

Form 10-K

June 04, 2010

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended April 2, 2010

or

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

Commission File Number: 001-32869

DYNCORP INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

01-0824791
(I.R.S. Employer

incorporation or organization)

Identification No.)

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

(571) 722-0210

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

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

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

Documents Incorporated by Reference

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

Table of Contents**DYNCORP INTERNATIONAL INC.****TABLE OF CONTENTS**

	Page
<u>Forward-Looking Statements</u>	2
<u>PART I.</u>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	17
Item 1B. <u>Unresolved Staff Comments</u>	32
Item 2. <u>Properties</u>	32
Item 3. <u>Legal Proceedings</u>	32
Item 4. <u>Removed and Reserved</u>	32
<u>PART II.</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	33
Item 6. <u>Selected Financial Data</u>	36
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	61
Item 8. <u>Financial Statements and Supplementary Data</u>	62
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	112
Item 9A. <u>Controls and Procedures</u>	112
Item 9B. <u>Other Information</u>	114
<u>PART III.</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	114
Item 11. <u>Executive Compensation</u>	124
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	145
Item 13. <u>Certain Relationships, Related Transactions, and Director Independence</u>	145
Item 14. <u>Principal Accountant Fees and Services</u>	146
<u>PART IV.</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	148
EX-10.29	
EX-12.1	
EX-21.1	
EX-23.1	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

Table of Contents

Forward-Looking Statements

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

the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger, dated as of April 11, 2010 by and among DynCorp International, Inc., Delta Tucker Holdings, Inc. and Delta Tucker Sub, Inc., including a termination under circumstances that could require us to pay a termination fee and/or reimburse expenses (subject to a cap);

the failure to obtain the necessary equity and debt financing pursuant to the applicable commitment letters received in connection with the transactions contemplated by the Merger Agreement or the failure of such financing to be sufficient to complete the Merger and the transactions contemplated thereby;

the inability to complete the Merger due to the failure to obtain stockholder approval or the failure to satisfy other conditions to complete of the Merger, including required regulatory approvals;

the failure of the Merger to close for any other reason;

risks that the proposed Merger (including the efforts of the Company and/or its directors, officers and employees to consummate the proposed Merger) disrupts current plans and operations and the potential difficulties in employee retention as a result of the Merger;

the outcome of any legal proceedings that have been or may be instituted against the Company and/or others relating to the Merger Agreement;

the diversion of our management's attention from our ongoing business concerns;

the effect of the announcement, pendency or anticipated consummation of the Merger on our customer, vendor and other business relationships, operating results and business generally;

the amount of the costs, fees, expenses and charges incurred by the Company related to the Merger;

the future impact of acquisitions, joint ventures or teaming agreements;

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

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

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

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

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

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

activities of competitors and the outcome of bid protests;

changes in significant operating expenses;

Table of Contents

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

acts of war or terrorist activities;

variations in performance of financial markets;

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

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

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

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

Fiscal Year

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

Table of Contents

PART I

ITEM 1. BUSINESS.

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

Overview

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

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

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

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

Recent Developments Merger Agreement

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

Contract Types

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Strategic Business Areas and Service Offerings

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

Table of Contents

Global Stabilization and Development Solutions (GSDS)

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

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

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

Operations & Development This service offering provides:

peacekeeping logistics support;

humanitarian relief;

weapons removal and abatement;

worldwide contingency planning and other rapid response services;

inventory procurement and tracking services;

property control;

mobile repair services;

facility and equipment maintenance and control;

custodial and administrative services;

civil, electrical, environmental and mechanical engineering; and

construction management services.

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

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

Key GSDS Contracts

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

Table of Contents

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

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

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

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

Global Platform Support Solutions (GPSS)

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

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

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

Table of Contents

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

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

Key GPSS Contracts

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

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

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

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

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

Table of Contents

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

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

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

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

Global Linguist Solutions (GLS)

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

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

Estimated Total Contract Value

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

Table of Contents

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

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

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

Competition

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

Table of Contents**Backlog**

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

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

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

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

Estimated Remaining Contract Value

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

Table of Contents

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

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

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

Regulatory Matters

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

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

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

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

Table of Contents

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

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

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

Sales and Marketing

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

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

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

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

Intellectual Property

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

Table of Contents

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

Environmental Matters

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

Employees

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

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

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

annual reports on Form 10-K;

quarterly reports on Form 10-Q;

current reports on Form 8-K;

statement of changes in beneficial ownership of securities for insiders;

proxy statements; and

any amendments thereto.

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

Table of Contents

ITEM 1A. RISK FACTORS.

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

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

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

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

a significant decline in, or reapportioning of, spending by the U.S. government, in general, or by the DoD or the DoS, in particular;

changes, delays or cancellations of U.S. government programs, requirements or policies;

the adoption of new laws or regulations that affect companies that provide services to the U.S. government;

U.S. government shutdowns or other delays in the government appropriations process;

curtailment of the U.S. government's outsourcing of services to private contractors including the expansion of insourcing;

changes in the political climate, including with regard to the funding or operation of the services we provide; and

general economic conditions, including a slowdown in the economy or unstable economic conditions in the United States or in the countries in which we operate.

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

Table of Contents

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

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

terminate or modify existing contracts;

reduce the value of existing contracts through partial termination;

delay the payment of our invoices by government payment offices;

audit our contract-related costs and fees; and

suspend us from receiving new contracts, pending the resolution of alleged violations of procurement laws or regulations.

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

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

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

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

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

we may expend substantial funds and time to prepare bids and proposals for contracts that may ultimately be awarded to one of our competitors;

we may be unable to accurately estimate the resources and costs that will be required to perform any contract we are awarded, which could result in substantial cost overruns; and

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

Table of Contents

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

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

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

Current or worsening economic conditions could impact our business.

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

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

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

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

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

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

Table of Contents

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

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

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

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

We are exposed to risks associated with operating internationally.

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

export regulations that could erode profit margins or restrict exports;

compliance with the U.S. Foreign Corrupt Practices Act;

the burden and cost of compliance with foreign laws, treaties and technical standards and changes in those regulations;

contract award and funding delays;

potential restrictions on transfers of funds;

foreign currency fluctuations;

import and export duties and value added taxes;

Table of Contents

transportation delays and interruptions;

uncertainties arising from foreign local business practices and cultural considerations;

requirements by foreign governments that we locally invest a minimum level as part of our contracts with them, which may not yield any return; and

potential military conflicts, civil strife and political risks.

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

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

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

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

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

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

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

The DCAA also reviews the adequacy of, and our compliance with, our internal control systems and policies, including our labor, billing, accounting, purchasing, property, estimating, billing, compensation and

Table of Contents

management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed. In addition, government contract payments received by us for allowable direct and indirect costs are subject to adjustment after audit by government auditors and repayment to the government if the payments exceed allowable costs as defined in the government contracts.

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

our ability to obtain additional financing for working capital, debt service requirements, acquisitions, general corporate or other purposes may be impaired;

we must use a substantial portion of our cash flow to pay interest and principal on our indebtedness, which will reduce the funds available for other purposes;

our substantial interest expense may make us less competitive on bidding on contracts than our competitors;

we are more vulnerable to economic downturns and adverse industry conditions;

our ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in our industry as compared to our competitors may be compromised due to the high level of indebtedness;

our subordinated notes cannot be prepaid without a penalty which may limit our ability to proactively reduce our debt levels; and

our ability to refinance indebtedness may be limited.

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

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

incur additional indebtedness or guarantee obligations;

repay indebtedness prior to stated maturities;

make interest payments on the Notes and other indebtedness that is subordinate to our indebtedness under the senior secured credit facility;

pay dividends or make certain other restricted payments;

make investments, contribute capital to our unconsolidated partnerships or execute acquisitions;

create liens or other encumbrances;

repurchase our outstanding shares or our public debt;

transfer or sell certain assets or merge or consolidate with another entity;

maintain debt in excess of a percentage of our Accounts Receivable; and

allow no more than 50% of our debt to be floating rate.

In addition, our senior secured credit facility also requires us to maintain certain financial ratios and limits our ability to make capital expenditures. These financial ratios include a minimum interest coverage ratio and a leverage ratio. The interest coverage ratio is the ratio of consolidated EBITDA (as defined in our senior secured credit facility) to interest expense for the preceding four quarters. The leverage ratio is a ratio of our indebtedness (as defined in our senior secured credit facility) to consolidated EBITDA for the preceding four quarters. The senior secured credit facility also restricts the maximum amount of our capital expenditures during each year of the term of the senior secured credit facility. Subject to certain exceptions, our capital expenditures may not

Table of Contents

exceed, in any fiscal year, the greater of \$15 million or 5% of our consolidated EBITDA for the preceding fiscal year during the term of our senior secured credit facility. Capital expenditures are expenditures that are required by generally accepted accounting principles to be classified as capital expenditures in a statement of cash flows.

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

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

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

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

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

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

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

Table of Contents

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

the difficulty of integrating the operations and personnel of the acquired companies;

the inability of our management to maximize our financial and strategic position by the successful incorporation of acquired personnel into our service offerings;

we may not realize anticipated synergies or financial growth;

we may assume material liabilities that were not identified during due diligence, including potential regulatory penalties resulting from the acquisition target's previous activities;

difficulty maintaining uniform standards, controls, procedures and policies, with respect to accounting matters and otherwise;

the potential loss of key employees of acquired companies;

the impairment of relationships with employees and customers as a result of changes in management and operational structure; and

acquisitions may require us to invest significant amounts of cash resulting in dilution of stockholder value.

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

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

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

we may not be able to profitably utilize all of these assets on our contracts;

the inability to deploy some of these helicopter assets could lead to a material impairment charge; and

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. Furthermore, Deloitte & Touche, LLP, our independent registered public accounting firm (the Independent Registered Public Accounting Firm) is required to report on whether it

Table of Contents

believes we maintained, in all material respects, effective internal control over financial reporting as of the end of each fiscal year. In future years, if we fail to timely complete this assessment, or if our Independent Registered Public Accounting Firm cannot timely attest to the effectiveness of our internal control over financial reporting, we could be subject to regulatory sanctions and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

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

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

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

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

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

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

limit our shareholders' ability to call special meetings.

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

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

Completion of the Merger is subject to the satisfaction or waiver of certain customary conditions, including the adoption of the Merger Agreement by our stockholders, receipt of required antitrust approvals (or termination or expiration of applicable waiting periods), the accuracy of the representations and warranties of the parties and

Table of Contents

compliance by the parties with their respective obligations under the Merger Agreement and no court or other governmental entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (including any injunction) that restrains, enjoins or otherwise prohibits consummation of the Merger or otherwise makes the consummation of the Merger illegal. The transaction is expected to close in the third or fourth quarter of calendar year 2010, but could close as early as late June. However, no assurances can be given that the transaction contemplated by the Merger Agreement will be consummated or, if not consummated, that we will enter into a comparable or superior transaction with another party.

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

ITEM 2. PROPERTIES.

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. [REMOVED AND RESERVED]

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

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

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

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

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

Dividends

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

Issuer Repurchases of Equity Securities

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

Table of Contents***Equity Compensation Plan Information***

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

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

(1) Excluding securities to be issued upon exercise of outstanding options, warrants and rights.

(2) Currently, we have issued both service based and performance based restricted stock units awards within our OIP, which do not have an exercise price.

Table of Contents

Stock Performance Graph

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

Figure 1

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

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA.**

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

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

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

Table of Contents

- (1) Working capital is defined as current assets, net of current liabilities.
- (2) We define Earnings before Interest, Taxes and Depreciation & Amortization (EBITDA) as Generally Accepted Accounting Principles (GAAP) net income attributable to DynCorp International Inc. adjusted for interest, taxes, depreciation and amortization, loss on extinguishment of debt, and a portion of other expense related to interest rate swap losses. We use EBITDA as a supplemental measure in the evaluation of our business and believe that EBITDA provides a meaningful measure of operational performance on a consolidated basis because it eliminates the effects of period to period changes in taxes, costs associated with capital investments and interest expense and is consistent with one of the measures we use to evaluate management 's performance for incentive compensation. EBITDA is not a financial measure calculated in accordance with GAAP. Accordingly, it should not be considered in isolation or as a substitute for net income attributable to DynCorp International Inc. or other financial measures prepared in accordance with GAAP. When evaluating EBITDA, investors should consider, among other factors, (i) increasing or decreasing trends in EBITDA, (ii) whether EBITDA has remained at positive levels historically, and (iii) how EBITDA compares to our debt outstanding. The non-GAAP measure of EBITDA does have certain limitations. It does not include interest expense, which is a necessary and ongoing part of our cost structure resulting from debt incurred to expand operations. EBITDA also excludes tax, depreciation and amortization expenses. Because these are material and recurring items, any measure, including EBITDA, which excludes them has a material limitation. To mitigate these limitations, we have policies and procedures in place to identify expenses that qualify as interest, taxes, loss on debt extinguishments, a portion of other expense related to interest rate swap losses, and depreciation and amortization and to approve and segregate these expenses from other expenses to ensure that EBITDA is consistently reflected from period to period. However, the calculation of EBITDA may vary among companies. Therefore, our EBITDA presented may not be comparable to similarly titled measures of other companies. EBITDA does not give effect to the cash we must use to service our debt or pay income taxes and thus does not reflect the funds generated from operations or actually available for capital investments.
- (3) Backlog data is as of the end of the applicable period. See Item 1. Business for further details concerning backlog.
- The following table presents a reconciliation of net income attributable to DynCorp International Inc. to EBITDA for the periods included below.

RECONCILIATION OF NET INCOME ATTRIBUTABLE TO DYNCORP INTERNATIONAL INC. TO EBITDA:	Fiscal Years Ended				
	April 2, 2010	April 3, 2009	March 28, 2008	March 30, 2007	March 31, 2006
	(Amounts in thousands)				
Net income attributable to DynCorp International Inc.	\$ 86,088	\$ 69,770	\$ 47,955	\$ 27,023	\$ 7,243
Income taxes	51,893	41,995	27,999	20,549	16,627
Interest expense, loss on early extinguishment of debt and preferred stock, and interest rate swap losses recorded in other income/expense (1)(2)	56,298	64,158	55,374	70,615	77,828
Depreciation and amortization	42,578	41,634	43,492	45,251	47,020
EBITDA	\$ 236,857	\$ 217,557	\$ 174,820	\$ 163,438	\$ 148,718

- (1) Fiscal year 2009 includes the costs associated with replacing our senior secured credit facility, as defined and further discussed in Item 7. Management 's Discussion and Analysis of Financial Conditions and Results of Operations , including the write-off of deferred financing fees. Also included is the premium on the redemption of a portion of the senior subordinated notes and write-off of deferred financing costs associated with the early retirement of a portion of the senior subordinated notes. These premiums and write-off represent additional costs of financing. In addition, we added back amounts associated with hedge accounting recorded in other income/expense.
- (2) Fiscal year 2007 includes the premium associated with the redemption of all of the previously outstanding preferred stock, premium on the redemption of a portion of the senior subordinated notes and write-off of deferred financing costs associated with the early retirement of a portion of the senior subordinated notes. These premiums and write-off represent additional costs of financing and our capital structure.

Table of Contents

ITEM 7. 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 accompanying consolidated financial statements, the notes thereto, and other data contained elsewhere in this Annual Report. Please see Item 1A. Risk Factors and Forward-Looking Statements for a discussion of the risks, uncertainties and assumptions associated with these statements. Unless otherwise noted, all amounts discussed herein are consolidated. All references in this Annual Report to fiscal years of the U.S. government pertain to the fiscal year, which ends on September 30th of each year.

Company Overview

We are a global government services provider in support of U.S. national security and foreign policy objectives, delivering support solutions for defense, diplomacy, and international development. We are a leading provider of specialized mission-critical professional and support services outsourced by the U.S. military, non-military U.S. governmental agencies and foreign governments. Our specific global expertise is in intelligence and law enforcement training and support, security services, base and logistics operations, rule of law development and construction management, platform services and operations, and linguist services. We also provide logistics support for all our services. As of April 2, 2010, we had approximately 22,300 employees, including employees from our consolidated subsidiaries, in 38 countries, approximately 60 active contracts ranging in duration from three to ten years and approximately 127 active task orders. We have provided essential services to numerous U.S. government departments and agencies since 1951.

During fiscal years 2006 through 2008, we conducted our operations through two reportable segments: GS and MTSS. On March 29, 2008, we divided our GS operating segment into two new segments, ISS and LCM, to enable us to better capitalize on business development opportunities and enhance our ongoing service. Our ISS operating segment consisted of our Law Enforcement and Security strategic business unit, our Specialty Aviation and Counter-Drug Operations strategic business unit and GLS, our joint venture for the INSCOM contract. Our LCM operating segment consisted of our Contingency and Logistics Operations strategic business unit and our Operations Maintenance and Construction Management strategic business unit and includes any work awarded under the LOGCAP IV. Our third segment was MTSS, which did not significantly change.

On April 6, 2009, we announced a further reorganization of our business structure to better align with strategic markets and streamline our infrastructure. Under the new alignment, our three reportable segments were realigned into three new segments, two of which, GSDS and GPSS, are wholly-owned, and a third segment GLS, which is a 51% owned joint venture. The new structure became effective April 4, 2009, the start of our 2010 fiscal year.

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

As discussed in detail in the Definitive Proxy Statement, we entered into the Merger Agreement, pursuant to which, at the effective time of the Merger, Merger Sub will be merged with and into the Company, and as a result the Company will continue as the surviving corporation and be a wholly owned subsidiary of Parent. The Merger Agreement was approved by the Board.

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of the Company's Class A Common Stock, other than shares owned by the Company, Parent or Merger Sub, or by any stockholders who have perfected and not withdrawn a demand for appraisal rights under Delaware law, will be canceled and will be automatically converted into the right to receive the \$17.55 Per Share Merger

Table of Contents

Consideration, without interest. Additionally, the Company's restricted stock units granted under the DynCorp International 2007 OIP will vest at the effective time of the Merger and will be converted into the right to receive the Per Share Merger Consideration.

Current Operating Environment and Outlook

External Factors

Over most of the last two decades, the U.S. government has increased its reliance on the private sector for a wide range of professional and support services. This increased use of outsourcing by the U.S. government has been driven by a variety of factors including: lean-government initiatives launched in the 1990s, surges in demand during times of national crisis, the increased complexity of missions conducted by the U.S. military and the DoS, increased focus of the U.S. military on war-fighting efforts and the loss of skills within the government caused by workforce reductions and retirements.

The overall level of U.S. defense spending has increased in recent years for numerous reasons, including increases in funding of operations in Iraq and Afghanistan and the DoD's modernization initiatives. However, the funding of our programs is subject to the overall U.S. government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events and macroeconomic conditions, and are beyond our control. While these dynamics could place pressure on defense spending, we believe that, within the defense budget, weapon system acquisitions will be the most likely initial target for budget reductions, and operations and maintenance budgets will remain robust, driven by (i) the need to reset equipment coming out of Iraq, (ii) the logistics and support chain associated with repositioning of forces and eventual drawdown in Iraq and (iii) deployments into Afghanistan.

Although the ultimate size of future defense budgets remains uncertain, current indications are that overall defense spending will continue to increase over the next few years, albeit at lower rates of growth relative to those of the last decade. We believe the following industry trends will result in continued strong demand in our target markets for the types of outsourced services we provide:

the continued transformation of military forces, leading to increased outsourcing of non-combat functions, including life-cycle asset management functions ranging from organizational to depot level maintenance;

an increased level and frequency of overseas deployment and peacekeeping operations for the DoS and DoD;

increased maintenance, overhaul and upgrade needs to support aging military platforms;

increased outsourcing by foreign governments of maintenance, supply support, facilities management and construction management-related services; and

a shift by the U.S. government from single award to more multiple award IDIQ contracts, which may offer us an opportunity to increase revenue under these contracts by competing for task orders with the other contract awardees.

During the last year, the U.S. began to drawdown troops in Iraq. Although the timeframe to complete the drawdown is uncertain, we believe that the U.S. will have a sizeable military and contractor presence in Iraq for at least the next four to six years. As a result, we expect our level of existing business involving Iraq to gradually diminish over the next four to six years. Nevertheless, we believe that we still have opportunities to win new Iraq based business with demand remaining strong over the next four to six years for logistics, equipment reset, training and mentoring of Iraqi forces and government agencies and translation services to support security and peacekeeping activities.

Table of Contents

On the other hand, President Obama ordered increases in troop levels in Afghanistan. We believe we are well positioned in Afghanistan to capitalize on increased U.S. government focus through many of our service offerings, including police training and mentoring, aircraft logistics and operations, infrastructure development, mine resistant and ambush protected or MRAP services, and logistics services under LOGCAP IV. Additionally, although some specific initiatives and priorities may change from year to year, the investments and acquisitions we made have been focused on aligning our business to address areas that have high growth potential, including intelligence training and rule of law development. However, the possibility remains that one or more of our programs could be reduced, postponed, or terminated as a result of the administration's assessment of priorities.

Current Economic Conditions

We believe that our industry and customer base are less likely to be affected by many of the factors generally affecting business and consumer spending. Our contract awards typically last one to five years and we have a strong history of being awarded a majority of the contract options. Additionally, since our primary customer is the federal government, we have not historically had significant issues with bad debt. However, we cannot be certain that the economic environment or other factors will not adversely impact our business, financial condition or results of operations in the future.

Furthermore, we believe that our primary sources of liquidity such as customer collections and the remaining capacity under our senior secured credit facility will enable us to continue to perform under our existing contracts and further grow our business. However, a longer term credit crisis could adversely affect our ability to obtain additional liquidity or refinance existing indebtedness on acceptable terms or at all, which could adversely affect our business, financial condition and results of operations.

See Item 1A. Risk Factors Current or worsening economic conditions could adversely impact our business for a discussion of the risks associated with the current economic condition.

Internal Factors

Our internal focus for success centers around five key principles:

Relentless Performance Through a relentless mindset in meeting our commitments to our customers every day and in operating with absolute integrity and in accordance with our Code of Ethics and Business Conduct in all that we do.

Lean Enterprise In order to further fuel our growth and invest in our people, we must generate additional investment capacity by ensuring that our infrastructure is as efficient as possible without jeopardizing our ability to perform.

Clear Strategic Investment We must have clarity in our strategic priorities, and we must properly focus our investments in people, new program pursuits and efforts to penetrate new segments of the market.

New Business Growing our business profitably starts with winning new business. This involves having a winning attitude across our enterprise, particularly in satisfying our current customers and competing for new business.

People We must be the employer of choice with strong, trusted leadership, an employee-focused environment and a culture of mutual respect in which our employees are empowered and rewarded for serving our customers and ensuring their success.

We apply these key principles continuously as we assess our operational and administrative performance.

Table of Contents

Notable Fiscal Year 2010 Developments

In July 2009, we were awarded the LOGCAP IV task order in southern Afghanistan, with an estimated annual value of approximately \$600 million. Ramp up activities began in September 2009.

In September 2009, we were awarded a contract by the U.S. Air Force to provide aircraft maintenance support at Sheppard Air Force Base. The value of the contract is \$31.2 million for the base period, and a potential maximum value of \$256 million over seven years, if all options are exercised. Operations began in October 2009.

During the second quarter of fiscal year 2010, we purchased helicopters in support of our new WPPS air services task order. Given the availability of customer assets to support this program, we mutually agreed to a task order modification under which the customer has supplied its own helicopters. As a result, we plan to utilize all but three of the purchased helicopter assets on another program. We have sold one and plan to sell the remaining two helicopters that we do not intend to use in other programs.

We were awarded a WPPS task order that was originally expected to ramp up in the second quarter of fiscal year 2010, but was delayed due to changes in customer requirements. Most of the services are now being delivered under the INL Air Wing program, which commenced in the third quarter of fiscal year 2010.

On the GLS program, we completed negotiations with the customer to modify our largest task order to include a ceiling for recoverable cost of \$752 million for Option Year 1. While this resulted in a cumulative reduction in revenue, the impact, net of award fee, was not material to our financial results. In connection with these negotiations, our customer exercised another option under the task order covering a period from December 2009 to June 2010.

We purchased Phoenix on October 19, 2009 and Casals on January 22, 2010. See Note 16 to our consolidated financial statements for additional discussion.

On December 16, 2009, we filed a pre-award protest with the Government Accountability Office (GAO) concerning the planned procurement of training and mentoring of police and government personnel in Afghanistan by the DoD through task orders issued by the U.S. Army Space and Missile Defense Command Counter-Narcoterrorism Technology Program Office (CNTPO). On March 15, 2010 the GAO announced its ruling in favor of our protest of the issuance of task order request for proposals by the Department of the Army for training and facilities support for the Ministry of Interior and Afghan National Police. The DoD is expected to issue the request for proposal for the contract during the second quarter of our fiscal year 2011, and the Company intends to propose on the contract.

We have historically participated in a collaborative arrangement with two other partners on LOGCAP IV. In November 2009, a U.S. grand jury indicted one of our collaborative partners, 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. Although Agility was associated with our LOGCAP IV collaborative arrangement, these allegations were in no way related to the work performed under LOGCAP IV. Effective December 16, 2009, we removed Agility as a collaborative partner on the LOGCAP IV contract and terminated the work under existing task orders. We have transitioned Agility's responsibilities on our current task orders with no adverse affect to us. In April 2010, Agility filed an arbitration demand, asserting claims for breach of contract, and 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 as we believe our right to remove Agility as a collaborative partner was justified and permissible. We intend to vigorously defend against Agility's claims.

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In February 2010, we were awarded a contract from the U.S. Army Research, Development and Engineering Command (RDECOM) to assist the Combined Security Transition Command-Afghanistan (CSTC-A) and NATO Training Mission (NTM) by providing mentors and trainers to

Table of Contents

develop the Afghanistan Ministry of Defense (MOD). This cost-plus-fixed-fee contract has a two-year base period valued at \$157.8 million, including a 60-day phase-in period. The total potential contract value is \$232.4 million if the one-year option period is exercised. This award is currently under protest but we expect the award to be upheld and operations to begin in July 2010.

During fiscal year 2010, we continued to encounter cost overruns in our Afghanistan construction projects, within our infrastructure service offering, due to significant challenges including the deteriorating security environment and issues with passing equipment through customs in Afghanistan. Our fiscal year 2010 results included a loss on Afghanistan construction of \$16.5 million, including \$6.5 million related to the fourth fiscal quarter. We expect to complete our remaining construction projects in fiscal year 2011 and expect to earn approximately \$11 million in revenue and incur approximately \$11 million in costs, net of reserve releases, in fiscal year 2011. Subsequently, this strategic business area is expected to become idle as we do not expect to bid on any similar firm fixed-price contracts without revised terms and conditions.

On March 29, 2010, we received a favorable appellate court decision related to the Worldwide Network Services (WWNS) case. The appellate court vacated the jury's award of punitive damages, which allowed us to reverse a \$10 million dollar legal reserve in the fourth quarter of fiscal year 2010. See the Consolidated Results of Operations discussion for more detail.

Subsequent to the end of fiscal year 2010, on April 11, 2010, we entered into an agreement to be acquired by an affiliate of Cerberus Capital Management, L.P. See Item 1. Business Recent Developments Merger Agreement for additional detail.

Fiscal Year Ended April 2, 2010 Compared to Fiscal Year Ended April 3, 2009*Consolidated Results of Operations*

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

	Fiscal Years Ended			
	April 2, 2010	(Amounts in thousands)		April 3, 2009
Revenue	\$ 3,585,262	100.0%	\$ 3,101,093	100.0%
Cost of services	(3,225,593)	(90.0)%	(2,768,962)	(89.3)%
Selling, general and administrative expenses	(106,401)	(3.0)%	(103,583)	(3.3)%
Depreciation and amortization expense	(41,639)	(1.2)%	(40,557)	(1.3)%
Operating income	211,629	5.9%	187,991	6.1%
Interest expense	(55,650)	(1.6)%	(58,782)	(1.9)%
Loss on early extinguishment of debt, net	(146)	(0.0)%	(4,131)	(0.1)%
Earnings from affiliates	5,202	0.1%	5,223	0.2%
Interest income	542	0.0%	2,195	0.1%
Other income, net	1,035	0.0%	145	0.0%
Income before taxes	162,612	4.5%	132,641	4.3%
Provision for income taxes	(51,893)	(1.4)%	(41,995)	(1.4)%
Net income	110,719	3.1%	90,646	2.9%
Noncontrolling interests	(24,631)	(0.7)%	(20,876)	(0.7)%
Net income attributable to DynCorp International Inc.	\$ 86,088	2.4%	\$ 69,770	2.2%

Revenue Revenue for fiscal year 2010 increased \$484.2 million, or 15.6%, as compared to fiscal year 2009, reflecting increases in our GSDS and GLS operating segments which were partially offset by a decline in

Table of Contents

our GPSS operating segment. The increase was primarily driven by the ramp up of the LOGCAP IV program and the benefit of a full twelve months of revenue including award fees from the Intelligence and Security Command (INSCOM) contract, as compared to the INSCOM ramp up period, which occurred during the first quarter of fiscal year 2009. Our acquisitions of Phoenix and Casals also contributed to our revenue growth.

Cost of services Cost of services is comprised of direct labor, direct material, subcontractor costs, other direct costs and overhead. Other direct costs include travel, supplies and other miscellaneous costs. Cost of services for fiscal year 2010 increased \$456.6 million as compared to fiscal year 2009, primarily due to revenue growth. As a percentage of revenue, cost of services increased to 90.0% of revenue in fiscal year 2010 from 89.3% of revenue in fiscal year 2009. This increase was primarily driven by lower fiscal year 2010 margins on our CFT and CivPol programs, including a higher percentage of CivPol revenue coming from cost-reimbursable type task orders and the impact of the fee sharing arrangement with our collaborative partners on the LOGCAP IV program. Partially offsetting this cost increase was effective cost management efforts on certain programs in our GPSS segment, higher award fees on the INSCOM contract that had no corresponding costs, and lower losses associated with our Afghanistan construction programs.

Selling, general and administrative expenses (SG&A) SG&A primarily relates to functions such as corporate management, legal, finance, accounting, contracts and administration, human resources, management information systems, purchasing and business development. SG&A for fiscal year 2010 increased \$2.8 million, or 2.7%, compared to fiscal year 2009. As a percentage of revenue, SG&A decreased by 0.3%. This decrease was primarily attributable to the reversal of a \$10.0 million legal reserve in the fourth quarter of fiscal year 2010 related to a favorable appellate court decision on the WWNS case as described in the Notable Fiscal Year 2010 Developments section above. Also contributing to the comparative decrease was the fiscal year 2009 severance charges related to our former Chief Executive Officer (CEO) and former GPSS president. Partially offsetting this was an increase in SG&A costs associated with higher business development costs incurred in support of our growth and severance costs associated with the termination without cause of our former Senior Vice President and Chief Compliance Officer, approximately \$0.6 million of which was unrecoverable. Additionally, we incurred approximately \$3.2 million in costs associated with our two acquisitions and the proposed merger, \$2.9 million of costs associated with retention related compensation expenses connected to our acquisitions and \$0.4 million in costs associated with the filing of a Form S-3 registration statement.

Depreciation and amortization Depreciation and amortization for fiscal year 2010 of \$41.6 million increased \$1.1 million, or 2.7%. This increase was primarily due to incremental depreciation and amortization associated with our technology transformation initiative, which began to ramp up during the second quarter of fiscal year 2010. This investment to modernize and upgrade our IT systems will enable more efficient and effective utilization of IT applications, provide better redundancy and reliability, integrate systems that were previously disconnected and support future growth. Also impacting the increase was the amortization of the intangible assets acquired in our purchase of Phoenix and Casals.

Interest expense Interest expense for fiscal year 2010 decreased by \$3.1 million, or 5.3%, as compared to fiscal year 2009. The decrease in interest expense was primarily due to a lower principal balance stemming from the excess cash flow principal payment on our senior credit facility and repurchases of senior subordinated notes that occurred in fiscal year 2010, as further discussed in the Liquidity and Capital Resources section and Note 7 to our consolidated financial statements. Also impacting the decrease was one less week of interest expense during fiscal year 2010, as compared to fiscal year 2009. In addition to the change in interest expense, Loss on early extinguishment of debt of \$0.1 million was lower in fiscal year 2010 than the \$4.1 million incurred in fiscal year 2009, primarily due to the fiscal year 2009 write-off of deferred financing fees associated with our extinguished senior secured credit facility, as further discussed in Note 7 to our consolidated financial statements.

Income tax expense Our effective tax rate of 31.9% for fiscal year 2010 increased from 31.7% for fiscal year 2009. Our effective tax rate was impacted by the tax treatment of our GLS and DynCorp International FZ-LLC (DIFZ) joint ventures, which are consolidated for financial reporting purposes but are not consolidated for tax purposes.

Table of Contents

Noncontrolling interests Noncontrolling interests reflect the impact of our joint venture partners' interest in our consolidated joint ventures, GLS and DIFZ. For fiscal year 2010, noncontrolling interests for GLS and DIFZ were \$21.5 million and \$3.1 million, respectively, as compared to \$18.5 million and \$2.4 million, respectively, for fiscal year 2009.

Results by Segment

The following table sets forth the revenue and operating income for the GSDS operating segments, for fiscal year 2010, as compared to fiscal year 2009.

Global Stabilization & Development Solutions

	Fiscal Years Ended		Change
	April 2, 2010	April 3, 2009	
	(Amounts in thousands)		
Revenue	\$ 1,636,242	\$ 1,085,229	551,013
Operating income	\$ 74,409	\$ 49,560	24,849

Revenue Revenue for fiscal year 2010 increased \$551.0 million, or 50.8%, as compared to fiscal year 2009. The increase primarily resulted from the following:

Training & Mentoring: Revenue of \$713.7 million decreased \$18.6 million, or 2.5%, primarily due to declines in our CivPol program due to lower rates in both Iraq and Afghanistan stemming from changes in the contract type from firm fixed-price to cost-reimbursement and reductions in services in Iraq due to the U.S. troop drawdown. Partially offsetting this was a scope increase in our WPPS security services task order in Iraq and a new WPPS security services task order in Pakistan. Also offsetting the decrease was our new MNSTC-I program, which launched in the third quarter of fiscal year 2009. We expect Training & Mentoring revenue to increase in fiscal year 2011, primarily due a recent contract award to support the Afghanistan Ministry of Defense and increases on our WPPS programs, which are expected to be partially offset by reductions to our CivPol program. Future revenue may also be impacted by the outcome of the proposed operational transition of the CivPol Afghanistan program to the DoD from the DoS and any associated re-compete which we expect could occur in the summer or fall of 2010. See our discussion above in *Notable Fiscal Year 2010 Developments* for further details regarding the re-competition of this contract.

Logistics: Revenue of \$586.8 million increased \$582.1 million, primarily due to increases from the ramp-up of our task orders on our LOGCAP IV program. We expect significant revenue growth in fiscal year 2011, primarily due to a full year of operations on the current task orders on the LOGCAP IV program.

Operations & Development: Revenue of \$322.8 million decreased \$24.7 million, primarily due to the termination of an airport construction contract in Africa, which occurred in the first quarter of fiscal year 2009, offset by increased service levels in our AFRICAP/Africa Peacekeeping program. Revenue related to our Afghanistan construction was flat. We expect fiscal year 2011 revenue related to our Afghanistan construction to decline as the remaining projects are expected to be completed in the first half of fiscal year 2011. We do not expect to bid on any similar fixed-price contracts in Afghanistan without revised terms and conditions, which may impact future revenue in this service offering by limiting the construction opportunities available to us.

Intelligence Training and Solutions: Revenue of \$13.0 million represents Phoenix revenue from October 19, 2009 through April 2, 2010. We expect future increases in revenue as we look to leverage our investment in this service offering through the pursuit of new contracts and the benefit of a full year of operations.

Operating Income Operating income of \$74.4 million for fiscal year 2010 increased \$24.8 million, or 50.0%, as compared with the fiscal year 2009. Fiscal year 2010 results were positively affected by a \$10.0

Table of Contents

million reversal of legal reserve related to the WWNS issue (see Note 8 to our consolidated financial statements for additional discussion). Also contributing to the increase was an expansion in services on our LOGCAP IV Program, WPPS programs in Iraq and Pakistan and our MNSTC-I program, and non-recurring revenue of \$5.8 million on our WPPS program. Additionally, our Afghanistan Construction programs incurred lower fiscal year 2010 losses as compared to fiscal year 2009. Partially offsetting this increase was lower profitability on our CivPol program as a result of the final close out of several firm fixed-price task orders during the second quarter of fiscal year 2009 and the reduction in services in Iraq. We expect GSDS operating income in fiscal year 2011 to benefit from a full year of operations on the current LOGCAP IV task orders including the recognition of award fees, less of a loss on Afghanistan construction, with stable contributions from the rest of our contract mix.

Global Platform Support Solutions

	Fiscal Years Ended		Change
	April 2, 2010	April 3, 2009	
	(Amounts in thousands)		
Revenue	\$ 1,213,666	\$ 1,311,959	(98,293)
Operating income	\$ 90,584	\$ 98,702	(8,118)

Revenue Revenue for fiscal year 2010 decreased \$98.3 million, or 7.5%, as compared to fiscal year 2009. The decrease primarily resulted from the following:

Aviation Maintenance & Support: Revenue of \$429.2 million decreased \$98.4 million, or 18.7%, in fiscal year 2010 as compared to fiscal year 2009. The decrease was primarily driven by a decline in CFT programs, which occurred due to the completion of several CFT task orders, for which we did not win the re-competes due to additional competitors in this service space bidding what we believe to be at zero or negative margin levels. While this current competitive environment has put downward pressure on fiscal year 2010 revenue, we do not believe the current situation is sustainable and will not limit our long-term opportunities under the CFT program. This decline was partially offset by our new contract to provide aircraft maintenance support services at Sheppard Air force Base.

Counter-Drug and Law Enforcement Aviation: Revenue of \$333.5 million increased \$32.8 million, or 10.9%, in fiscal year 2010 as compared to fiscal year 2009, primarily due to an increase in INL revenue in Afghanistan and Iraq resulting from new task orders, including Iraq air transportation services, which began in the third quarter of fiscal year 2011. This increase was offset by non-recurring fiscal 2009 equipment sales and construction work and scope reductions in Colombia. We expect fiscal year 2011 revenue to increase as compared to fiscal year 2010, driven by a full year of air operations in Iraq and new business.

Fleet Management: Revenue of \$309.5 million decreased \$23.4 million, or 7.0%, in fiscal year 2010 as compared to fiscal year 2009, primarily due to a decline in LCCS primarily due to nonrecurring revenue in fiscal year 2009 related to additional elective services requested by the customer and cost-reimbursable support of the war on terror activities.

Land Systems: Revenue of \$141.5 million decreased \$9.5 million, or 6.3%, for the fiscal year 2010 as compared to fiscal year 2009, primarily due to scope decreases on our General Maintenance Corps program, the completion of the APS-3 program, and non-recurring threat systems management work. Partially offsetting this decline was increased services associated with the MRAP program. We expect revenue to decline on the existing Land Systems programs, primarily due to the adjusted rate structure that went into effect on a phase-in basis in January 2010 on the MRAP program and the loss of the APS-3 program.

Operating Income Operating income of \$90.6 million decreased \$8.1 million, or 8.2%, for fiscal year 2010 as compared to fiscal year 2009. This was primarily due to declines on the CFT programs due to the completion of several task orders, for which we did not win the re-competes due to additional competitors in this service space and lower rates on new business. This was partially offset by increased margins on the MRAP

Table of Contents

program driven by higher revenue and better cost management in several key aviation programs, including our Life Cycle Contractor Support & INL programs. We expect operating income to benefit from continued cost controls implemented throughout our programs offset by continued margin pressure on CFT and expected declines in margins on the MRAP program as a result of a new rate structure that is in the process of being phased in.

Global Linguist Solutions

	Fiscal Years Ended		Change
	April 2, 2010	April 3, 2009	
	(Amounts in thousands)		
Revenue	\$ 734,086	\$ 709,132	24,954
Operating income	\$ 44,906	\$ 39,729	5,177

Revenue Revenue of \$734.1 million increased \$25.0 million, or 3.5%, in fiscal year 2010 as compared to fiscal year 2009. GLS revenue in fiscal year 2010 benefited from higher award fees as a result of improved performance and a higher average number of linguists as compared to fiscal year 2009, which was impacted by the ramp up period during the first quarter of fiscal year 2009. This increase was partially offset by the impact of a contract modification for Option Year 1 on the INSCOM contract agreed to in the third quarter of fiscal year 2010. Additionally, our customer exercised the December 2009 through June 2010 option. We expect fiscal year 2011 revenue to decrease due to the continued drawdown of troops in Iraq.

Operating income Operating income of \$44.9 million increased \$5.2 million, or 13.0% in fiscal year 2010 as compared to fiscal year 2009. This increase was primarily due to a full twelve months of performance in fiscal year 2010, as compared to fiscal year 2009, in which we had continued transition efforts associated with the ramp up of the contract during the first quarter of that fiscal year. The increase was also supported by higher award fees earned during the period, partially offset by the impact of the modification on the INSCOM contract. We expect fiscal year 2011 operating income to decrease due to the drawdown of troops in Iraq. Operating income earned by GLS benefits net income attributable to DynCorp International Inc. by our 51% ownership of the joint venture.

Table of Contents**Fiscal Year Ended April 3, 2009 to Fiscal Year Ended March 28, 2008***Consolidated Results of Operations*

The following table sets forth, for the periods indicated, our consolidated results of operations, both in dollars and as a percentage of revenue. The presentation has been modified to incorporate the new rules regarding presentation of net income and noncontrolling interests in accordance with Financial Accounting Standards Codification (ASC) ASC 810 *Consolidation*.

	Fiscal Years Ended			
	April 3, 2009		March 28, 2008	
	(Amounts in thousands)			
Revenue	\$ 3,101,093	100.0%	\$ 2,139,761	100.0%
Cost of services	(2,768,962)	(89.3)%	(1,859,666)	(86.9)%
Selling, general and administrative expenses	(103,583)	(3.3)%	(117,919)	(5.5)%
Depreciation and amortization expense	(40,557)	(1.3)%	(42,173)	(2.0)%
Operating income	187,991	6.1%	120,003	5.6%
Interest expense	(58,782)	(1.9)%	(55,374)	(2.6)%
Loss on early extinguishment of debt, net	(4,131)	(0.1)%		0.0%
Earnings from affiliates	5,223	0.2%	4,758	0.2%
Interest income	2,195	0.1%	3,062	0.1%
Other income, net	145	0.0%	199	0.0%
Income before taxes	132,641	4.3%	72,648	3.4%
Provision for income taxes	(41,995)	(1.4)%	(27,999)	(1.3)%
Net Income	90,646	2.9%	44,649	2.1%
Noncontrolling interests	(20,876)	(0.7)%	3,306	0.2%
Net income attributable to DynCorp International Inc.	\$ 69,770	2.2%	\$ 47,955	2.2%

Revenue Revenue for fiscal year 2009 increased \$961.3 million, or 45.0%, as compared to fiscal year 2008, reflecting increased revenue in all operating segments. The increase, more fully described in the results by segment, is principally due to growth from new contracts, in particular, the INSCOM contract.

Cost of services Cost of services is comprised of direct labor, direct material, subcontractor costs, other direct costs and overhead. Other direct costs include travel, supplies and other miscellaneous costs. Cost of services for fiscal year 2009 increased \$909.3 million as compared to fiscal year 2008, primarily the result of the ramp up of the INSCOM contract. As a percentage of revenue, cost of services increased to 89.3% of revenue in fiscal year 2009 from 86.9% of revenue in fiscal year 2008. This was primarily a result of a change in contract mix as we earned more revenue from cost-reimbursement contracts than from firm fixed-price contracts, including the INSCOM contract and changes in portions of the CivPol contract driving this shift. In addition to our change in contract mix, cost overruns by our Afghanistan construction contracts, as further described below, also contributed to higher cost of services as a percentage of revenue in fiscal year 2009 compared to fiscal year 2008.

Selling, general and administrative expenses (SG&A) SG&A primarily relates to functions such as management, legal, finance, accounting, contracts and administration, human resources, management information systems, purchasing and business development. SG&A for fiscal year 2009 decreased \$14.3 million, or 12.2%, compared to fiscal year 2008. SG&A decreased primarily as a result of lean infrastructure initiatives, primarily through personnel reductions and process efficiency implementations focused on controlling SG&A costs, offset by approximately \$5.0 million in severance costs, including severance costs from the involuntary termination of our former CEO. Fiscal year 2009 SG&A compared to fiscal year 2008 was also positively impacted by non-recurring bid and proposal costs associated with the INSCOM contract which were incurred in fiscal year 2008.

Table of Contents

Interest expense Interest expense for fiscal year 2009 increased by \$3.4 million, or 6.2%, as compared to fiscal year 2008. The increase in interest expense was primarily due to a higher average outstanding debt balance and higher average interest rates. In addition to the change in interest expense, deferred financing fees associated with our prior debt were also written-off. The impact of this write-off is separately disclosed as Loss on early extinguishment of debt in our consolidated statements of income.

Income tax expense Our effective tax rate of 31.7% for fiscal year 2009 decreased from 38.5% for fiscal year 2008. Our effective tax rate was impacted by the tax treatment of our GLS and DIFZ joint ventures, which are consolidated for financial reporting purposes but are not consolidated for tax purposes, as they are taxed as partnerships 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 fiscal year 2009, noncontrolling interests for GLS and DIFZ was \$18.5 million and \$2.4 million, respectively. In fiscal year 2008, noncontrolling interest for GLS was additive to our net income attributable to DynCorp International Inc., as GLS was operating at a net loss. There was no noncontrolling interest related to DIFZ, as it was a wholly owned subsidiary during fiscal year 2008.

Impact of our Afghanistan Construction Contracts For fiscal year 2009, revenue from our Afghanistan construction contracts was \$71.2 million, as compared to \$18.0 million for fiscal year 2008. Our Afghanistan construction contracts encountered operational difficulties during fiscal year 2009, which resulted in higher non-reimbursable delivery costs and contractual milestone delays. As a result, we encountered losses of approximately \$40.5 million during the fiscal year associated with these projects.

Results by Segment

The following table sets forth the revenue and operating income for the GSDS, GPSS and GLS operating segments for fiscal year 2009, as compared to fiscal year 2008. The presentation has been recast to conform to the fiscal year 2010 segment structure.

Global Stabilization & Development Solutions

	Fiscal Years Ended		
	April 3, 2009	March 28, 2008	Change
	(Amounts in thousands)		
Revenue	\$ 1,085,229	\$ 972,964	\$ 112,265
Operating income	\$ 49,560	\$ 94,686	\$ (45,126)

Revenue Revenue for fiscal year 2009 increased \$112.3 million, or 11.5%, as compared to fiscal year 2008. The increase primarily resulted from the following:

Training & Mentoring: Revenue of \$732.3 million increased \$45.8 million, or 6.7%, primarily due to increases in our CivPol security services in Iraq, Palestine, Liberia and Haiti, offset by a decline in CivPol security services in Afghanistan. Revenue from our CivPol services in Iraq increased \$31.0 million, primarily due to higher personnel levels. As a result of new contracts started in early fiscal year 2009, we provided civilian police and security services in Palestine, Liberia and Haiti, which contributed \$24.8 million, \$4.4 million and \$3.6 million in increased revenue in fiscal year 2009, respectively. These increases were partially offset by a decline in CivPol services in Afghanistan of \$31.2 million, which was a result of fewer supplies and equipment sales to the customer during fiscal year 2009, as compared to fiscal year 2008, combined with a shift from a fixed-price contract structure in fiscal year 2008 to a cost-reimbursement contract structure in fiscal year 2009. Also contributing to the increase was the increase in WPPS services in Iraq and Pakistan, which increased by a combined \$8.9 million and the launch of our MNSTC-I program in fiscal year 2009, which generated \$6.1 million of revenue. Partially offsetting this increase was reductions in WPPS services in Bosnia, which decreased by \$2.2 million.

Table of Contents

Logistics: Revenue of \$4.7 million was the result of the LOGCAP IV program as work began in March 2009 on awarded task orders in Kuwait.

Operations & Development: Revenue of \$347.6 million increased by \$62.3 million, or 21.9%, primarily due to the expansion of services in the Philippines and continued progress on our Afghanistan construction projects. Revenue also benefited from our support services, where we provided temporary housing in response to the severe flooding in Iowa during the summer of 2008 and increased mediation and humanitarian services provided in Sudan. These increases were partially offset by a decline in our Africa Peacekeeping program, primarily a result of reductions in current work levels within this program and the completion of the Forward Operating Locations contract and contract termination for a construction project in Nigeria.

Operating Income Operating income for fiscal year 2009 decreased \$45.1 million, or 47.7%, as compared to fiscal year 2008, primarily due to declining margins in our CivPol program, losses on our Afghanistan construction programs and a decline in our Africa Peacekeeping program, as a result of reductions in current work levels. Operating income was also negatively impacted by certain non-reimbursable start up costs related to our new LOGCAP IV contract, which was awarded in early fiscal year 2009. In fiscal year 2009, LOGCAP IV did not contribute significantly to revenue but incurred costs associated with contract set-up and other overhead costs. These declines were partially offset by the successful resolution of approximately \$10 million of prior period billing matters on CivPol, and a reduction in SG&A expense, primarily due to specific contract litigation expenses in fiscal year 2008 associated with the WWNS litigation and from our lean infrastructure initiatives focused on controlling SG&A costs.

Global Platform Support Solutions

	Fiscal Years Ended		
	April 3, 2009	March 28, 2008	Change
	<i>(Amounts in thousands)</i>		
Revenue	\$ 1,311,959	\$ 1,163,586	\$ 148,373
Operating income	\$ 98,702	\$ 31,467	\$ 67,235

Revenue Revenue for fiscal year 2009 increased \$148.4 million, or 12.8%, as compared to fiscal year 2008. The increase primarily resulted from the following:

Aviation Maintenance & Support: Revenue of \$527.5 million increased \$50.3 million, or 10.5%, for fiscal 2009 as compared to the fiscal year 2008, primarily due to a new contract for logistics services at Ft. Campbell, which started in May 2008, and increased revenue from higher personnel levels in our CFT program.

Counter-Drug and Law Enforcement Aviation: Revenue of \$300.7 million decreased \$64.5 million, or 17.7%, for fiscal 2009 as compared to the fiscal year 2008, primarily due to scope reductions on the INL programs.

Fleet Management: Revenue of \$332.8 million increased \$97.7 million, or 41.6%, for fiscal 2009 as compared to the fiscal year 2008, primarily due to our higher deliveries of support equipment on our C-21 and LCCS programs driven by supplemental increases in U.S. government spending for aircraft upgrades to support the global war on terror. Also impacting this revenue increase was an additional \$25.5 million in counter narcotics efforts, which began operations in fiscal year 2008 and was fully ramped up in fiscal year 2009.

Land Systems: Revenue of \$151.0 million increased \$65.3 million, or 76.2%, for fiscal year 2009, as compared to fiscal year 2008. This was primarily driven by an increase in our MRAP program of \$71.2 million, which began operations in fiscal year 2008 and was fully ramped up in fiscal year 2009. Also contributing to the increase was revenue associated with our GMC contract due to increased services and the timing of revenue recognition. Partially offsetting this were declines in our marine services and a decrease in threat management systems work.

Table of Contents

Operating Income Operating income for fiscal year 2009 increased \$67.2 million, to \$98.7 million, as compared to \$31.5 million for fiscal year 2008. Operating income benefited from our lean infrastructure initiatives focused on controlling SG&A costs, offset by severance associated with the retiring of our GPSS divisional President. Specific to our SBAs, the increase primarily resulted from the improved mix of contracts with better margins, such as MRAP, as well as improved project management in several key programs. Additionally, we experienced improved profitability on our LCCS program due to stringent cost controls implemented during the year.

Global Linguist Solutions

	Fiscal Years Ended		Change
	April 3, 2009	March 28, 2008	
	(Amounts in thousands)		
Revenue	\$ 709,132	\$ 3,566	\$ 705,566
Operating income	\$ 39,729	\$ (6,150)	\$ 45,879

Revenue of \$709.1 million increased \$705.6 million for fiscal year 2009 as compared to fiscal year 2008. GLS operated throughout fiscal year 2009, whereas operations started at the end of fiscal year 2008.

Operating income of \$39.7 million increased \$45.9 million in fiscal year 2009 as compared to fiscal year 2008. This increase was primarily due to a full year of performance in fiscal year 2009 as compared to fiscal year 2008, which included award fees earned during fiscal year 2009. 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 senior secured credit facility are our primary sources of short-term liquidity. 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. Management believes the Days Sales Outstanding (DSO) is an appropriate way to measure our billing and collections effectiveness. Our current DSO, in the low 70s, represents the time it takes to recoup costs incurred to support operations. We believe that we can fund our working capital needs, support growth, and pay our debt related obligations based on the current DSO levels.

Our ability to generate sufficient cash depends on numerous factors beyond our control. We cannot be assured that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to repay our indebtedness or to fund our other liquidity needs. If the Merger is not consummated we may require additional financing beyond that currently provided by our senior secured credit facility. There can be no assurance that sufficient financing will continue to be available in the future or that it will be available under terms acceptable to us. Failure to obtain sufficient capital could materially hinder our future expansion strategies.

We are required, under certain circumstances as defined in our senior secured credit facility, to annually use a percentage of cash generated from operations to reduce the outstanding principal of our senior secured term loan facility (Term Loan). Based on the fiscal year 2010 financial performance and ending balances, we do not expect to make a payment in fiscal year 2011. If the Merger is consummated, the Term Loan will be replaced by a new facility.

Table of Contents

Aside from normal recurring operational and financing cash flows, certain significant cash flow events that occurred in fiscal year 2010 are as follows:

We spent \$24.3 million on senior subordinated note repurchases.

We spent \$23.4 million on the Term Loan excess cash flow principal payment pertaining to fiscal year 2009 results.

We spent approximately \$39.7 million to purchase helicopters and ready these helicopters for use, most of which are expected to be deployed on the LOGCAP IV program in fiscal year 2011.

We spent approximately \$37.9 million on the Phoenix acquisition, net of cash acquired. Additionally, we spent approximately \$7.5 million to fund an escrow account to cover future retention bonuses.

We spent approximately \$5.0 million on the Casals acquisition, net of cash acquired.

Forward Looking Fiscal Year 2011

Aside from normal recurring operational and financing cash flows, we expect certain material cash flows to occur in fiscal year 2011 and beyond as follows:

We expect to spend between approximately \$5.0 million and \$8.0 million in fiscal year 2011 to substantially complete the technology transformation initiative, which began to ramp up during fiscal year 2010.

We expect to start deploying helicopters on the LOGCAP IV program on a phase-in basis in the second quarter of fiscal year 2011. We expect to get reimbursed for all of our approximately \$39.7 million of costs, net of estimated residual value, over three years which starts as each helicopter is deployed.

We expect to make principal payments on our Term Loan of approximately \$44.1 million under our normal debt repayment schedule.

Cash Flow Analysis

The following table sets forth cash flow data for the periods indicated therein:

	April 2, 2010	Fiscal Year Ended April 3, 2009	March 28, 2008
	(Amounts in thousands)		
Net cash provided by operating activities	\$ 90,473	\$ 140,871	\$ 42,361
Net cash used by investing activities	(88,875)	(9,148)	(11,306)
Net cash (used by) provided by financing activities	(79,387)	(16,880)	(48,131)

Fiscal Year 2010 Compared to Fiscal Year 2009

Operating Activities

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Cash flows provided by operating activities for fiscal year 2010 was \$90.5 million as compared to \$140.9 million for fiscal year 2009. Cash generated from operations for fiscal year 2010 benefited from the combination of our continued profitable revenue growth offset by increases in net working capital. The change in net working capital was primarily due to increases in accounts receivable. This increase was due to an increase in revenue and an increase in DSO, which was 71 days as of April 2, 2010, compared to 60 days at April 3, 2009. This increase in DSO was primarily due to longer review cycles for our DoS invoices due to increased scrutiny of the detailed support of our invoices. Also, contributing to the increase was a payment term increase on the CFT contract. Our expectation going forward is for DSO to fall in the high 60s to low 70s on an ongoing basis.

Table of Contents

Investing Activities

Cash used in investing activities was \$88.9 million for fiscal year 2010 as compared to \$9.1 million for fiscal year 2009. This increase was primarily due to the acquisitions of Phoenix and Casals and the purchase of helicopter assets as compared to fiscal year 2009 where we made routine fixed assets and software purchases.

Financing Activities

Cash used in financing activities was \$79.4 million for fiscal year 2010 as compared to \$16.9 million of cash used in financing for fiscal year 2009. This increase was primarily due to the \$23.4 excess cash flow payment on the senior credit facility, the \$24.3 million bond repurchases and \$28.1 million in dividend payments to noncontrolling interest holders as compared to \$6.0 million of noncontrolling interest holders in fiscal year 2009.

Fiscal Year 2009 Compared to Fiscal Year 2008

Operating Activities

Cash provided by operating activities for fiscal year 2009 was \$140.9 million, as compared to \$42.4 million cash provided by operations for fiscal year 2008. Our increase in operating cash flow for the 2009 fiscal year was primarily the result of higher cash generated from operations, partially offset by a reduction in cash from an increase in our net working capital. Cash generated from operations benefited from the combination of our continued revenue growth from new contracts and improved operating efficiency. The change in net working capital was primarily due to an increase in accounts receivable. Net of revenue growth, our accounts receivable actually improved due to billing and collection efficiencies implemented during fiscal year 2009. As a result of these efforts, DSO decreased from 73 days as of March 28, 2008 to 60 days as of April 3, 2009.

Investing Activities

Cash used in investing activities was \$9.1 million for fiscal year 2009, as compared to \$11.3 million for fiscal year 2008. This use of cash from investing activities was primarily a result of the combination of fewer property plant and equipment and software purchases during fiscal year 2009, as compared to such purchases in fiscal year 2008.

Financing Activities

Cash used in financing activities was \$16.9 million for fiscal year 2009, as compared to \$48.1 million for fiscal year 2008. The cash used in financing activities during the fiscal year 2009 was primarily a result of the \$8.2 million net effect of extinguishing debt and issuing new debt discussed below, as well as in Note 7 of our consolidated financial statements. Cash used of \$48.1 million in financing activities for fiscal year 2008 was due primarily to repayments of principal on debt. The chart below does not take into account any refinancing (or new financing) in connection with the Merger.

Table of Contents*Financing*

The following table does not reflect any refinancing in connection with the Merger. Long-term debt consisted of:

	April 2, 2010	April 3, 2009
	(Amounts in thousands)	
Term loans	\$ 176,637	\$ 200,000
9.5% senior subordinated notes	375,510	399,912
	552,147	599,912
Less current portion of long-term debt	(44,137)	(30,540)
Total long-term debt	\$ 508,010	\$ 569,372

Senior Secured Credit Facility On July 28, 2008, we entered into a senior secured credit facility (*Credit Facility*) consisting of a Term Loan of \$200.0 million and a senior secured revolving credit facility (*Revolving Facility*) of up to \$200.0 million. Borrowings under our Term Loan and Revolving Facility bear interest at a rate per annum equal to LIBOR, plus an applicable margin determined by reference to the leverage ratio, as set forth in the credit agreement (the *Applicable Margin*), or the Base Rate, which is the higher of the (i) Prime Rate or the (ii) Federal Funds Rate plus one half of one percent plus the *Applicable Margin*, at our election. The *Applicable Margin* for LIBOR as of April 2, 2010 was 2.25%, and the LIBOR rate was 0.28% resulting in a 2.53% interest rate on our Term Loan, which excludes the impact of our interest rate swaps. We are authorized to utilize \$125 million of the \$200 million available borrowing capacity for letters of credit of which we had \$30.0 million outstanding as of April 2, 2010.

Borrowings under the *Credit Facility* are secured by substantially all of our assets and the capital stock of our subsidiaries. Our available borrowing capacity under the *Revolving Facility* totaled \$170.0 million as of April 2, 2010, which gives effect to \$30.0 million of outstanding letters of credit under the letter of credit sub facility. With respect to each letter of credit, a quarterly commission in an amount equal to the face amount of such letter of credit multiplied by the *Applicable Margin* and a nominal fronting fee are required to be paid. Additionally, we incur interest expense for the unused portion of the revolving credit facility based on the *Applicable Margin*. As of April 2, 2010, the rate we paid for our letters of credit was 2.375%. Additionally, as of April 2, 2010 the fee we paid for unused commitments under the revolving facility was 0.375%.

On March 6, 2009, we amended our senior secured credit facility. This amendment revised certain excess cash flow repayment requirements as defined under our existing secured credit agreement, and expanded our ability to repurchase our common stock to include the right to redeem a portion of the 9.5% senior subordinated notes due 2013 issued by our wholly owned subsidiary DynCorp International LLC. We made a \$23.4 million principal payment in July 2009 as required by our senior secured credit facility.

The Term Loan principal installments are due: September 2010 for \$14.1 million, \$15.0 million in quarterly installments from December 2010 through June 2011, \$13.5 million in quarterly payments from September 2011 through June 2012, and a final principal payment of \$63.5 million in August 2012, the Term Loan expiration date.

In April 2007, we entered into interest rate swap agreements to hedge our exposure to cash flows related to our *Credit Facility*. These agreements are more fully described in Note 10 to our consolidated financial statements and Item 7A. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.

The *Credit Facility* contains various financial covenants, including minimum interest and leverage ratios, and maximum capital expenditures limits. 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

Table of Contents

instruments; make acquisitions; engage in mergers or consolidations or engage in certain transactions with affiliates; and otherwise restrict certain corporate activities. We were in compliance with these various financial and non-financial covenants as of April 2, 2010. A change of control is an Event of Default under the Credit Facilities and triggers certain rights and remedies of the Lenders including acceleration of the obligations. A change of control would be triggered in the event we close the proposed Merger. We anticipate that all outstanding indebtedness under the Credit Facility will be repaid concurrently with the proposed Merger.

Senior Subordinated Notes In February 2005, we completed an offering of \$320.0 million in aggregate principal amount of our 9.5% senior subordinated notes due 2013. Proceeds from the original issuance of the senior subordinated notes, net of fees, were \$310.0 million and were used to pay the consideration for, and fees and expenses relating to our 2005 formation as an independent company from Computer Science Corporation. Interest on the senior subordinated notes is due semi-annually. The senior subordinated notes are general unsecured obligations of our Operating Company, DynCorp International LLC, and certain guarantor subsidiaries of DynCorp International LLC, and contain certain covenants and restrictions, which limit our Operating Company's ability to pay us dividends.

In July 2008, we completed a private placement pursuant to Rule 144A under the Securities Act of 1933, as amended, of \$125.0 million in aggregate principal amount of additional 9.5% senior subordinated notes, which were issued under the same indenture as the senior subordinated notes issued in February 2005. The total outstanding senior subordinated notes as of April 2, 2010 were \$375.5 million, including the impact of the unamortized discount. Net proceeds from the additional offering of senior subordinated notes were used to refinance our then existing senior secured credit facility, to pay related fees and expenses and for general corporate purposes. The senior subordinated notes mature on February 15, 2013. The additional senior subordinated notes were issued at approximately a 1.0% discount totaling \$1.2 million on the issuance date. Deferred financing fees associated with this offering totaled \$4.7 million, which was recorded in fiscal year 2009. Our registration statement with respect to these notes was declared effective on January 13, 2009. We launched an exchange offer for the notes that ended on February 11, 2009.

The senior subordinated notes contain various covenants that restrict our ability to make certain payments including declaring or paying certain dividends, purchasing or retiring certain equity interests, prepaying or retiring indebtedness subordinated to the senior subordinated notes, or make certain investments unless we meet certain financial thresholds including a Fixed Coverage Ratio (as defined in the senior subordinated notes) above 2.0. Additionally, the senior subordinated notes restrict our ability to incur additional indebtedness; sell assets, engage in certain transactions with affiliates; create liens on assets; make acquisitions; engage in mergers or consolidations; and otherwise restrict certain corporate activities. We were in compliance with these various financial and non-financial covenants as of April 2, 2010.

We can redeem the senior subordinated notes, in whole or in part, at defined redemption prices, plus accrued interest through the redemption date. The senior subordinated notes may require us to repurchase the senior subordinated 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. Under a Board authorized program covering fiscal year 2009 and fiscal year 2010, we paid down a certain portion of our senior subordinated notes. In fiscal year 2009, we redeemed approximately \$16.1 million face value of our senior subordinated notes in the open market for \$15.4 million, including applicable transaction fees and recorded a \$0.3 million gain. In fiscal year 2010, we redeemed \$24.7 million in face value of our senior subordinated notes for \$24.3 million including applicable fees. The fiscal year repurchases, when including the impact of the discount and deferred financing fees, produced an overall loss of \$0.1 million for fiscal year 2010.

Pursuant to the Merger Agreement, if requested by Parent, we will promptly commence (or, at Parent's choice, assist Parent or its affiliates in a third party commencement of) an offer to purchase and related consent solicitation with respect to all of the outstanding aggregate principal amount of the then outstanding 9.50% senior subordinated notes due 2013 on the terms and conditions as are reasonably requested by Parent (including

Table of Contents

amendments to the terms and provisions of the related indenture as reasonably requested by Parent and reasonably satisfactory to the Company) (including the related consent solicitation) and Parent is obligated to assist us in connection therewith. The closing of any such debt tender offer shall be conditioned on the occurrence of the closing of the Merger. In no event will the Company be obligated to consummate any such debt tender offer unless the Merger has occurred or is occurring concurrently with the consummation of such debt tender offer and sufficient funds are available from the financing to pay all consideration for the purchase of such 9.50% senior subordinated notes. The holders of the senior subordinated notes have the right to reject the tender offer and if so, the senior subordinated notes would remain outstanding.

Alternatively, if the required consents have not been received in such debt tender offer, or are not reasonably likely to be received or if Parent determines not to request the commencement of the debt tender offer, then at Parent's written request, the Company is obligated to use commercially reasonable efforts to promptly take all actions necessary and required to effect the satisfaction and discharge of the 9.50% senior subordinated notes effective upon the closing of the Merger, provided, that the Company shall not be obligated to take any such alternative actions unless it has received from Parent the amounts required to deposit with the trustee to pay the redemption price for such notes as required pursuant to such indenture and pay or cause to be paid all other sums payable pursuant to the such indenture in connection therewith.

Contractual Commitments

The following table represents our contractual commitments associated with our debt and other obligations as of April 2, 2010:

	2011	2012	Fiscal Years Ended			Thereafter	Total
			2013	2014	2015		
	(Amounts in thousands)						
Term Loan (1)	\$ 44,137	\$ 55,500	\$ 77,000				\$ 176,637
Senior subordinated notes			376,219				376,219
Operating leases (2)	16,233	15,833	15,394	12,948	11,072	40,403	111,883
Interest on indebtedness (3)	41,340	39,977	36,962				118,279
Management fee (4)	300	300	300	300	300	300	1,800
Contingent earn-out consideration & compensation estimate	1,173						1,173
Interest rate swap (5)	1,634						1,634
Interpretation 48 liabilities including interest and penalties (6)	480	2,187	10,079				12,746
Total contractual obligations	\$ 105,297	\$ 113,797	\$ 515,954	\$ 13,248	\$ 11,372	\$ 40,703	\$ 800,371

- (1) Includes mandatory payment of Term Loan with excess cash flow. See Note 7 to our consolidated financial statements.
- (2) For additional information about our operating leases, see Note 8 to our consolidated financial statements.
- (3) Represents interest expense calculated using interest rates of: (i) 9.5% on the senior subordinated notes, (ii) Term Loan Principal applied to the April 2, 2010 interest rate of 2.53%, excluding the impact of our swaps (iii) assumes the current letter of credit level multiplied by 2.375% and (iv) 0.375% interest rate applied to unutilized revolver borrowing capacity utilizing the April 2, 2010 level.
- (4) Represents the annual management fee paid to Veritas Capital to provide us general business management, financial, strategic and consulting services. Our obligation to pay this fee will terminate upon a change of control. For additional information on the management fee, see Note 14 to our consolidated financial statements.
- (5) Represents the value of the confirmed settlement payments as of April 2, 2010.
- (6) The settlement date is estimated to occur in the fiscal year that that statute of limitations elapses.

Table of Contents

Backlog

For a detailed discussion on backlog, see Item 1. Business Backlog.

Estimated Remaining Contract Value

For a detailed discussion on estimated remaining contract value, see Item 1. Business Estimated Remaining Contract Value.

Estimated Total Contract Value

For a detailed discussion on estimated total contract value, see Item 1. Business Estimated Total Contract Value.

Off-Balance Sheet Arrangements

As of April 2, 2010, we did not have any off balance sheet arrangements as defined under SEC rules.

Effects of Inflation

We have generally been able to anticipate increases in costs when pricing our contracts. Bids for longer-term fixed-price and time-and-materials type contracts typically include sufficient labor and other cost escalations in amounts expected to cover cost increases over the period of performance. Consequently, because costs and revenue include an inflationary increase commensurate with the general economy in which we operate, net income attributable to DynCorp International Inc. as a percentage of revenue has not been materially impacted by inflation.

Critical Accounting Policies and Estimates

The process of preparing financial statements in conformity with GAAP requires the use of estimates and assumptions to determine reported amounts of certain assets, liabilities, revenue and expenses and the disclosure of related contingent assets and liabilities. These estimates and assumptions are based upon information available at the time of the estimates or assumptions, including our historical experience, where relevant. These significant estimates and assumptions are reviewed quarterly by management. This evaluation process includes a thorough review of key estimates and assumptions used in preparing our financial statements. Because of the uncertainty of factors surrounding the estimates, assumptions and judgments used in the preparation of our financial statements, actual results may differ from the estimates, and the difference may be material.

Our critical accounting policies and estimates are those policies and estimates that are both most important to our financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following represents our critical accounting policies that incorporate significant estimates. For a summary of all of our significant accounting policies, see Note 1 to our consolidated financial statements included in this Annual Report. Management and our external auditors have discussed our critical accounting policies and estimates with the Audit Committee of our board of directors.

Revenue Recognition

We are predominantly a services provider and only include products or systems when necessary for the execution of the service arrangement and as such, systems, equipment or materials are not generally separable from services. Revenue is recognized when persuasive evidence of an arrangement exists, services or products

Table of Contents

have been provided to the client, the sales price is fixed or determinable, and collectability is reasonably assured. Each arrangement is unique and revenue recognition is evaluated on a contract by contract basis. Our contracts typically fall into four categories with the first representing the vast majority of our revenue. The categories are federal government contracts, construction type contracts, software contracts and other contracts. We apply the appropriate guidance consistently to similar contracts.

We expense pre-contract costs as incurred for an anticipated contract until the contract is awarded. Throughout the life of the contract, indirect costs, including general and administrative costs, are expensed as incurred. Management regularly reviews project profitability and underlying estimates. Revisions to estimates are reflected in results of operations as a change in accounting estimate in the period in which the facts that give rise to the revision become known by management.

Major factors we consider in determining total estimated revenue and cost include the basic contract price, contract options, change orders (modifications of the original contract), back charges and claims, and contract provisions for penalties, award fees and performance incentives. All of these factors and other special contract provisions are evaluated throughout the life of our contracts when estimating total contract revenue under the percentage-of-completion or proportional methods of accounting.

Federal Government Contracts For all non-construction and non-software U.S. federal government contracts or contract elements, we apply the guidance in ASC 912 *Contractors-Federal Government*. We apply the combination and segmentation guidance in ASC 605-35 *Revenue-Construction-Type and Production-Type Contracts*, under the guidance of ASC 912, in analyzing the deliverables contained in the applicable contract to determine appropriate profit centers. Revenue is recognized by profit center using the percentage-of-completion method or completed contract method. The completed contract method is sometimes used when reliable estimates cannot be supported for percentage-of-completion method recognition or for short duration projects when the results of operations would not vary materially from those resulting from use of the percentage-of-completion method. Until complete, project costs are maintained in work-in-progress, a component of inventory.

Projects under our U.S. federal government contracts typically have different pricing mechanisms that influence how revenue is earned and recognized. These pricing mechanisms are classified as cost-plus-fixed-fee, fixed-price, cost-plus-award-fee or time-and-materials (including unit-price/level-of-effort contracts). Any of these contract types can be executed under an Indefinite-Delivery Indefinite-Quantity (IDIQ) contract, which does not represent a firm order for services. As a result, the exact timing and quantity of delivery and pricing mechanism for IDIQ profit centers are not known at the time of contract award, but they can contain any type of pricing mechanism.

Revenue on projects with a fixed-price or fixed-fee, including award fees, is generally recognized based on progress towards completion over the contract period, measured by either output or input methods appropriate to the services or products provided. For example, output measures can include period of service, such as for aircraft fleet maintenance, and units delivered or produced, such as aircraft for which modification has been completed. Input measures can include a cost-to-cost method, such as for procurement-related services.

Revenue on time-and-materials projects is recognized at contractual billing rates for applicable units of measure (e.g. labor hours incurred, units delivered).

Construction Contracts or Contract Elements For all construction contracts or contract elements, revenue is recognized by profit center using the percentage-of-completion method.

Software Contracts or Contract Elements It is our policy to review any arrangement containing software or software deliverables using applicable GAAP for software revenue recognition, as discussed further in Note 1 to our consolidated financial statements for fiscal year 2010. We have not historically sold software on a

Table of Contents

separate, standalone basis. As a result, software arrangements are typically accounted for as one unit of accounting and are recognized over the service period, including the period of post-contract customer support.

Other Contracts or Contract Elements Our contracts with non-federal government customers are predominantly multiple-element. Multiple-element arrangements involve multiple obligations in various combinations to perform services, deliver equipment or materials, grant licenses or other rights, or take certain actions. We evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting and arrangement consideration is allocated among the separate units of accounting based on their relative fair values. Fair values are established by evaluating vendor specific objective evidence (VSOE) or third-party evidence if available. Due to the customized nature of our arrangements, VSOE and third-party evidence is generally not available resulting in applicable arrangements being accounted for as one unit of accounting.

Deferred Taxes, Tax Valuation Allowances and Tax Reserves

Our income tax expense, deferred tax assets and liabilities and reserves for uncertain tax positions reflect management's best estimate of future taxes to be paid. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we develop assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

In evaluating the realizability of our deferred tax assets, we assess the need for any related valuation allowances or adjust the amount of any allowances, if necessary. Valuation allowances are recognized to reduce the carrying value of deferred tax assets to amounts that we expect are more-likely-than-not to be realized. Valuation allowances applicable to our company primarily relate to the deferred tax assets established for certain tax credit carryforwards and net operating loss carryforwards for U.S. and non-U.S. subsidiaries. We assess such factors as our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets in determining the need for or sufficiency of a valuation allowance. Failure to achieve forecasted taxable income in the applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in our effective tax rate on future earnings. Implementation of different tax structures in certain jurisdictions could also impact the need for certain valuation allowances.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in potential assessments. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various tax authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate.

On March 31, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of Statement of Financial Accounting Standards No. 109 (FIN No. 48), which has been incorporated into ASC 740 Income Taxes. ASC 740 addresses the determination of whether tax benefits claimed, or expected to be claimed, on a tax return should be recorded in the financial statements. Under ASC 740, we may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities. The

Table of Contents

determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information.

ASC 740 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

We believe we have adequately provided for any reasonably foreseeable outcome related to these matters, and our future results may include favorable or unfavorable adjustments to our estimated tax liabilities. To the extent that the expected tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Equity-Based Compensation Expense

We have adopted the provisions of, and accounted for, equity-based compensation in accordance with ASC 718-*Stock Based Compensation*. Under the fair value recognition provisions, equity-based compensation expense is measured using the grant date fair value for equity awards or is revalued each accounting period for liability awards. See Note 1 for further information regarding the ASC 718 disclosures.

We currently have two types of share-based payment awards which are Class B membership interests in DIV Holding LLC (the Class B membership interests) and RSUs. The RSUs can be structured as service based or performance based. Our RSUs are classified as liability awards under GAAP and are revalued based on our closing stock price at the end of each accounting period. The Class B membership interests are equity awards under GAAP. Class B membership interests are valued at the grant date using a discounted cash flow technique to arrive at a fair value of the Class B membership interests. Our fair value analysis includes the following variables: our stock price, outstanding common shares, DIV Holding LLC ownership percentage, remaining preference to Class A holders, and a discount for lack of marketability. The discount for lack of marketability for each grant was estimated on the date of grant using the Black-Scholes-Merton put-call parity relationship computation.

The determination of the fair value of the Class B membership interests is affected by our stock price, as well as assumptions including volatility, the risk-free interest rate and expected dividends. We base the risk-free interest rate that we use in the pricing model on a forward curve of risk-free interest rates based on constant maturity rates provided by the U.S. Treasury. We have not paid, and do not anticipate paying, any cash dividends in the foreseeable future and therefore used an expected dividend yield of zero in the pricing model.

We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data and probable future events, including the proposed Merger to estimate forfeitures, and record stock-based compensation expense only for those awards that are expected to vest. Our share-based payment awards vest ratably, based on vesting terms which typically range from one to five years, over the requisite service periods, which differ from our recognition of compensation expense that is recognized on an accelerated graded basis, over the requisite service period for each separately vesting portion of the award.

Impairment of Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. In accordance with ASC 350-20 *Intangibles-Goodwill*, we evaluate goodwill for impairment annually and when an event occurs or circumstances change to suggest that the carrying value may not be recoverable. Our annual testing date is at the fiscal end of February of each fiscal year. We also assess goodwill at the end of a quarter if a triggering event occurs. In determining whether an interim triggering event has occurred, management monitors (i) the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test, (ii) significant changes to future expectations (iii) and our market capitalization, which is based on our average stock price and average common shares over a recent timeframe.

Table of Contents

We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is less than the book value, we record impairment, if any, to the extent that the estimated fair value of goodwill is less than the carrying value.

We estimate a portion of the fair value of our reporting units under the income approach by utilizing a discounted cash flow model based on several factors including balance sheet carrying values, historical results, our most recent forecasts, and other relevant quantitative and qualitative information. We discount the related cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. We also use the market approach to estimate the remaining portion of our reporting unit valuation. This technique utilizes comparative market multiples in the valuation estimate. We have historically applied a 50%/50% weighting to each approach. While the income approach has the advantage of utilizing more company specific information, the market approach has the advantage of capturing market based transaction pricing.

Preparation of forecasts and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders, and general market conditions. Significant changes in these forecasts, the discount rate selected, or the weighting of the income and market approach could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period.

The combined estimated fair value of all of our reporting units from the weighted total of the market approach and income approach often results in a premium over our market capitalization, commonly referred to as a control premium. The calculated control premium percentage is evaluated and compared to an estimated acceptable midpoint percentage. In the event that the calculated control premium is above this midpoint, a portion of the excess control premium is allocated to reduce the fair value of each reporting unit in order to further assess whether any reporting units have incurred goodwill impairment. Assessing the acceptable control premium percentage requires judgment and is impacted by external factors such as observed control premiums from comparable transactions derived from the prices paid on recent publicly disclosed acquisitions in our industry.

As announced on April 6, 2009, we changed from reporting financial results on the three segments utilized in fiscal year 2009 to reporting three new segments beginning with fiscal year 2010. The goodwill carrying value was reallocated to the three new operating segments using a relative fair value approach based on the new reporting unit structure. Under the new structure, we have six reporting units, two of which have no allocated goodwill carrying value. The remaining four reporting units were allocated goodwill based on relative fair values as required under ASC 350 *Intangibles-Goodwill and Other*, all of which had estimated fair values that substantially exceeded their carrying values.

Recent Accounting Pronouncements

The information regarding recent accounting pronouncements is included in Note 1 to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report, which is incorporated herein by reference.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to market risk, primarily relating to potential losses arising from adverse changes in interest rates and foreign currency exchange rates. For a further discussion of market risks we may encounter, see Item 1A. Risk Factors .

Interest Rate Risk

We have interest rate risk relating to changes in interest rates on our variable rate debt. Our policy is to manage interest rate exposure through the use of a combination of fixed and floating rate debt instruments. Our 9.5% senior subordinated notes represent our fixed rate debt, which totaled \$375.5 million, including unamortized discount, as of April 2, 2010. Our Term Loan and Revolving Facility represent our variable rate debt. As of April 2, 2010, the balance of our Term Loan was \$176.6 million, and we had no borrowings under our Revolving Facility. Borrowings under our variable rate debt bear interest, based on our option, at a rate per annum equal to LIBOR, plus the Applicable Margin or the Base Rate plus the Applicable Margin. The Term Loan interest rate at April 2, 2010 was made up of a 2.25% Applicable Margin plus a 0.28% LIBOR rate totaling 2.53%, which excludes the impact of our interest rate swaps. Each quarter point change in interest rates on our outstanding variable rate debt as of April 2, 2010 results in approximately \$0.4 million change in annual interest expense.

During fiscal year 2008, in order to mitigate interest rate risk related to our Term Loan, we entered into three interest rate swap agreements with notional amounts totaling \$275 million. These interest rate swaps effectively fixed the interest rate, including the Applicable Margin, on the first \$275 million of our debt indexed to LIBOR. The notional principal of \$75 million, which was covered through September 2008, expired and the remaining \$176.6 million is protected through May 22, 2010. Subsequently, all of the Term Loan and Revolving Facility will be subject to variable interest rate risk. See Note 10 to our consolidated financial statements for further discussion on the interest rate swaps.

Our Term Loan and Revolving Facility are structured through a syndicate of banks and are not actively traded. Our 9.5% senior subordinated notes are publicly traded and had a quoted aggregate market value of approximately \$383.4 million based on an actual market trade price of 102.19 on April 2, 2010.

Foreign Currency Exchange Rate Risk

We are exposed to changes in foreign currency rates. At present, we do not utilize any derivative instruments to manage risk associated with foreign currency exchange rate fluctuations. The functional currency of certain foreign operations is the local currency. Accordingly, these foreign entities translate assets and liabilities from their local currencies to U.S. dollars using year-end exchange rates, while income and expense accounts are translated at the average rates in effect during the year. The resulting translation adjustment is recorded as accumulated other comprehensive (loss) income. Our foreign currency transactions were not material as of April 2, 2010.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	63
<u>Consolidated Statements of Income for the fiscal years ended April 2, 2010, April 3, 2009 and March 28, 2008</u>	64
<u>Consolidated Balance Sheets as of April 2, 2010 and April 3, 2009</u>	65
<u>Consolidated Statements of Cash Flows for the fiscal years ended April 2, 2010, April 3, 2009 and March 28, 2008</u>	66
<u>Consolidated Statements of Shareholders' Equity for the fiscal years ended April 2, 2010, April 3, 2009 and March 28, 2008</u>	67
<u>Notes to Consolidated Financial Statements</u>	68
Financial Statement Schedules:	
<u>Schedule I Condensed Financial Information of Registrant</u>	110
<u>Schedule II Valuation and Qualifying Accounts for the fiscal years ended April 2, 2010, April 3, 2009 and March 28, 2008</u>	111

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of DynCorp International Inc.

Falls Church, Virginia

We have audited the accompanying consolidated balance sheets of DynCorp International Inc. and subsidiaries (the Company) as of April 2, 2010 and April 3, 2009, and the related consolidated Statements of income, shareholders' equity, and cash flows for the fiscal years ended April 2, 2010, April 3, 2009, and March 28, 2008. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of DynCorp International, Inc. and subsidiaries as of April 2, 2010 and April 3, 2009, and the results of their operations and their cash flows for the fiscal years ended April 2, 2010, April 3, 2009, and March 28, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1, the Company changed its method of accounting for noncontrolling interests in consolidated subsidiaries and retrospectively adjusted all periods presented in the consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of April 2, 2010, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 4, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

Fort Worth, Texas

June 4, 2010

Table of Contents**DYNCORP INTERNATIONAL INC.****CONSOLIDATED STATEMENTS OF INCOME**

	Fiscal Year Ended		
	April 2, 2010	April 3, 2009	March 28, 2008
	(Amounts in thousands, except per share data)		
Revenue	\$ 3,585,262	\$ 3,101,093	\$ 2,139,761
Cost of services	(3,225,593)	(2,768,962)	(1,859,666)
Selling, general and administrative expenses	(106,401)	(103,583)	(117,919)
Depreciation and amortization expense	(41,639)	(40,557)	(42,173)
Operating income	211,629	187,991	120,003
Interest expense	(55,650)	(58,782)	(55,374)
Loss on early extinguishment of debt, net	(146)	(4,131)	
Earnings from affiliates	5,202	5,223	4,758
Interest income	542	2,195	3,062
Other income, net	1,035	145	199
Income before income taxes	162,612	132,641	72,648
Provision for income taxes	(51,893)	(41,995)	(27,999)
Net income	110,719	90,646	44,649
Noncontrolling interests	(24,631)	(20,876)	3,306
Net income attributable to DynCorp International Inc.	\$ 86,088	\$ 69,770	\$ 47,955
Basic earnings per share	1.53	1.22	0.84
Diluted earnings per share	1.52	1.22	0.84

See notes to consolidated financial statements.

Table of Contents

DYNCORP INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS

	Fiscal Years Ended	
	April 2, 2010	April 3, 2009
(Amounts in thousands, except share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 122,433	\$ 200,222
Restricted cash	15,265	5,935
Accounts receivable, net of allowances of \$68 and \$68	865,156	564,432
Prepaid expenses and other current assets	96,159	124,214
Total current assets	1,099,013	894,803
Property and equipment, net	55,233	18,338
Goodwill	451,868	420,180
Tradenname	18,976	18,318
Other intangibles, net	122,040	142,719
Deferred income taxes	5,071	12,788
Other assets, net	30,416	32,068
Total assets	\$ 1,782,617	\$ 1,539,214
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 44,137	\$ 30,540
Accounts payable	347,068	160,419
Accrued payroll and employee costs	141,132	137,993
Deferred income taxes	18,002	8,278
Other accrued liabilities	111,198	111,590
Income taxes payable	11,358	5,986
Total current liabilities	672,895	454,806
Long-term debt, less current portion	508,010	569,372
Other long-term liabilities	8,434	6,779
Total liabilities	1,189,339	1,030,957
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.01 par value 232,000,000 shares authorized; 57,000,000 shares issued and 56,286,196 and 56,306,800 shares outstanding, respectively	570	570
Additional paid-in capital	367,488	366,620
Retained earnings	229,461	143,373
Treasury stock, 713,804 and 693,200 shares	(8,942)	(8,618)
Accumulated other comprehensive loss	(1,121)	(4,424)
Total shareholders' equity attributable to DynCorp International Inc.	587,456	497,521
Noncontrolling interests	5,822	10,736
Total shareholders' equity	593,278	508,257
Total liabilities and shareholders' equity	\$ 1,782,617	\$ 1,539,214

See notes to consolidated financial statements.

Table of Contents**DYNCORP INTERNATIONAL INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	April 2, 2010	Fiscal Years Ended April 3, 2009	March 28, 2008
	(Amounts in thousands)		
Cash flows from operating activities			
Net income	\$ 110,719	\$ 90,646	\$ 44,649
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,578	41,634	43,492
Loss on early extinguishment of debt, net	146	4,131	
Amortization of deferred loan costs	3,894	3,694	3,015
Allowance for losses on accounts receivable	24	(185)	(923)
Earnings from affiliates	(5,202)	(5,223)	(4,758)
Distributions from affiliates	2,988	2,439	2,651
Deferred income taxes	15,981	34,273	(1,017)
Equity-based compensation	2,863	1,883	4,599
Other	4,062	(475)	(686)
Changes in assets and liabilities:			
Restricted cash	(9,330)	5,373	8,916
Accounts receivable	(289,291)	(50,896)	(49,675)
Prepaid expenses and other current assets	24,161	(18,934)	(36,123)
Accounts payable and accrued liabilities	182,238	36,441	31,679
Income taxes payable	4,642	(3,930)	(3,458)
Net cash provided by operating activities	90,473	140,871	42,361
Cash flows from investing activities			
Cash paid for acquisitions, net of cash acquired	(42,889)		
Purchase of property and equipment	(39,335)	(4,684)	(6,081)
Purchase of computer software	(6,711)	(2,596)	(1,657)
Contributions to equity method investees		(2,233)	(3,366)
Other investing activities	60	365	(202)
Net cash used in investing activities	(88,875)	(9,148)	(11,306)
Cash flows from financing activities			
Borrowings on long-term debt	193,500	323,751	
Payments on long-term debt	(242,126)	(315,538)	(37,832)
Payments of deferred financing cost	13	(10,790)	
Purchases of treasury stock	(712)	(8,618)	
Borrowings under other financing arrangements		26,254	7,423
Payments under other financing arrangements	(2,011)	(26,628)	(18,408)
Excess tax benefits from equity-based compensation	35	184	686
Receipt of proceeds on note receivable from DIFZ sale		500	
Payments of dividends to noncontrolling interests	(28,086)	(5,995)	
Net cash used in financing activities	(79,387)	(16,880)	(48,131)
Net (decrease) increase in cash and cash equivalents	(77,789)	114,843	(17,076)
Cash and cash equivalents, beginning of year	200,222	85,379	102,455
Cash and cash equivalents, end of year	\$ 122,433	\$ 200,222	\$ 85,379

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Income taxes paid, net of refunds	18,686	19,292	36,740
Interest paid	52,824	58,782	53,065
Non-cash sale of DIFZ, including related financing		9,545	

See notes to consolidated financial statements

Table of Contents

DYNCORP INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Shares (Amounts in thousands)	Other Accumulated Comprehensive Income (Loss)	Shareholders Equity Attributable to DynCorp International Inc.	Noncontrolling Interests	Total Equity
Balance at March 30, 2007	57,000	\$ 570	\$ 352,245	\$ 27,023	\$ (164)	\$ 379,674	\$	\$ 379,674
Comprehensive income (loss):								
Net income			44,649			44,649		44,649
Interest rate swap, net of tax					(7,174)	(7,174)		(7,174)
Interest rate cap, net of tax					276	276		276
Currency translation adjustment, net of tax					148	148		148
Comprehensive income			44,649		(6,750)	37,899		37,899
Noncontrolling interests			3,306			3,306		3,306
Comprehensive income attributable to DynCorp International Inc.			47,955		(6,750)	41,205		41,205
FIN 48 Adoption Adjustment			\$ (1,375)			\$ (1,375)		(1,375)
Net Income and comprehensive income attributable to noncontrolling interests							(3,306)	(3,306)
Equity-based compensation		4,095				4,095		4,095
Tax benefit associated with equity-based compensation		686				686		686
Dividends paid to noncontrolling interests								
Balance at March 28, 2008	57,000	\$ 570	\$ 357,026	\$ 73,603	\$ (6,914)	\$ 424,285	\$ (3,306)	\$ 420,979
Comprehensive income (loss):								
Net income			90,646			90,646		90,646
Interest rate swap, net of tax					3,212	3,212		3,212
Currency translation adjustment, net of tax					(722)	(722)		(722)
Comprehensive income			90,646		2,490	93,136		93,136
Noncontrolling interests			(20,876)			(20,876)		(20,876)
Comprehensive income attributable to DynCorp International Inc.			69,770		2,490	72,260		72,260
Net Income and comprehensive income attributable to noncontrolling interests							20,876	20,876
Sale of noncontrolling interest in DIFZ		9,220				9,220		9,220
DIFZ financing, net of tax		325				325		325
Treasury shares repurchases	(693)			(8,618)		(8,618)		(8,618)
Equity-based compensation		(135)				(135)		(135)
Tax benefit associated with equity-based compensation		184				184		184
Dividends paid to noncontrolling interests							(6,834)	(6,834)

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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				110,719			110,719		110,719
Interest rate swap, net of tax						3,244	3,244		3,244
Currency translation adjustment, net of tax						59	59		59
Comprehensive income				110,719		3,303	114,022		114,022
Noncontrolling interests				(24,631)			(24,631)		(24,631)
Comprehensive income attributable to DynCorp International Inc.				86,088		3,303	89,391		89,391
Net Income and comprehensive income attributable to noncontrolling interests								24,631	24,631
DIFZ financing, net of tax			400				400		400
Treasury shares repurchases	(55)				(712)		(712)		(712)
Treasury Shares issued to settle RSU liability	34		92		388		480		480
Equity-based compensation			341				341		341
Tax benefit associated with equity-based compensation			35				35		35
Dividends declared to noncontrolling interests								(29,545)	(29,545)
Balance at April 2, 2010	56,286	\$ 570	\$ 367,488	\$ 229,461	\$ (8,942)	\$ (1,121)	\$ 587,456	\$ 5,822	\$ 593,278

See notes to consolidated financial statements

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008****Note 1 Significant Accounting Policies and Accounting Developments**

Unless the context otherwise indicates, references herein to we, our, us or DynCorp International refer to DynCorp International Inc. and our consolidated subsidiaries. DynCorp International Inc., through its subsidiaries (together, the Company), provides defense and technical services and government outsourced solutions primarily to United States (U.S.) government agencies domestically and internationally. Primary customers include the U.S. Department of Defense (DoD) and U.S. Department of State (DoS), but also include other government agencies, foreign governments and commercial customers.

Principles of Consolidation

The consolidated financial statements include the accounts of both our domestic and foreign subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Generally, investments in which we own a 20% to 50% ownership interest are accounted for by the equity method. These investments are in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies and are not the primary beneficiary as defined in Financial Accounting Standards Codification (ASC) ASC 810 *Consolidation*. We have no investments in business entities of less than 20%.

We have ownership interests in three active joint ventures that are not consolidated into our financial statements as of April 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.

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

The following table sets forth our ownership in joint ventures that are consolidated into our financial statements as of April 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 are required by accounting principles generally accepted in the United States of America (GAAP) to consolidate certain joint ventures for which we do not hold a 100% interest. We record the impact of our joint venture partners' interests in these 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. Noncontrolling interests recorded on our consolidated balance sheet is increased by earnings of our consolidated joint ventures and reduced for dividends paid to our noncontrolling interest partners. Noncontrolling interests related to DynCorp International FZ-LLC (DIFZ) is also impacted by the portion of our noncontrolling interests partner's dividends, which are applied to the promissory notes in accordance with the sales agreement signed in fiscal year 2009. See Note 14 for additional information regarding the sale of a portion of DIFZ.

Table of Contents

DYNCORP INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008

Revenue Recognition and Cost Estimation on Long-Term Contracts

General Revenue is recognized when persuasive evidence of an arrangement exists, services or products have been provided to the client, the sales price is fixed or determinable, and collectability is reasonably assured.

We are predominantly a service provider and only include products or systems when necessary for the execution of the service arrangement and as such, systems, equipment or materials are not generally separable from services. Each arrangement is unique and revenue recognition is evaluated on a contract by contract basis. We apply the appropriate guidance consistently to similar contracts.

The evaluation of the separation and allocation of an arrangement fee to each deliverable within a multiple-deliverable arrangement is dependent upon the guidance applicable to the specific arrangement.

We expense pre-contract costs as incurred for an anticipated contract until the contract is awarded. Throughout the life of the contract, indirect costs, including general and administrative costs, are expensed as incurred. When revenue recognition is deferred relative to the timing of cost incurred, costs that are direct and incremental to a specific transaction are deferred and charged to expense in proportion to the revenue recognized.

Management regularly reviews project profitability and underlying estimates. Revisions to the estimates are reflected in results of operations as a change in accounting estimate in the period in which the facts that give rise to the revision become known by management. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded to cost of services in the period the loss is determined. Loss provisions are first offset against costs that are included in inventoried assets, with any remaining amount reflected in liabilities.

Major factors we consider in determining total estimated revenue and cost include the basic contract price, contract options, change orders (modifications of the original contract), back charges and claims, and contract provisions for penalties, award fees and performance incentives. All of these factors and other special contract provisions are evaluated throughout the life of our contracts when estimating total contract revenue under the percentage-of-completion or proportional methods of accounting.

Federal Government Contracts For all non-construction and non-software U.S. federal government contracts or contract elements, we apply the guidance in the ASC 912 *Contractors Federal Government* (ASC 912). We apply the combination and segmentation guidance in the ASC 605-35- *Revenue-Construction Type and Production Type Contracts* (ASC 605-35) as directed in ASC 912, in analyzing the deliverables contained in the applicable contract to determine appropriate profit centers. Revenue is recognized by profit center using the percentage-of-completion method or completed contract method.

Projects under our U.S. federal government contracts typically have different pricing mechanisms that influence how revenue is earned and recognized. These pricing mechanisms are classified as cost-plus-fixed-fee, fixed-price, cost-plus-award-fee, time-and-materials (including unit-price/level-of-effort contracts), or Indefinite Delivery, Indefinite Quantity (IDIQ). The exact timing and quantity of delivery and pricing mechanism for IDIQ profit centers are not known at the time of contract award, but they can contain any type of pricing mechanism.

Revenue on projects with a fixed-price or fixed-fee, including award fees, is generally recognized based on progress towards completion over the contract period measured by either output or input methods appropriate to the services or products provided. For example, output measures can include period of service, such as for aircraft fleet maintenance; and units delivered or produced, such as aircraft for which modification has been completed. Input measures can include a cost-to-cost method, such as for procurement-related services.

Table of Contents

DYNCORP INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008

Revenue on time-and-materials projects is recognized at contractual billing rates for applicable units of measure (e.g. labor hours incurred or units delivered).

The completed contract method is sometimes used when reliable estimates cannot be supported for percentage-of-completion method recognition or for short duration projects when the results of operations would not vary materially from those resulting from use of the percentage-of-completion method. Until complete, project costs are maintained in work in progress, a component of inventory.

Contract costs on U.S. federal government contracts, including indirect costs, are subject to audit and adjustment by negotiations between us and government representatives. Substantially all of our indirect contract costs have been agreed upon through 2004. Contract revenue on U.S. federal government contracts have been recorded in amounts that are expected to be realized upon final settlement.

Award fees are recognized based on the guidance in ASC 605-35, as directed by ASC 912. Award fees are excluded from estimated total contract revenue until a historical basis has been established for their receipt or the award criteria have been met including the completion of the award fee period at which time the award amount is included in the percentage-of-completion estimation.

Construction Contracts or Contract Elements For all construction contracts or contract elements, we apply the combination and segmentation guidance found in ASC 605-35, as directed by ASC 910 *Contractors Construction* (ASC 910), in analyzing the deliverables contained in the contract to determine appropriate profit centers. Revenue is recognized by profit center using the percentage-of-completion method.

Software Contracts or Contract Elements It is our policy to review any arrangement containing software or software deliverables against the criteria contained in ASC 985 *Software*. In addition, ASC 605-25- *Revenue Multiple Element Arrangements*, is also applied to determine if any non-software deliverables are outside of the scope of ASC 985 when the software is more than incidental to the products or services as a whole. Under the provisions of ASC 985 software deliverables are separated and contract value is allocated based on Vendor Specific Objective Evidence (VSOE). We have never sold software on a separate, standalone basis. As a result, software arrangements are typically accounted for as one unit of accounting and are recognized over the service period, including the period of post-contract customer support. All software arrangements requiring significant production, modification, or customization of the software are accounted for under ASC 605-35, as directed by ASC 985.

Other Contracts or Contract Elements Our contracts with non-U.S. federal government customers are predominantly multiple-element. Multiple-element arrangements involve multiple obligations in various combinations to perform services, deliver equipment or materials, grant licenses or other rights, or take certain actions. We evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting per the provisions of ASC 605-25 and arrangement consideration is allocated among the separate units of accounting based on their relative fair values. Fair values are established by evaluating VSOE or third-party evidence if available. Due to the customized nature of our arrangements, VSOE and third-party evidence is generally not available resulting in applicable arrangements being accounted for as one unit of accounting under the guidance of ASC 605-25.

We apply the guidance in ASC 605-15 *Revenue Products*, or ASC 605-20 *Revenue Services*. The timing of revenue recognition for a given unit of accounting will depend on the nature of the deliverable(s) and whether revenue recognition criteria have been met. The same pricing mechanisms found in U.S. federal government contracts are found in other contracts.

Table of Contents

DYNCORP INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008

Cash and cash equivalents

For purposes of reporting cash and cash equivalents, we consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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. 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. As of April 2, 2010, April 3, 2009, and March 28, 2008, we had no cash restricted as collateral.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management evaluates these estimates and assumptions on an ongoing basis, including but not limited to, those relating to allowances for doubtful accounts, fair value and impairment of intangible assets and goodwill, income taxes, profitability on contracts, anticipated contract modifications, contingencies and litigation. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts against specific billed receivables based upon the latest information available to determine whether invoices are ultimately collectible. Such information includes the historical trends of write-offs and recovery of previously written-off accounts, the financial strength of the respective customer and projected economic and market conditions. The evaluation of these factors involves subjective judgments and changes in these factors may cause an increase to our estimated allowance for doubtful accounts, which could significantly impact our consolidated financial statements by incurring bad debt expense. Given that we primarily serve the U.S. government, management believes the risk is low that changes in our allowance for doubtful accounts would have a material impact on our financial results.

Property and Equipment

The cost of property and equipment, less applicable residual values, is depreciated using the straight-line method. Depreciation commences when the specific asset is complete, installed and ready for normal use. Depreciation related to equipment purchased for specific contracts is typically included within cost of services, as this depreciation is directly attributable to project costs. We evaluate property and equipment for impairment quarterly by examining factors such as existence, functionality, obsolescence and physical condition. In the event that we experience impairment, we revise the useful life estimate and record the impairment as an addition to depreciation expense and accumulated depreciation. Our standard depreciation and amortization policies are as follows:

Computer and related equipment	3 to 5 years
Furniture and other equipment	2 to 10 years
Leasehold improvements	Shorter of lease term or useful life

Table of Contents

DYNCORP INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008

Impairment of Long Lived Assets

Our long lived assets are primarily made up of customer related intangibles. The initial values assigned to customer-related intangibles were the result of fair value calculations associated with business combinations. The values were determined based on estimates and judgments regarding expectations for the estimated future after-tax cash flows from those assets over their lives, including the probability of expected future contract renewals and sales, less a cost-of-capital charge, all of which was discounted to present value. We evaluate the carrying value of our customer-related intangibles on a quarterly basis. The customer related intangible carrying value is considered impaired when the anticipated undiscounted cash flows from such asset is less than its carrying value. In that case, a loss is recognized based on the amount by which the carrying value exceeds the fair value.

Indefinite- Lived Assets

Indefinite-lived assets, including goodwill and indefinite-lived tradename, are not amortized but are subject to an annual impairment test. The first step of the goodwill impairment test compares the fair value of each of our reporting units with its carrying amount, including indefinite-lived assets. If the fair value of a reporting unit exceeds its carrying amount, the indefinite-lived assets of the reporting unit are not considered impaired, and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. We perform the annual test for impairment as of the end of February of each fiscal year. We also perform an annual analysis on our indefinite-lived tradename and test for impairment whenever events occur that indicate an impairment could exist. Based on the results of these tests, no impairment losses were identified for the fiscal years ended April 2, 2010, April 3, 2009, and March 28, 2008. See Note 3 for additional discussion of indefinite-lived assets.

Income Taxes

We file income, franchise, gross receipts and similar tax returns in many jurisdictions. Our tax returns are subject to audit by the Internal Revenue Service, most states in the U.S., and by various government agencies representing many jurisdictions outside the U.S.

We use the asset and liability approach for financial accounting and reporting for income taxes in accordance with the Financial Accounting Standards Board (FASB) Codification. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is made up of current expense which includes both permanent and temporary differences and deferred expense which only includes temporary differences. Income tax expense is the amount of tax payable for the period plus or minus the change in deferred tax assets and liabilities during the period.

We make a comprehensive review of our portfolio of uncertain tax positions regularly. The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the (i) benefit recognized and measured for financial statement purposes and (ii) the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. Tax-related interest is classified in interest expense and tax-related penalties are classified in income tax expense. See Note 4 for additional detail regarding uncertain tax positions.

Table of Contents

DYNCORP INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008

Equity-Based Compensation Expense

We have adopted the provisions of, and accounted for equity-based compensation in accordance with ASC 718-*Compensation-Stock Compensation*. Under the fair value recognition provisions, equity-based compensation expense is measured at the grant date based on the fair value of the award and is recognized on an graded basis over the requisite service period for each separately vesting portion of the award, adjusted for estimated forfeitures. Our RSUs have been determined to be liability awards; therefore, the fair value of the RSUs is remeasured at each financial reporting date as long as they remain liability awards. See Note 11 for further discussion on equity-based compensation.

Currency Translation

The assets and liabilities of our subsidiaries, that are outside the U.S. and that have a functional currency that is not the U.S. dollar, are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates. Income and expense items, for these subsidiaries, are translated at the average exchange rates prevailing during the period. Gains and losses resulting from currency transactions and the remeasurement of the financial statements of U.S. functional currency foreign subsidiaries are recognized currently in income and those resulting from translation of financial statements are included in accumulated other comprehensive income.

Operating Segments

On April 4, 2009, we announced a reorganization of our business structure to better align with strategic markets and to streamline our infrastructure. Under the new alignment, our three reportable segments were realigned into three new segments, two of which, Global Stabilization and Development Solutions (GSDS) and Global Platform Support Solutions (GPSS), are wholly-owned, and a third segment, Global Linguist Solutions (GLS), is a 51% owned joint venture. The new structure became effective April 4, 2009, the start of our 2010 fiscal year, and is more fully described in Notes 3 and 13 to our consolidated financial statements.

Accounting Developments

Pronouncements Implemented in Fiscal Year 2010

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which is an amendment of Accounting Research Bulletin No. 51. Certain portions of this statement were incorporated into the ASC 810 *Consolidation*. ASC 810 covers several areas including (i) defining the way the noncontrolling interests should be presented in the financial statements and notes, (ii) clarifying that all transactions between a parent and subsidiary are to be accounted for as equity transactions if the parent retains its controlling financial interest in the subsidiary and (iii) requiring that a parent recognize a gain or loss in net income attributable to DynCorp International Inc. when a subsidiary is deconsolidated. This statement is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We adopted this statement in the first quarter of fiscal year 2010, which changed our presentation of noncontrolling interests on our consolidated statements of income, consolidated balance sheets, consolidated statements of cash flows and consolidated statements of shareholders' equity. We have applied the newly codified noncontrolling interest rules in ASC 810 retrospectively to the presentation of our balance sheets, statements of income, statements of cash flows and statements of equity.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). This statement replaces FASB Statement No. 141, *Business Combinations*. Certain portions of this statement were incorporated into the ASC 805 *Business Combinations*. This topic area retains the

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008**

fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. ASC 805 defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Additionally, ASC 805 requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. Furthermore, ASC 805 also requires acquisition related costs to be expensed as incurred. ASC 805 was adopted in the first quarter of fiscal year 2010.

In December 2007, the FASB ratified EITF 07-1, *Accounting for Collaborative Arrangements*. Certain portions of this statement were incorporated into the ASC 808 *Collaborative Arrangements*. ASC 808 provides guidance for determining if a collaborative arrangement exists and establishes procedures for reporting revenue and costs generated from transactions with third parties, as well as between the parties within the collaborative arrangement, and provides guidance for financial statement disclosures of collaborative arrangements. ASC 808 became effective for us in the first quarter of fiscal year 2010. The adoption of ASC 808 did not have a material effect on our consolidated financial position or results of operations. We have included additional disclosure on a collaborative arrangement in Note 15.

In April 2008, the FASB issued Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3). Certain portions of this statement were incorporated into both ASC 350 *Intangibles* as well as ASC 275 *Risks and Uncertainties*. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). The applicable portions of the ASC are effective during fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We have applied the newly codified rules for any applicable events and transactions in fiscal year 2010.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. Certain portions of this statement were incorporated into ASC 260 *Earnings Per Share*. The codification provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued during fiscal years beginning after December 15, 2008, and interim periods within those years. The adoption of the newly codified rules in ASC 260 did not have a material impact on basic or diluted earnings per share.

In April 2009, the FASB issued FSP FAS 141(R)-1 *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies* (FSP FAS 141(R)-1). Certain portions of this statement were incorporated into ASC 805 *Business Combinations*. This clarifies guidance pertaining to contingencies. The updated guidance states that an acquirer shall recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of an asset acquired or a liability assumed in a business combination that arises from a contingency cannot be determined during the measurement period, an asset or a liability shall be recognized at the acquisition date if both of the following criteria are met which are (i) information available before the end of the measurement period indicates that it is probable that an asset existed or that a liability had been incurred at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated. We adopted this recently codified guidance in ASC 805 in connection with our acquisitions of Phoenix Consulting Group, Inc. (Phoenix) and Casals and Associates, Inc. (Casals) as further described in Note 16.

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008**

In May 2009, the FASB issued Statement of Financial Standards No. 165 *Subsequent Events* (as amended) (SFAS No. 165), which provides guidance on management's assessment of subsequent events. Certain portions of this statement were incorporated into ASC 855 *Subsequent Events*. On February 24, 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09 (ASU 2010-09), which amends ASC 855 to address certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures. The new guidance clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued. Management must perform its assessment for both interim and annual financial reporting periods. ASU 2010-09 exempts SEC filers from disclosing the date through which subsequent events have been evaluated. ASU 2010-09 is effective immediately for financial statements that are issued or available to be issued. We have adopted ASU 2010-09 for any applicable events and transactions as further described in Note 19.

In June 2009, the FASB issued SFAS No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 168). Certain portions of this statement were incorporated into ASC 105 *Generally Accepted Accounting Principles*. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. ASC 105 replaced SFAS No. 162, *The Hierarchy of Generally Accepted Accounting* and establishes only two levels of GAAP, authoritative and non-authoritative. The codification is the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the codification became non-authoritative. As the codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial statements.

Pronouncements Not Yet Implemented

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 Accounting Standards Update (ASU) No. 2009-17 (ASU 2009-17) and was incorporated into ASC 810 *Consolidation* once effective. This statement amends the guidance for (i) determining whether an entity is a variable interest entity (VIE), (ii) the determination of the primary beneficiary of a variable interest entity, (iii) requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and (iv) changes the disclosure requirements in FIN 46(R)-8. This statement is effective for us beginning April 3, 2010. Management is currently evaluating the effect that adoption of this ASU will have on the company's consolidated financial position and results of operations.

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 and early adoption is permitted. Management is currently evaluating the effect that adoption of this ASU will have on the company's consolidated financial position and results of operations.

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008****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.

As discussed in Note 1, we adopted ASC 260 during fiscal year 2010. 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 April 2, 2010, we did not have any common stock equivalents that contained non-forfeitable rights to dividends or dividend equivalents.

As of the fiscal year ended April 2, 2010, 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 11 for additional discussion of RSUs). The following table reconciles the numerators and denominators used in the computations of basic and diluted earnings per share:

	Fiscal Years Ended		
	April 2, 2010	April 3, 2009	March 28, 2008
	(Amounts in thousands, except per share data)		
Numerator			
Net income attributable to DynCorp International Inc.	\$ 86,088	\$ 69,770	\$ 47,955
Denominator			
Weighted average common shares basic	56,272	56,970	57,000
Weighted average affect of dilutive securities			
Restricted Stock Units	213	67	4
Weighted average common shares diluted	56,485	57,037	57,004
Basic earnings per share	\$ 1.53	\$ 1.22	\$ 0.84
Diluted earnings per share	\$ 1.52	\$ 1.22	\$ 0.84

Note 3 Goodwill and other Intangible Assets

We conduct our annual goodwill impairment test as of the end of our February accounting period each fiscal year. This analysis requires us to generate an estimate of each reporting unit's fair value. We estimate a portion of the fair value of our reporting units under the income approach by utilizing a discounted cash flow model based on several factors including balance sheet carrying values, historical results, our most recent forecasts, and other relevant quantitative and qualitative information. We discount the related cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. We also use the market approach to estimate the remaining portion of our reporting unit valuation. This technique utilizes comparative market multiples in the valuation estimate. We have historically applied a 50%/50% weighting to each approach. While the income approach has the advantage of utilizing more company specific information, the market approach has the advantage of capturing market based transaction pricing. The estimates and assumptions used in assessing the fair value of our reporting units and the valuation of the underlying assets and liabilities are inherently subject to significant uncertainties.

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008**

During the fourth quarter of fiscal year 2010, we conducted our annual goodwill impairment test for all reporting units. The result of the impairment test did not indicate an impairment had occurred. We also conducted an assessment to compare our market capitalization to the calculated fair value of all of our reporting units. The aggregate valuation of all of our reporting units, including GLS, was greater than our market capitalization. We concluded this excess premium did not materially impact our goodwill impairment conclusion based on various quantitative and qualitative factors. See Note 1 for additional information.

As announced on April 6, 2009, we changed from reporting financial results on the three segments utilized in fiscal year 2009 to reporting three new segments beginning with fiscal year 2010. The three prior operating segments were International Security Services (ISS), Logistics and Construction Management (LCM) and Maintenance and Technical Support (MTSS). Under the new organizational alignment, our three segments are GSDS, GPSS and GLS.

All of the contracts that made up the ISS and LCM operating segments were realigned into the GSDS operating segment except for GLS, which became a unique operating segment and the Specialty Aviation & Counter Drug strategic business area (SBA), which was realigned into the GPSS operating segment. In addition to the Specialty Aviation & Counter Drug SBA, all legacy MTSS programs were realigned into the GPSS operating segment.

The goodwill carrying value was reallocated to the three new operating segments using a relative fair value approach based on the new reporting unit structure. The GLS segment has no goodwill carrying value as this distinct service line came into existence after the legacy goodwill carrying value was established. The change in presentation of our goodwill balance by operating segment from April 4, 2009 to April 2, 2010 is included in the following table as well as additional goodwill obtained as a result of the acquisitions of Phoenix and Casals. See Note 16 for additional information regarding our acquisitions.

The carrying amount of goodwill for the fiscal years ended April 2, 2010, April 3, 2009 and March 28, 2008 as well as the changes between March 28, 2008 and April 2, 2010 are as follows:

	ISS	LCM	MTSS	GSDS	GPSS	GLS	Total
	(Amounts in thousands)						
Balance March 28, 2008	\$ 340,029	\$	\$ 80,151	\$	\$	\$	\$ 420,180
Goodwill reallocation	(39,935)	39,935					
Balance as of April 3, 2009	300,094	39,935	80,151				420,180
Goodwill reallocation	(300,094)	(39,935)	(80,151)	209,073	211,107		
Phoenix acquisition				28,230			28,230
Casals acquisition				3,458			3,458
Balance as of April 2, 2010	\$	\$	\$	\$ 240,761	\$ 211,107	\$	\$ 451,868

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008**

Intangible assets for the fiscal years ended April 2, 2010 and April 3, 2009 consist of the following:

	Weighted Average Useful Life (Years)	As of April 2, 2010		Net
		Gross Carrying Value (Amounts in thousands, except years)	Accumulated Amortization	
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:				
Tradename finite-lived	5.0	\$ 706	\$ (48)	\$ 658
Indefinite-lived intangible assets tradename		18,318		18,318
Total tradenames		\$ 19,024	\$ (48)	\$ 18,976

	Weighted Average Useful Life (Years)	As of April 3, 2009		Net
		Gross Carrying Value (Amounts in thousands, except years)	Accumulated Amortization	
Other intangible assets:				
Customer-related intangible assets	8.5	\$ 290,716	\$ (155,142)	\$ 135,574
Other	5.5	15,351	(8,206)	7,145
Total Other intangibles		\$ 306,067	\$ (163,348)	\$ 142,719
Indefinite-lived intangible assets Tradename		\$ 18,318	\$	\$ 18,318

Amortization expense for customer-related and other intangibles was \$38.9 million, \$37.9 million and \$40.2 million for the fiscal years ended April 2, 2010, April 3, 2009 and March 28, 2008, respectively.

The following schedule outlines an estimate of future amortization based upon the finite-lived intangible assets owned at April 2, 2010:

**Amortization
Expense (1)**

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	(Amounts in thousands)
Estimate for fiscal year 2011	\$ 36,480
Estimate for fiscal year 2012	25,610
Estimate for fiscal year 2013	21,695
Estimate for fiscal year 2014	10,213
Estimate for fiscal year 2015	9,953
Thereafter	18,747

- (1) The future amortization is inclusive of the finite lived intangible-assets and finite-lived tradename.

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008****Note 4 Income Taxes**

The provision for income taxes consists of the following

	April 2, 2010	Fiscal Year Ended April 3, 2009	March 28, 2008
	(Amounts in thousands)		
Current portion:			
Federal	\$ 29,380	\$ 1,127	\$ 22,203
State	2,126	1,197	2,338
Foreign	4,406	5,398	4,475
	35,912	7,722	29,016
Deferred portion:			
Federal	15,520	33,199	(1,026)
State	432	1,110	22
Foreign	29	(36)	(13)
	15,981	34,273	(1,017)
Provision for income taxes	\$ 51,893	\$ 41,995	\$ 27,999

Temporary differences, which give rise to deferred tax assets and liabilities, were as follows:

	April 2, 2010	As of April 3, 2009
	(Amounts in thousands)	
Deferred tax assets related to:		
Worker's compensation accrual	\$ 4,589	\$ 5,956
Accrued vacation	6,777	6,593
Billed and unbilled reserves	2,077	2,683
Completion bonus allowance	4,572	5,269
Accrued severance	739	1,122
Accrued executive incentives	4,984	4,098
Depreciable assets		540
Legal reserve	4,102	6,146
Accrued health costs	1,367	726
Leasehold improvements	820	799
Interest rate swap	478	2,549
Suspended loss from consolidated partnership	3,572	8,056
FIN 48 deferred tax asset	10,522	5,955

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Contract loss reserve	3,099	4,243
Other accrued liabilities and reserves	1,929	1,221
Total deferred tax assets	49,627	55,956
Deferred tax liabilities related to:		
Joint ventures-equity method	(1,021)	(1,775)
Prepaid insurance	(2,164)	(8,878)
Customer intangibles	(20,507)	(11,659)
Unbilled receivables	(37,534)	(27,860)
DIFZ sale	(1,332)	(1,274)
Total deferred tax liabilities	(62,558)	(51,446)
Deferred tax (liabilities) assets, net	\$ (12,931)	\$ 4,510

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008**

Deferred tax assets and liabilities are reported as:

	April 2, 2010	April 3, 2009
	(Amounts in thousands)	
Current deferred tax (liabilities)	\$ (18,002)	\$ (8,278)
Non-current deferred tax assets	5,071	12,788
Deferred tax (liabilities) assets, net	\$ (12,931)	\$ 4,510

In evaluating our deferred tax assets, we assess the need for any related valuation allowances or adjust the amount of any allowances, if necessary. We assess such factors as our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets in determining the need for or sufficiency of a valuation allowance. Based on this assessment, we concluded no valuation allowances were necessary as of April 2, 2010 and April 3, 2009.

A reconciliation of the statutory federal income tax rate to our effective rate is provided below:

	Fiscal Years Ended		
	April 2, 2010	April 3, 2009	March 28, 2008
Statutory rate	35.0%	35.0%	35.0%
State income tax, less effect of federal deduction	1.1%	1.4%	2.0%
Noncontrolling interests	(5.3)%	(5.5)%	1.5%
Other	1.1%	0.8%	0.0%
Effective tax rate	31.9%	31.7%	38.5%

Uncertain Tax Positions

We adopted the provisions of FIN No. 48 on March 31, 2007, which was incorporated into ASC 740 *Income Taxes*. The amount of unrecognized tax benefits at April 2, 2010 was \$12.7 million, of which \$2.2 million would impact our effective tax rate if recognized. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Amounts in thousands)	
Balance at March 31, 2007	\$ 5,881
Additions for tax positions related to current year	1,619
Additions for tax positions taken in prior years	
Reductions for tax positions of prior years	(4,786)
Settlements	
Lapse of statute of limitations	

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Balance at March 31, 2008	\$ 2,714
Additions for tax positions related to current year	4,023
Additions for tax positions taken in prior years	2,025
Reductions for tax positions of prior years	
Settlements	(2,675)
Lapse of statute of limitations	
Balance at April 3, 2009	\$ 6,087
Additions for tax positions related to current year	1,907
Additions for tax positions taken in prior years	5,133
Reductions for tax positions of prior years	
Settlements	(381)
Lapse of statute of limitations	
Balance at April 2, 2010	\$ 12,746

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008**

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 unrecognized tax benefits in interest expense and penalties in income tax expense in our Consolidated Statements of Income, which is consistent with the recognition of these items in prior reporting periods. We have recorded a liability of approximately \$0.8 million and \$0.2 million for the payment of interest and penalties for the years ended April 2, 2010 and April 3, 2009 respectively. For the year ended April 2, 2010, we recognized a net increase of approximately \$0.6 million in interest and penalty expense.

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 for our fiscal year 2008 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 forward.

Note 5 Accounts Receivable

Accounts Receivable, net consisted of the following:

	April 2, 2010	April 3, 2009
	(Amounts in thousands)	
Billed, net	\$ 250,166	\$ 220,501
Unbilled	614,990	343,931
Total	\$ 865,156	\$ 564,432

Unbilled receivables as of April 2, 2010 and April 3, 2009 include \$44.5 million and \$30.7 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 \$0.9 million and \$5.3 million as of April 2, 2010 and April 3, 2009, 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 6 401(k) Savings Plans

Effective March 1, 2006, we established the DynCorp International Savings Plan (the Savings Plan). The Savings Plan is a participant-directed, defined contribution, 401(k) plan for the benefit of employees meeting certain eligibility requirements. The Savings Plan is intended to qualify under Section 401(a) of the U.S. Internal Revenue Code (the Code), and is subject to the provisions of the Employee Retirement Income Security Act of 1974. Under the Savings Plan, participants may contribute from 1% to 50% of their earnings, except for highly compensated employees who can only contribute up to 10% of their gross salary. Contributions are made on a pre-tax basis, limited to annual maximums set by the Code. The current maximum contribution per employee is sixteen thousand five hundred dollars per calendar year. Company matching contributions are also made in an amount equal to 100% of the first 2% of employee contributions and 50% of the next 6%, up to \$10,700 per calendar year are invested in various funds at the discretion of the participant. We incurred Savings Plan expense of approximately \$11.6 million, \$11.3 million and \$10.7 million during fiscal years 2010, 2009 and 2008, respectively. All Savings Plan expenses are fully funded.

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008****Note 7 Long-Term Debt**

Long-term debt, including the impact of the discount, consisted of the following:

	Fiscal Years Ended	
	April 2, 2010	April 3, 2009
	(Amounts in thousands)	
Term loans	\$ 176,637	\$ 200,000
9.5% senior subordinated notes	375,510	399,912
	552,147	599,912
Less current portion of long-term debt	(44,137)	(30,540)
Total long-term debt	\$ 508,010	\$ 569,372

Future maturities of long-term debt for each of the fiscal years subsequent to April 2, 2010 are as follows:

	(Amounts in thousands)	
2011	\$	44,137
2012		55,500
2013		453,219
2014		
2015		
Thereafter		
Total long-term debt (including current portion) (1)	\$	552,856

- (1) The total payoff of \$552.9 million is greater than total long-term debt carrying value totaling \$552.1 million due to the impact of the unamortized discount.

Senior Secured Credit Facility

On July 28, 2008 we entered into a senior secured credit facility (the Credit Facility) consisting of a revolving credit facility of \$200.0 million (including a letter of credit sub-facility of \$125.0 million) (the Revolving Facility) and a senior secured term loan facility of \$200.0 million (the Term Loan). The maturity date of the Credit Facility is August 15, 2012. To the extent that the letter of credit sub-facility is utilized, it reduces the borrowing capacity on the Revolving Facility.

On July 28, 2008, we borrowed \$200.0 million under the Term Loan at the applicable three-month London Interbank Offered Rate (LIBOR) plus the applicable margin then in effect and issued an additional \$125.0 million in 9.5% senior subordinated notes (see note below) to refinance the existing credit facility and term loan and pay certain transaction costs. The applicable margin for LIBOR as of April 2, 2010 was 2.25% per annum, resulting in an actual interest rate under the Term Loan of 2.53% as of April 2, 2010. The LIBOR rate is partially hedged through our swap agreements, as disclosed in Note 10. Deferred financing fees totaling \$4.4 million were expensed in conjunction with the termination of the

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existing credit facility in the second quarter of fiscal year 2009. Deferred financing fees associated with the Credit Facility totaling \$5.2 million were recorded in Other Assets on our consolidated balance sheet in fiscal year 2009. The unamortized deferred financing fees associated with the new Credit Facility totaled \$3.5 million as of April 2, 2010. As of April 2, 2010, we had \$176.6 million outstanding under our Term Loan at LIBOR plus the Applicable Margin.

Table of Contents

DYNCORP INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008

Borrowings under the Revolving Facility bear interest at a rate per annum equal to either the Base Rate plus an applicable margin determined by reference to the leverage ratio, as set forth in the Credit Facility (Applicable Margin) or LIBOR plus the Applicable Margin. As of April 2, 2010 and April 3, 2009, we had no outstanding borrowings under the Revolving Facility.

On March 6, 2009 we entered into an amendment of our existing secured credit agreement dated as of July 28, 2008 with Wachovia Bank, National Association, as Administrative Agent. In addition to certain other changes, the amendment reduced certain excess cash flow repayment requirements as defined under the Credit Facility and expanded the current ability to repurchase our common stock and include the right to redeem a portion of the 9.5% senior subordinated notes due 2013. As further described in Note 9, our board of directors approved a plan in fiscal year 2009 that allowed for \$25 million in repurchases for a combination of common stock and/or senior subordinated notes per fiscal year during fiscal years 2009 and 2010.

Our available borrowing capacity under the Revolving Facility totaled \$170.0 million at April 2, 2010, which gives effect to \$30.0 million of outstanding letters of credit under the letter of credit sub-facility. With respect to each letter of credit, a quarterly commission in an amount equal to the face amount of such letter of credit multiplied by the Applicable Margin and a nominal fronting fee are required to be paid. The combined rate as of April 2, 2010 was 2.375%.

We are required, under certain circumstances as defined in our Credit Facility, to use a percentage of cash generated from operations to reduce the outstanding principal of our Term Loan. Based on the fiscal year 2010 financial performance and ending balances, we do not expect to be required to make such a payment.

The Credit Facility contains various financial covenants, including minimum interest and leverage ratios, and maximum capital expenditures limits. 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 were in compliance with these various financial covenants as of April 2, 2010. A change of control is an Event of Default under the Credit Facility and triggers certain rights and remedies of the Lenders including acceleration of the obligations. A change of control would be triggered in the event we close the proposed Merger. We anticipate that all outstanding indebtedness under the Credit Facility will be repaid concurrently with the proposed Merger.

The fair value of our borrowings under our Credit Facility approximates 99.5% of the carrying amount based on quoted values as of April 2, 2010.

9.5% Senior Subordinated Notes

In February 2005, we completed an offering of \$320.0 million in aggregate principal amount of our 9.5% senior subordinated notes due on February 15, 2013. Proceeds from the original issuance of the senior subordinated notes, net of fees, were \$310.0 million and were used to pay the consideration for, and fees and expenses relating to our 2005 formation as an independent company from Computer Sciences Corporation. Interest on the senior subordinated notes is due semi-annually. The senior subordinated notes are general unsecured obligations of our Operating Company, DynCorp International LLC, and certain guarantor subsidiaries of DynCorp International LLC, and contain certain covenants and restrictions, which limit our Operating Company's ability to pay us dividends.

Table of Contents

DYNCORP INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008

In July 2008, we completed an offering in a private placement pursuant to Rule 144A under the Securities Act of 1933, as amended, of \$125.0 million in aggregate principal amount of additional 9.5% senior subordinated notes under the same indenture as the senior subordinated notes issued in February 2005. Net proceeds from the additional offering of senior subordinated notes, combined with proceeds from the Credit Facility, were used to refinance the then existing senior secured credit facility, to pay related fees and expenses and for general corporate purposes. The additional senior subordinated notes also mature on February 15, 2013. The additional senior subordinated notes were issued at approximately a 1.0% discount totaling \$1.2 million. Deferred financing fees associated with this offering totaled \$4.7 million. The unamortized deferred financing fees as of April 2, 2010 for all of the senior subordinated notes totaled \$6.2 million.

The senior subordinated notes contain various covenants that restrict our ability to make certain payments including declaring or paying certain dividends, purchasing or retiring certain equity interests, prepaying or retiring indebtedness subordinated to the Notes, or make certain investments unless we meet certain financial thresholds including a Fixed Coverage Ratio (as defined in the Notes) above 2.0. Additionally, the Notes restrict our ability to incur additional indebtedness; sell assets, engage in certain transactions with affiliates; create liens on assets; make acquisitions; engage in mergers or consolidations; and otherwise restrict certain corporate activities. We were in compliance with these various financial covenants as of April 2, 2010.

We can redeem the senior subordinated notes, in whole or in part, at defined redemption prices, plus accrued interest to the redemption date. The senior subordinated notes may require us to repurchase the senior subordinated 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. In fiscal year 2009, under a Board authorized program, we redeemed approximately \$16.1 million face value of our senior subordinated notes in the open market for \$15.4 million, including transaction fees. The repurchases, when including the impact of the discount and deferred financing fees, produced an overall gain of \$0.3 million. In fiscal year 2010, under the same board authorized program, we redeemed approximately \$24.7 million face value of our senior subordinated notes in the open market for \$24.3 million, including transaction fees. The repurchases, when including the impact of the discount and deferred financing fees, produced an overall debt extinguishment loss of \$0.1 million.

The fair value of the senior subordinated notes is based on their quoted market value. As of April 2, 2010, the quoted market value of the senior subordinated notes was approximately 102.2% of stated value. The fiscal year 2010 effective interest rate for the entire outstanding senior subordinated note principal balance as of April 2, 2010 was 9.6%, including the impact of the discount.

A change of control under the senior subordinated 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 senior subordinated notes have the right to reject the tender offer and if so, these notes would stay outstanding.

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 \$55.6 million, \$55.0 million and \$54.9 million for the fiscal years ended April 2, 2010, April 3, 2009 and March 28, 2008, respectively.

Table of Contents**DYNCORP INTERNATIONAL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Fiscal Years Ended April 2, 2010, April 3, 2009 and March 28, 2008**

Minimum fixed rentals non-cancelable for the next five years and thereafter under operating leases in effect as of April 2, 2010, are as follows:

Fiscal Year	Real Estate	Equipment (Amounts in thousands)	Total
2011	\$ 11,892	\$ 4,341	\$ 16,233
2012	11,613	4,220	15,833
2013	11,449	3,945	15,394
2014	9,290	3,658	12,948
2015	7,469	3,603	11,072
Thereafter	26,303	14,100	40,403
Total	\$ 78,016	\$ 33,867	\$ 111,883

We have no significant long-term purchase agreements with service providers.

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 \$11.4 million as of April 2, 2010. While it is not possible to predict with certainty the outcome of litigation and other matters discussed below, we believe that liabilities in excess of those recorded, if any, arising from such matters would not 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 cl