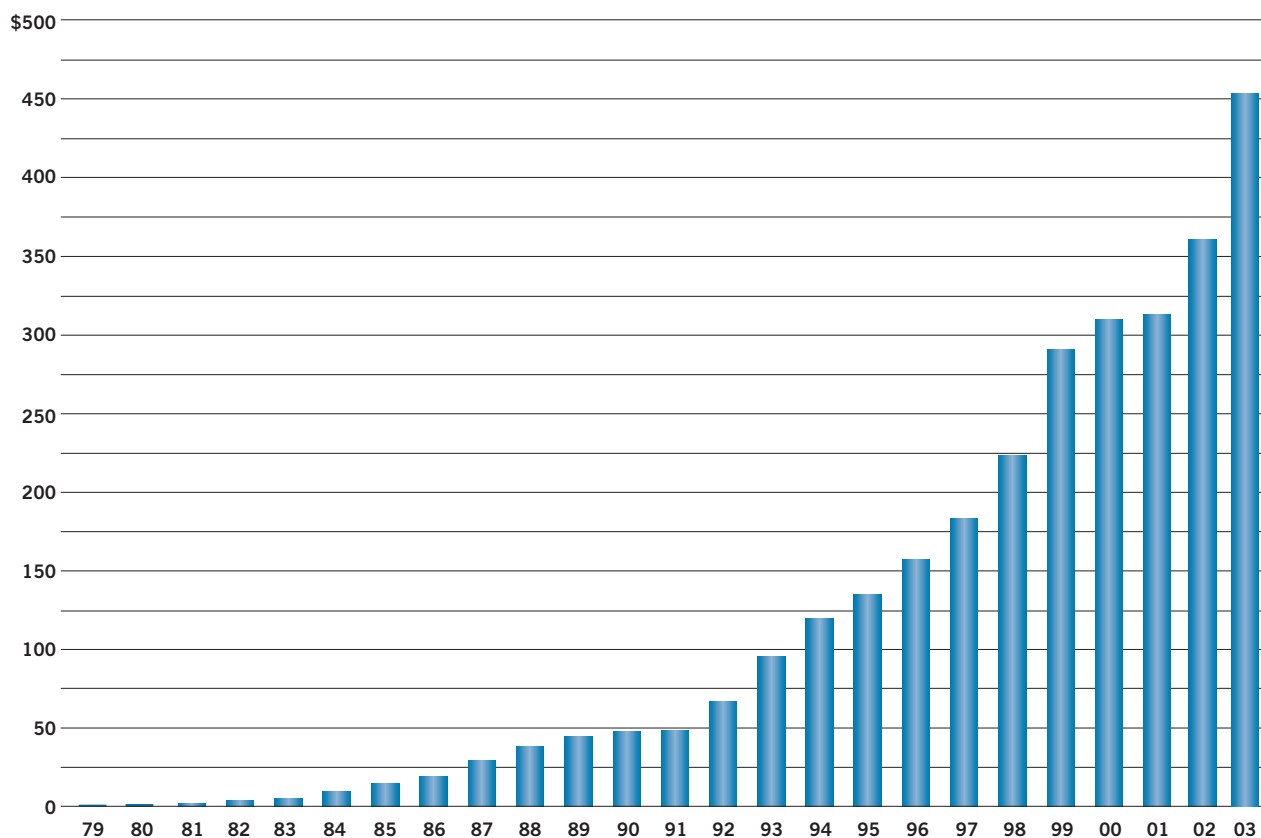


2003 ANNUAL REPORT
IT SERVICES AND SOLUTIONS FOR GOVERNMENT



SRA International, Inc.

Total Revenue (\$ mil)



Corporate Profile

SRA is a leading provider of information technology services and solutions to clients in national security, civil government, and health care and public health. SRA services include strategic consulting; systems design, development, and integration; and outsourcing and operations management. The Company also delivers business solutions for text and data mining, contingency and disaster response planning, information assurance, environmental strategies and technology, enterprise architecture, network operations and management, and enterprise systems management. Our staff of more than 2,600 talented and dedicated men and women serves clients from our headquarters in Fairfax, Virginia, and offices across the country. The SRA New York Stock Exchange symbol is SRX.

Any statements in this Annual Report about future expectations, plans, and prospects for SRA, including statements containing the words “estimates,” “believes,” “anticipates,” “plans,” “expects,” “will,” and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including: our dependence on our contracts with federal government agencies, particularly within the U.S. Department of Defense, for substantially

Vision

SRA aspires to be one of the best companies in the world by any measure — a company that creates real value for its customers by providing high quality information technology services and solutions; employs the best people, nurtures them, and enables them to succeed; and steadfastly commits itself to an ethic of honesty and service.

all of our revenue, our ability to maintain our GSA schedule contracts and our position as a prime contractor on government-wide acquisition contracts, and other factors discussed in our Form 10-K for the fiscal year ended June 30, 2003. In addition, the forward-looking statements included in this Annual Report represent our views as of the date of its printing. Subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

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Financial Highlights

SRA INTERNATIONAL, INC., AND SUBSIDIARIES

All dollar amounts are in thousands except diluted earnings per share

FOR YEARS ENDED JUNE 30	1999	2000	2001	2002	2003
Revenue	\$291,856	\$312,035	\$312,548	\$361,197	\$450,375
Operating Income	15,837	14,028	4,168	18,507	41,988
Operating Income Percentage of Revenue	5.4%	4.5%	1.3%	5.1%	9.3%
Net Income	8,640	7,298	7,373	11,277	29,660
Net Income Percentage of Revenue	3.0%	2.3%	2.4%	3.1%	6.6%
Diluted Earnings Per Share	.51	.44	.45	.66	1.25
Diluted Shares	16,953	16,675	16,401	17,031	23,730
Total Interest-Bearing Debt	21,636	11,513	4,146	2,000	400
Stockholders' Equity	37,180	42,062	43,112	159,444	283,015
Cash Flow From Operations	16,349	24,567	16,568	9,206 ^a	43,311
Number of Employees	1,832	1,709	1,694	2,078	2,638

Net Income (\$ mil)

03	\$29.66
02	\$11.28
01	\$7.37
00	\$7.30
99	\$8.64

Diluted Earnings Per Share

03	\$ 1.25
02	\$.66
01	\$.45
00	\$.44
99	\$.51

Cash Flow From Operations (\$ mil)

03	\$43.3
02	\$9.2 ^a
01	\$16.6
00	\$24.6
99	\$16.3

Number of Employees

03	2,638
02	2,078
01	1,694
00	1,709
99	1,832

^a Setting aside a one-time, \$22 million payment of deferred taxes, cash flow from operations would have been \$31 million.

THE PRESIDENT & THE CHAIRMAN

Message from the President and the Chairman

Our twenty-fifth year in business (and first full year as a public company) was very successful: We grew revenue by 25% and net income by 163%. We increased net profit margin to 6.6%. We won over \$840 million in new contract awards (about twice our revenue) and improved total backlog by over 50% to almost \$1.6 billion. Our follow-on stock offering priced on June 18, 2003 and raised \$71 million for the company. Thus, during Fiscal Year 2003, we strengthened our position as an eminent publicly-owned provider of information technology (IT) services and solutions to the federal government.

Creating Value for our Government Clients

We strive to create value for our clients by helping them to fulfill their missions through improvements in efficiency and enhanced service to citizens. Here are a few engagement highlights from FY03:

- We built and now operate in an SRA facility the Network Operations and Security Center for the Army National Guard. The network is called GuardNet XXI. It delivers data and video services to 54 states and territories and ultimately to more than 30,000 users.
- We helped the Department of Health and Human Services (DHHS) redesign and upgrade its Web site (www.hhs.gov). The site enables citizens to find information, regardless of where it may reside, on about 1,000 Web sites maintained by the 12 operating divisions of DHHS.
- We assisted the Defense Information Systems Agency in protecting military electronic communications by integrating advanced commercial technologies, such as public-key infrastructure, directory services, and smart cards. We support both the Defense Message System Medium Grade Service (providing secure individual e-mail messaging throughout the Department of Defense) and the Global Directory Service (facilitating secure e-mail communication across DoD).
- We previously developed and now operate in an SRA facility the National Practitioner Data Bank and the Healthcare Integrity and Protection Data Bank for the Health Resources and Services Administration. These national health care data collection systems report final adverse actions taken against health care practitioners, providers, and suppliers. In the past year, we processed over four million transactions for more than 15,000 registered users nationwide.

Acquisitions

With the purchase of Adroit Systems, Inc. in January 2003, we completed our second acquisition. Adroit specializes in command, control, communications, computers, intelligence, surveillance and reconnaissance. More than 90% of its revenue comes from the Department of Defense and intelligence agencies. This acquisition broadens our capabilities substantially, especially in the areas of surveillance and reconnaissance. The culture and values of the two companies are in harmony; this is a key factor in any SRA acquisition.

We also completed the integration of The Marasco Newton Group (MNG), a company SRA acquired in January 2002. By combining MNG with other SRA capabilities, we now occupy an important franchise position at the Environmental Protection Agency.

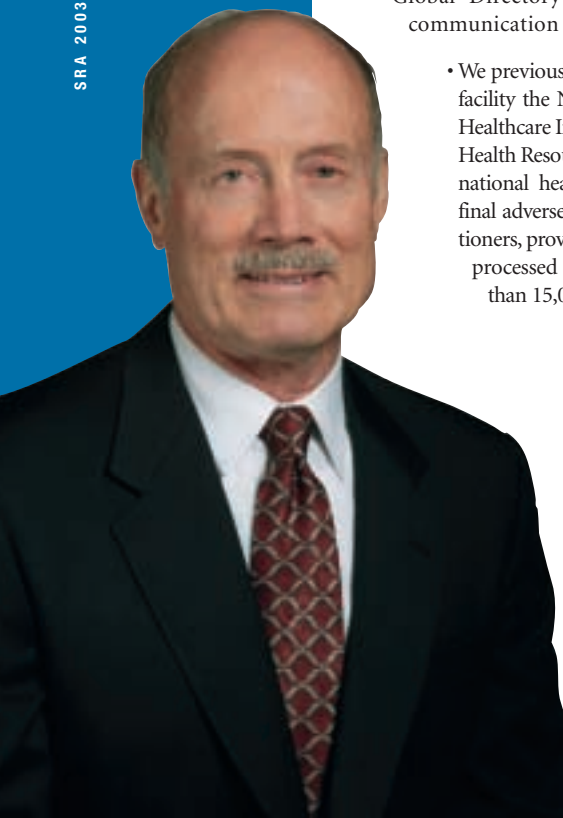
FY03 New Business Highlights

As part of a contract called Advanced Information Technology Services, SRA was selected to be the single systems integrator providing enterprise-wide technology services to the National Guard and Reserve Component. The award has an estimated value of \$115 million over five years (if all options are exercised), and it initially covers three tasks — overall program management, life cycle maintenance of the Reserve Component Automation System, and fielding and support of the Distributive Training Technology Project. This award solidifies our position with the National Guard and Reserve Components, which fulfill critical missions in national security.

We were also awarded a new contract by DoD to provide systems engineering and program support services to the Joint Tactical Radio System (JTRS) Joint Program Office. JTRS is a family of software reprogrammable radios that will provide U.S. commanders and warfighters with a single, integrated voice and data system. This procurement was the first significant collaboration by SRA and Adroit on a major contract, and the win signals the strength of that union.

Other significant contract awards this year included:

- A competitive task order to develop a disaster credit management system that will improve the effectiveness, quality, and timeliness of disaster loan processing for the Small Business Administration. Our services include: evaluating commercial off-the-shelf products, systems integration and database engineering, and user training.
- A contract to provide enterprise information architecture and engineering support to the DoD Missile Defense Agency (MDA). We will assist MDA in designing and, if optional tasks are exercised, prototyping an enterprise-



Ernst Volgenau
President & CEO

wide information management system that will enable MDA to better organize, retrieve, manipulate, and store information. This system will enhance collaboration and decision making.

- A new contract with the Marine Corps CIO Directorate to provide IT services in mission-critical areas such as information architecture, public-key infrastructure and information assurance, knowledge management, and satellite system planning and support.
- A competitive task order to help the Food and Drug Administration Office of Regulatory Affairs develop the requirements and architecture for the Mission Accomplishment and Regulatory Compliance System. The system will support the regulation of domestic and foreign products.

We also won two important recompetitions, reaffirming the quality of our work as seen by the federal civil agencies:

- Since 1998, SRA has helped the General Accounting Office modernize its IT infrastructure. Under our new contract, we will continue to provide a broad range of enterprise-wide network engineering and management services. The task order, awarded under the Millennium contract, has an estimated value of \$105 million over six years if all options are exercised.
- We were awarded a task order to assist DHHS in managing the development, implementation, operation, and maintenance of the expanded Federal Parent Locator Service. The contract has an estimated value of \$18.9 million over two years (if all options are exercised). It extends the IT and support services that SRA has delivered to the DHHS Office of Child Support Enforcement since 1996. This office assists state and local child support agencies in locating parents who are delinquent in child support payments.

Our People

Caring about SRA people is a core value in our company. This attribute is also very important for people in the companies that we acquire. During FY03, we integrated approximately 700 employees from MNG and Adroit into our company. They have bright futures at SRA; we value their diverse capabilities, and we are committed to making SRA an exciting and fulfilling place for them to work.

In addition, we increased our employee base through an aggressive recruiting campaign. In FY03, 40% of our new hires came from SRA employee referrals. This first hand knowledge helps ensure that we are recruiting and retaining the best quali-

fied IT professionals. We also made strategic hires, that is, people who have deep knowledge of our clients' needs. This is important for our continued understanding of the business of our clients. Many of those hired hold security clearances, which is an important qualification for our national security work. Our college recruiting program also helps us build for the future by attracting talented people who have the skills and ethical values that meet our demanding standards.

Celebrations

In January 2003 *FORTUNE*® magazine chose SRA as one of the "100 Best Companies to Work For" for the fourth consecutive year. SRA was the only government IT services firm so chosen. The award is based largely on a confidential, random survey of SRA employees. *FORTUNE* reported that nearly 100 percent of those surveyed believe that SRA management is honest and ethical. We are proud of this award because it is one more indication that our ethic of honesty and service is deeply rooted in our company.

SRA was also honored this past year with a Workforce Optimas Award by *Workforce* magazine, a leading human resources (HR) publication. This award is given annually to ten organizations that have demonstrated how thoughtful HR strategies, policies, and programs contribute to the success of their organizations. SRA was selected for its nurse advocacy program in the "innovation" category, which recognizes the implementation of a groundbreaking HR program or strategy. We began the nurse advocacy program in 1993, and it plays an increasingly pivotal role in employee wellness and health care.

SRA continues its quest to be one of the best companies in the world. Throughout this year's report are the names and photographs of employees who are helping us to achieve this goal.

As we enter our twenty-sixth year, we express gratitude for the professionalism, dedication, and integrity of SRA employees. We have never doubted that a foundation of high ethics, open communication, mutual respect, and trust is the best way to create a successful professional services firm. Please join us in celebrating 25 years of honesty and service to our clients, our stockholders, our society, and the people of SRA.

Wm K. Brehm

William K. Brehm
Chairman



OUR BUSINESS

Overview

SRA has a twenty-five year legacy of helping U.S. federal government organizations understand, prepare for, and respond to challenges of national and global importance. We provide information technology (IT) services and solutions to these organizations in three principal markets: national security (national defense and homeland security), civil government, and health care and public health. SRA offers a broad range of services that span the IT life cycle. These include:

Strategic Consulting — SRA helps clients formulate business and execution plans to significantly improve performance, cost effectiveness, and quality of service. We assess current operations, develop strategies and plans for improvement, and design enterprise architectures that capitalize on client investments in legacy systems while enabling them to make a seamless transition to modern technology environments. As part of this process, we perform economic analyses to compare the projected cost of proposed technologies to the anticipated operational benefit.

Systems Design, Development, and Integration — Our services include project management, systems engineering, security engineering, network design, software development, database design and development, and test

and evaluation. We develop system concepts, define requirements, design architectures, and integrate complex mission-critical systems. Based on individual client requirements, we design custom-built systems and integrate a variety of commercially available software applications. SRA specializes in high-performance system architectures, intuitive graphical and multimedia user interfaces, and the application of Web services and other Internet technologies to large, distributed systems.

Outsourcing and Operations Management — SRA provides a wide range of outsourcing solutions to help our government clients improve performance, reduce the cost of operations, and respond to a declining federal government IT labor force. Based on the particular needs of our clients, we may oversee their technical infrastructures, manage their networks, or even operate their entire business processes. SRA also supports clients with operations management services, sometimes referred to as co-sourcing, if they are not yet ready to outsource all functions.

National Security

IT has emerged as one of the most powerful weapons in the federal government's war against terrorism. National priorities call for IT solutions that support critical communications and stronger information assurance, more accurate and timely intelligence, and the integration of numerous systems for the defense of our homeland. SRA is helping to fill those needs through its long-term relationships with the Department of Defense (DoD) and federal civilian agencies that play significant roles in our nation's

security, and by providing solutions for the new Department of Homeland Security and the national and military intelligence communities. Our work includes designing and engineering command centers to enable secure, continuous communication in crisis situations and ongoing operations; developing continuity-of-operations plans for defense and civil agencies; and delivering network and security engineering and management services in support of the Army National Guard network. Under a new contract awarded in FY03, SRA is the single systems integrator providing enterprise-wide technology services to the National Guard Chief Information Officer and the Reserve Component (see project profile on the next page).

Federal Contracts

SRA has a large portfolio of indefinite delivery, indefinite quantity (ID/IQ) task order contracts, blanket purchase agreements, and government-wide acquisition contracts. These flexible contracting arrangements enable SRA to expedite delivery of IT services and systems to clients across the federal government.

Representative Clients

Department of Defense
Department of Health
and Human Services
Department of Homeland Security
Department of the Interior
Department of Justice
Department of Labor
Department of Transportation
Department of the Treasury
Environmental Protection Agency
General Accounting Office
Intelligence Agencies
Small Business Administration



Frank Durso
Deputy Director, Government-Wide Acquisition Contracts

Margie Davis
Deputy Program Manager, USXPORTS

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 1997 AND 1986**

▼ July 1, 2002

Three SRA Employees Receive Women of Color Government and Defense Technology Awards

▼ July 31, 2002

U.S. Army Awards Enterprise Infrastructure Transformation Task Order to SRA

▼ August 7, 2002

National Institutes of Health Awards \$7 Million Task Order to SRA



Jean Price
Director, Contracts, C3I and Sales & Marketing

Lucia Caron
Technical Lead, SRA Client Services

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 1988 AND 2000**



U.S. Department of Defense

National Guard Bureau and U.S. Army Reserve IT Services



Army Reserve Component units are stationed in armories and reserve centers in more than 3,000 cities and towns in the 54 states and territories and play a central role in the new and continuing requirements of homeland security. SRA plays a leading role in providing IT to the Reserve Component through several key contracts. For over eight years, we have furnished management, system acquisition and technical services support to the Reserve Component Automation System (RCAS) program. RCAS integrates state and local networks,

computers, and software applications supporting the Reserve Component. In FY03 SRA was awarded a new contract to provide a broad range of advanced IT services — including software and database development, information assurance, systems engineering and integration, and analysis and implementation of emerging technologies — to the National Guard Bureau Chief Information Officer and Reserve Component. The first two major tasks awarded under this contract are for life cycle maintenance of the RCAS and fielding and support of the Distributive Training Technology Project (DTTP), which includes learning management systems for more than 350 distributed training centers in communities around the country.

Under a separate contract, the SRA team operates in an SRA facility the Network Operations Center for GuardNet XXI, a nationwide communications structure which supports the Army National Guard's mission by serving as the communication channel for voice, video, and data between the Department of the Army and the 54 states, four U.S. territories, and the District of Columbia. Additionally, GuardNet XXI provides a video network for the 350 distance learning training centers. SRA provides comprehensive network support, management, maintenance, and security services.

Through another Army Reserve contract, we provide Combat Support Service Automation Management Office (CSSAMO) logistics support to Reserve Component units throughout the U.S. and Puerto Rico. This work includes logistics automation management, data storage and retrieval, and Standard Army Management Information Systems (STAMIS) on-site support, which has reduced system down time, improved client satisfaction, and enhanced Reserve Component unit readiness.



▼ September 16, 2002

Federal Computer Week Names SRA to its List of Top 20 Systems Integrators

▼ September 30, 2002

SRA Wins \$27 Million Contract with DoD's Defense Manpower Data Center

OUR BUSINESS: NATIONAL SECURITY*

Defense Information Systems

SRA is playing a major role in the transformation of the U.S. military to a networked fighting force. We currently support the Office of the Secretary of Defense, the defense agencies, the Joint Chiefs of Staff organizations, the three military departments, the four military services, and the command structure. Our work in this area typically involves the design, development, integration, and implementation of large, complex information systems. As demonstrated by our work for the National Guard and the Puget Sound Naval Shipyard, we also have extensive experience in supporting enterprise-wide network operations and management. SRA is recognized for its expertise in logistics, transportation, acquisition, personnel, finance, and installation management.

Under two major contracts awarded in FY03, we expanded our support to the National Guard Bureau and the U.S. Army Reserve (see project profile on page 5) and began a new project for the U.S. Marine Corps (USMC). SRA is supporting the USMC Chief Information Officer by providing a range of services that span the IT life cycle: program management, communications architecture analysis and planning, information assurance, and knowledge management.

SRA is applying eGovernment practices in programs across DoD.

Since 1997, we have worked with the U.S. Navy's

Military Sealift Command (MSC) to design, implement, and maintain an Electronic Commerce Center (ECC) to interface its logistics, acquisition, and accounting systems with those of its business trading partners. The ECC is helping MSC achieve higher levels of customer responsiveness, collect more accurate data, and reduce manual processes. Under a new six-year contract awarded in FY03, SRA will continue to support MSC's eGovernment implementation plan with systems development and integration services, technical studies, business process analysis, and systems security solutions. We also serve as an integral partner with the Department of the Navy eBusiness Office, providing a variety of IT services including eCommerce customer relationship management, electronic collaboration tools, and Web technology research support.

SRA also supports the Navy's Naval Education and Training Command and Naval Personnel Development Command with business process reengineering, Internet and intranet development, technical training, and operations and maintenance services for development of a Navy Training Quota Management System. The enterprise-wide network management and custom and commercial applications we provide to the Puget Sound Naval Shipyard support thousands of users at Puget Sound and U.S. naval shipyards worldwide.

We serve as the prime contractor on an integral component of the Army's IT transformation program. This project aims to reduce the total ownership cost of maintaining Army information systems; integrate knowledge management concepts and best practices into Army

processes; and improve information security, efficiency in use of IT resources, service levels, and access to Army information and applications. The Army awarded SRA a contract to implement and demonstrate a fully integrated and centralized enterprise management system that will include a centralized help desk. This new system will be built around a best practices approach to business processes that are tied directly to the new technology and includes service level agreements to measure performance and allow for cost and service corrections. We are developing a proof of concept that will demonstrate enterprise systems management by Network Enterprise Technology Command (NET-COM), the Army's new single organization to operate and manage all IT, from Fort Huachuca to the six National Capitol Region Army installations in Virginia; Maryland; Washington, DC; and New York.

Since 1991, SRA has delivered Joint Operation Planning and Execution Systems (JOPES) training support to the U.S. Transportation Command (USTRANSCOM). The award of a new contract enables SRA to expand its resident training at Fort Eustis, Virginia; and Scott Air Force Base, Illinois; while deploying mobile training teams to other DoD installations worldwide to increase the efficiency and effectiveness of personnel to plan and execute joint deployment operations. SRA trains DoD personnel on the Joint Deployment Process, Defense Transportation System, and JOPES.

Securing our military's electronic communications is of paramount importance to national security. Since 1999, SRA has helped the Defense Information Systems

Donald Edwards
Vice President & Director, National Guard Bureau Advanced Information Technology Services

Linda Burak Chappell
Program Manager, Army Installation Support Modules

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 2002 AND 1993**

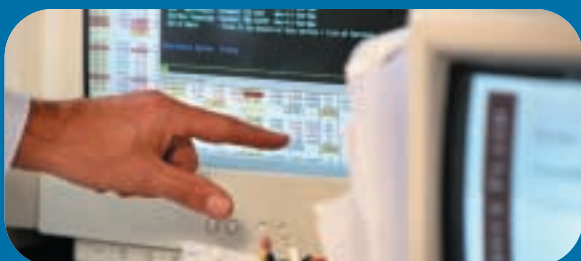
* For twenty-five years, SRA has made important contributions to U.S. national security, and we continue to help these clients meet their most important technical and strategic requirements. Our clients include the Department of Defense (DoD), the intelligence agencies, the Department of Homeland Security, and other federal organizations with homeland security missions.

▼ October 1, 2002

SRA Awarded \$21 Million Contract to Support EPA's Chemical and Emergency Preparedness and Prevention Office

Agency (DISA) integrate key commercial technologies — including public-key infrastructure (PKI), directory services, and smart cards — to address critical DoD IT secure communications requirements. Our support of both the Defense Message System Medium Grade Service, which provides a secure individual e-mail messaging capability throughout DoD, and the Global Directory Service, which facilitates secure e-mail communication across DoD, expanded in FY03. Our services include systems and security architecture; systems development, engineering and testing; and security accreditation.

U.S. Department of Defense



Defense Manpower Data Center Information Management

The Defense Manpower Data Center (DMDC) supports the information management needs of the Office of the Under Secretary of Defense for Personnel & Readiness and maintains a centralized archive of DoD personnel, manpower, training, security, and financial data. For more than twenty years, SRA has supported DMDC with IT services that today include design and development of software and database solutions, system architecture, project management, and implementation of public-key infrastructure (PKI), smart card, and common access technologies in their beneficiary support systems. These systems help DoD verify military benefits, manage the identification card issuance program, identify fraud and waste in pay and benefit systems, and assist military members and their spouses with relocations, quality-of-life issues, and post-service job searches. SRA has completed the first phase of a customer relationship management system, which uses emerging Web and telecommunications technologies to provide easy, effective access to benefit information for 50,000 callers monthly.

In FY03, DMDC awarded SRA a new five-year contract to provide database engineering and administration, data warehousing, systems engineering, software development, information security services, and solutions for ongoing support of beneficiary systems.



▼ October 9, 2002

Cyber and National Security Expert
Michael Jacobs Joins SRA

▼ October 14, 2002

SRA Wins \$9.8 Million Task Order with
U.S. Small Business Administration

OUR BUSINESS: NATIONAL SECURITY*

Command and Control, Communications and Intelligence (C3I)

The C3I Systems business unit supports mission-critical information systems and applications for the U.S. military command structure and intelligence agencies. The acquisition of Adroit Systems, Inc. in FY03 strengthens our capabilities and expands our client base in national security. The Adroit C4ISR Center provides command and control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) services.

Integrated information systems and facilities, or "command centers," ensure secure, redundant, and survivable communications to monitor status, assess alternatives, and execute plans. SRA is one of the leading IT service providers in the development and integration of command and control systems and decision support systems for DoD. Clients for whom we have designed and engineered national security command centers include the National Military Command Center, the Army Operations Center, the Air Force Operations Group, the National Military Joint Intelligence Center, and the Navy Command Center.

We continue to support the renovation of the Pentagon with systems engineering services for a new network and telecom-

munications infrastructure. As part of the General Dynamics team, we furnish network engineering, audio and video teleconferencing design and implementation, and other engineering services for renovation of command and operations, message service, and conferencing centers; as well as senior executive office spaces. This year SRA also played a key role in rebuilding the IT infrastructure in the section of the Pentagon destroyed in the September 11, 2001 attacks.

SRA has a long history of applying advanced technology to support clients within the intelligence community. We help our clients collect, analyze, and disseminate critical, time-sensitive information. In FY03, we provided solutions in foreign language text understanding, information extraction, data mining, natural language processing, enterprise architecture, decision support, systems integration management, network engineering, and information assurance. Our intelligence analysis capability uses our text mining and Web-based technologies to explore the massive amounts of public domain information and data openly available on the Internet.

Under a new contract awarded in FY03, we provide systems integration and

engineering support for the Defense Information Systems Agency's Defense Collaboration Tool Suite (DCTS). DCTS enables military forces to link C4I and mission planning systems together on a common network to share data, conduct collaborative planning, and collaboratively consult on information and data at various locations around the world.

SRA is working with DoD to streamline and automate the U.S. export license application process by developing a new electronic system. We provide program management, systems and software design, security engineering, information assurance, and integration testing services to support development of the new automated system. It will enable seamless electronic submission of export license data, track the application process, facilitate the electronic transfer of export data within DoD and between DoD and other federal agencies, and contribute to national security through a thorough analysis of exports.



Max Hall
Vice President & Director, C3I Systems Engineering Programs

Angie McNeill
Program Manager, CIO Applications Support Contract

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 1992 AND 1989**

* For twenty-five years, SRA has made important contributions to U.S. national security, and we continue to help these clients meet their most important technical and strategic requirements. Our clients include the Department of Defense (DoD), the intelligence agencies, the Department of Homeland Security, and other federal organizations with homeland security missions.

▼ October 28, 2002

U.S. Food and Drug Administration Awards \$2 Million Contract to SRA



Missile Defense Agency Information Architecture and Engineering

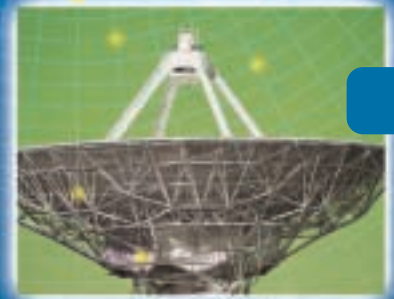
The Missile Defense Agency (MDA) manages, directs, and executes one of the most technologically complex programs ever undertaken by DoD. Partnered with all of the Military Departments, other federal agencies, the private sector, and major research institutions, MDA's role is to facilitate the integration of leading edge and emerging technologies into an effective acquisition policy for missile defense. The General Services Administration (GSA) Federal Systems Integration and Management Center (FEDSIM) selected SRA in FY03 to provide information architecture and engineering support to help establish an enterprise information management system for MDA that will enable it to better organize, retrieve, manipulate, secure, and store business and mission information and data to aid in collaboration and decision making. SRA is helping to design an enterprise architecture that will provide the framework for enhancement of management support systems within MDA. Other SRA services include systems design, engineering, and integration; knowledge management; information assurance; Web development; and chief information officer policy, plans, and process development and coordination.

▼ October 28, 2002

SRA Sells Assessor Practice to iLumin

▼ October 30, 2002

SRA Awarded \$20 Million Task Order to Design Enterprise Information Management System for Missile Defense Agency



Civil Government Systems

SRA is helping civil agencies across the federal government take advantage of new technologies while focusing on their core mission to deliver high quality services to citizens. During FY03, we achieved significant milestones with the Departments of Treasury, Transportation, Commerce, Labor, and Agriculture; the Environmental Protection Agency (EPA); the Small Business Administration (SBA); the General Accounting Office; and the Administrative Office of the U.S. Courts.

In FY03, we received a new contract to help the SBA develop a disaster credit management system that will streamline functions associated with its disaster loan application process. The new electronic loan application and processing system will support workflow management, electronic file management, and document generation functions. SRA services include evaluation and recommendation of a commercial off-the-shelf (COTS) solution; systems integration and database engineering to implement the chosen solution; and user training. The new system will provide virtual loan processing no matter where a disaster occurs, saving the SBA time and money.

We also provide IT, environmental policy, and management solutions for a wide range of EPA programs. For example, the legislative and regulatory analysis, guidance and policy development, technical research, program planning and evaluation, and information management services we deliver in support of EPA's Superfund program helps the Agency clean

up the worst hazardous waste sites in the country. We also provide Web and database solutions in support of EPA's energy efficient partnership programs.

Since its inception in 1995, EPA's Brownfields Program has empowered states, local governments, communities, and other participants in community revitalization to work together to prevent, assess, safely clean up, and sustainably reuse brownfields — defined as real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. Under a five-year contract, we apply industry best practices in legislation and policy analysis, Web and database systems development and maintenance, communications and outreach, and facilitation to help EPA's Office of Brownfields Cleanup and Redevelopment effectively manage the Brownfields Program. The program has become a nationally recognized model of an innovative and successful public and private partnership.

The Pension Benefit Guaranty Corporation (PBGC) is responsible for protecting the pensions of approximately 44 million working men and women in about 32,500 private defined benefit pension plans. SRA is helping PBGC to implement its eGovernment program. This involves developing two online self-service centers called "My Pension Benefit Account" and "My Plan

Administration Account." These self-service centers will be accessed from PBGC's Web site (www.pbgc.gov) and will enable customers to conduct business transactions (changing contact information, applying for pension benefits, paying premiums, etc.) in a secure environment.

Since 1995, SRA has worked closely with the Internal Revenue Service to provide operations, maintenance, and enhancement support for their current IT operational environment and for the overall modernization of the business systems and IT infrastructure. Through the Treasury Information Processing Support Services (TIPSS-2) contract, we provide a wide range of services including network modernization and operations, enterprise systems management integration and implementation, program and process management, strategic consulting, enterprise and integrated architecture development, critical incident response operations, and tax fraud discovery using data mining techniques. Under a new task order awarded in FY03, SRA is working with the IRS Taxpayer Advocate Services (TAS) organization to develop an integrated solution for e-learning, collaboration, and knowledge sharing to help improve taxpayer services. Our services include developing TAS learning and knowledge management vision and strategies; technical support for converting existing paper-based courses to e-learning courses; and developing a prototype intranet site for disseminating training information to more than 2,000 TAS employees nationwide.



Kim Fletcher
Vice President & Director,
Emergency Management Services

DEMONSTRATING EXCELLENCE AT SRA SINCE 2002

▼ **November 4, 2002**

Centers for Medicare & Medicaid Services
Awards Contract to SRA

▼ **December 9, 2002**

SRA Awarded \$18.9 Million Contract with U.S. Department of Health and Human Services to Continue Support to Expanded Federal Parent Locator Service

▼ **January 7, 2003**

Homeland Security Expert Donald Edwards
Joins SRA



David B. Brown
Program Manager, GAO

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 1993**



U.S. General Accounting Office



Information Systems Outsourcing

SRA has worked with the General Accounting Office (GAO) since 1998 to implement innovative approaches to network engineering, management, and administration. Under a General Services Administration (GSA) Federal Systems Integration and Management Center (FEDSIM) contract, we have helped to transform GAO's previously unstable network into a high-availability IT infrastructure serving more than 3,800 users at its headquarters and 11 locations throughout the United States. This work has helped GAO to improve its total cost of ownership and rank in the top echelon of federal agencies for achieving high levels of user satisfaction through cost-effective network management practices.

In 2003, GSA FEDSIM awarded the SRA team a new six-year contract. We continue to provide 24x7 on-site services, including maintaining and improving the local area and wide area network operation and interfaces and performing security engineering, intrusion detection, continuity-of-operations planning, enterprise architecture, software engineering, and data network infrastructure management.

▼ January 8, 2003

SRA Named to FORTUNE's List of the "100 Best Companies to Work For" for a Fourth Consecutive Year

▼ January 13, 2003

SRA Receives Workforce Optimas Award for Nurse Advocacy Program

Health Care and Public Health

SRA is helping clients across the federal health community use technology to manage information and technical resources more effectively and improve the performance of their organizations. Our health care and public health clients include both military and civil organizations, such as the Military Health Services System and the Department of Health and Human Services, which includes the Health Resources and Services Administration, the Centers for Disease Control and Prevention, the National Institutes of Health (NIH), the Food and Drug Administration (FDA), and the Centers for Medicare & Medicaid Services. We combine our knowledge of health care issues with expertise in all aspects of IT to aid in projects such as business process outsourcing, bioinformatics, knowledge discovery and data mining, and health care facility planning.

SRA was selected by the Department of Health and Human Services to upgrade the existing HHS Web site (www.hhs.gov) with new enterprise-wide search technology, an e-mail response system, and a redesign of the site structure to better meet the needs of users. We successfully reengineered the site to provide a single citizen-centric design that increases citizens' ability to find the information they need, regardless of where it may reside on the approximately 1,000 Web sites maintained by the twelve operating divisions at HHS.

In FY03, SRA was awarded a new contract to provide IT requirements and analysis services to

help FDA's Office of Regulatory Affairs prepare for the development of a new information system that will support the regulation of foreign and domestic products. SRA is developing the system requirements and architecture for FDA's Mission Accomplishment and Regulatory Compliance System (MARCS). Our services include IT requirements engineering, business modeling, integration with FDA's technical architecture, and security planning.

We provide comprehensive IT solutions to NIH — the world's leading medical research center — through our work on over 26 active projects. Our services include strategic consulting, wireless applications, PKI assessments, network engineering, software development, and network operations services, as well as IT solutions in a variety of life science areas such as genomics and proteomics. We also develop bioinformatics tools to help NIH manage and analyze the vast amounts of genetic data made available by breakthroughs in these areas. In FY03, SRA received a new contract to provide IT consulting services to the office of the chief information officer at NIH's Center for Information Technology. SRA is helping NIH improve systems interoperability, reduce IT service costs, and increase the use of emerging technologies by developing an IT strategic vision and implementation plans and evaluating and recommending new technologies to support NIH goals.

SRA designed, engineered, and continues to operate and maintain the large nationwide Web-based systems of

the National Practitioner Data Bank (NPDB) and the Healthcare Integrity and Protection Data Bank (HIPDB) under a total outsourcing arrangement. These national health care data collection systems report final adverse actions taken against health care practitioners, providers, and suppliers. We process over four million transactions each year for more than 15,000 registered entities nationwide. SRA has implemented a customer relationship management solution as well as automated billing reconciliation, a self-query process, and registration functions to increase efficiencies and improve service to users.

Fort Sam Houston in San Antonio, Texas is home to the U.S. Army Medical Command (MEDCOM) and plays a critical role in military health care, medical research, and allied health care education and training. Since 2001, SRA has worked with Fort Sam Houston's IT organization to develop an enterprise systems management solution that enhances their customer service capabilities through proactive, informed decision support and enhanced operational effectiveness. In FY03, we implemented an innovative "fee for service" model by modifying commercial off-the-shelf (COTS) software into an asset database that directly bills users for network and computer usage, help desk service calls, and automatic software updates. The fees collected are used to purchase software and services and continually upgrade the customer's online experience.



Susan Castillo
Account Manager, Bioinformatics

DEMONSTRATING EXCELLENCE AT SRA SINCE 1999

▼ **January 21, 2003**

SRA Awarded \$9 Million Contract to Support Military Sealift Command's eGovernment Program

▼ **January 31, 2003**

SRA Completes Acquisition of Adroit Systems, Inc.

▼ **February 25, 2003**

Renny DiPentima Named Federal 100 and Eagle Award Winner by Federal Computer Week



Stan Lucas
Account Manager, FDA Program

**DEMONSTRATING EXCELLENCE
AT SRA SINCE 1984**

U.S. Department of Health and Human Services



Expanded Federal Parent Locator Service (FPLS)

Since 1996 SRA has provided program management, IT oversight, and operations support for the FPLS, which is managed by the Department of Health and Human Services' Office of Child Support Enforcement (OCSE). Data in the FPLS repository are used by state and local child support agencies to locate non-custodial parents who are delinquent in child support payments and to increase collections. Other federal agencies also use FPLS data to determine and verify eligibility for benefits and to reduce fraud and erroneous payments. In 2002, FPLS systems helped to collect more than \$20 billion in child support payments. Under a new contract awarded in FY03, the SRA team will provide similar services to OCSE, with increased emphasis on efforts to measure program outcomes as well as improve the management of IT resources by applying effective capital planning and investment control processes.

With our help, OSCE has met all legislative mandates and states are able to collect more money for child support. And in 2003, FPLS was chosen for an Excellence.Gov award, which recognizes government programs that have demonstrated excellence in eGovernment innovation.

▼ March 3, 2003

GSA Awards \$105 Million U.S. General Accounting Office Task Order to SRA

▼ March 5, 2003

SRA Awarded \$13.9 Million Contract with U.S. Navy



Business Solutions

SRA offers seven business solutions focusing on specific business requirements common to many of our clients. These solutions consist of repeatable tools, techniques, and methods that reflect the specific competencies we have gained from significant experience in these areas.

Information Assurance and Critical Infrastructure Protection

Protecting the integrity of our nation's information assets has become a top priority. SRA provides a comprehensive information assurance (IA) program to help ensure the security of enterprise systems and the valuable information they carry. Our services include security engineering, vulnerability analysis, systems certification and accreditation, regulatory compliance, penetration testing, intrusion detection and response systems, backup and recovery planning, and security awareness training.

SRA supports the Department of the Interior by performing IA assessments of classified and mission-critical systems, conducting security awareness training, developing and implementing a computer security incident response capability, and performing information security program risk and gap analysis. At the Department of Labor (DOL), we help to develop security policy as well as programs and systems security plans, conduct risk assessments and penetration testing for DOL systems, and lead self-assessments for the Department using the CIO Council's Federal Enterprise Architecture Framework. Our other clients include the Department of Justice, the General Services Administration, the EPA, and the Peace Corps.

Contingency and Disaster Response Planning

SRA helps clients prepare for, respond to, and recover from natural disasters and national security emergencies. We offer a full spectrum of solutions including planning, training, simulated exercises, and automated support systems to help our clients prepare for events that could adversely affect their operations. We work closely with our clients to assess site-specific

threats, determine essential functions that cannot be interrupted, and define the activities to sustain operations.

SRA also designs and implements programs to train personnel for emergency activities. Our exercise support services include identifying specific objectives for each event, devising a plan to accomplish the objectives, developing scenarios and incidents intended to test the objectives, directing the drill or exercise, and evaluating it based on participants' comments and our own observations. For example, we have developed continuity-of-operations plans for major Department of Defense organizations and civilian agencies such as the U.S. Department of Agriculture Forest Service. From a disaster response perspective, we have also assisted the Coast Guard by supporting the spills-of-national significance program, the EPA in its response to the space shuttle Columbia disaster, and the Federal Emergency Management Agency in its evaluation of its response to a typhoon in Guam.

Enterprise Architecture

As organizations grow, their legacy computer systems and disparate networks often preclude essential data sharing and reuse and create security challenges. An enterprise architecture (EA) is a blueprint to streamline and standardize an organization's business processes and computer systems with common hardware and software and to ensure that its components are able to cooperate and more easily share and reuse data. The need for interoperability among the many business and technology systems throughout the federal government has been reinforced by the increased focus on national security. We believe all departments and agencies, including the Department of Homeland Security and the intelligence agencies, have a heightened need for enterprise systems that enable better coordination and communication.

SRA uses EA to help our clients cost-effectively optimize their business programs, information systems, and technologies. We assess existing business systems, related information flows, and the technologies that handle them to enable our clients to capitalize on their investments while providing a framework that will enable them to plan and manage a transition to their target environ-

ment. For example, we are providing a full range of EA support for the Internal Revenue Service and the U.S. General Accounting Office as part of the modernization of their IT infrastructures. And in FY03, SRA was awarded a General Services Administration Federal Systems Integration and Management Center contract that includes helping to design an EA that will provide the framework for enhancement of management support systems within the Department of Defense Missile Defense Agency. As a member of the Systems Plus team, we were awarded a new contract to provide EA support to the Department of Commerce's National Weather Service.

Text and Data Mining

To help our clients extract value from increasingly large stores of electronic information, SRA uses sophisticated data mining and text mining algorithms and technologies. We apply these technologies to help our clients attain the full benefits from their expertise and internal data repositories, as well as from the vast amount of information available online.

Intelligence agencies, large online content providers such as LexisNexis, and other information-intensive organizations use our NetOwl® text extraction software tools to effectively organize, manage, and retrieve their published information based on textual content. Our text mining software automatically analyzes text in English, Arabic, French, Chinese, and Spanish. This multilingual capability assists clients in analyzing large amounts of critical data that would otherwise not be accessible. SRA text mining technology supports clients in national security, health care and public health, and other civil government agencies.

SRA uses data mining and warehousing technologies to help our clients sort through large collections of structured data such as spreadsheets, databases, data marts, data warehouses, and e-mail. We store this data in an analytical data warehouse and apply patterns to it to identify predefined conditions. We also apply our data mining tools and techniques to discover meaningful new patterns of activity, trends, and correlations. SRA applies data mining in projects ranging from research to application development and analytical services. For example, we have developed



Nancy Wolff
Senior Enterprise Architect, GAO

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 2000**



Chemical and Emergency Preparedness and Prevention Office Program Management

The Environmental Protection Agency's (EPA's) Chemical and Emergency Preparedness and Prevention Office (CEPPO) is responsible for managing the Agency's emergency preparedness, catastrophic response, homeland security, and community right-to-know initiatives. It is also responsible for leading and managing the Agency's counterterrorism mission; maintaining its Emergency Operations Center (EOC) and its interagency preparedness and response team; and providing leadership for the National

Response System and the National Response Team (NRT) — an interagency team dedicated to planning for and responding to chemical and oil spills.

SRA provided technical support to EPA's EOC as part of the collaboration of numerous government agencies in response to the space shuttle Columbia disaster cleanup. The Agency was able to effectively organize to clean up shuttle debris and collaborate with federal, state, and local partners to protect the public. SRA also developed and is maintaining the CEPPO Web site, which enables the Agency to provide diverse information on environmental health and safety, emergency planning and preparedness, and program initiatives to the public and stakeholders. SRA is assisting in developing the NRT continuity of operations plan to ensure that the team can continue to support hazardous material responses if routine operations are disrupted. We developed a notification and homeland security database that enables the Agency to quickly notify more than 16,000 facilities of terrorist alerts or hazardous material threats. And we designed and conducted counterterrorism exercises for EPA regional personnel and on-scene coordinators — EPA's first responders to events that threaten human health and the environment. The exercises enhanced collaboration and coordination of the Agency's first response community with other response partners and established a more effective decision-making process for response actions.

a fraud detection system for the Internal Revenue Service that employs advanced data mining techniques to build models that are applied to electronic and paper tax returns to identify potential patterns of fraud at significantly higher levels of efficiency than previous methods. With TriCenturion, LLC, a Program Safeguard contractor for the Centers for Medicare & Medicaid Services, we are working to analyze Medicare claims and identify patterns of activity that may indicate fraud, waste, or abuse in more than 30 states. In addition to fraud detection, we employ data mining and warehousing techniques to critical federal government activities including helping the Federal Aviation Administration track aging aircraft in the commercial fleet through a central data warehouse and using analytical tools to discover problems and trends.

Enterprise Systems Management

SRA helps clients successfully reduce the cost and complexity of managing distributed computer environments across geographically dispersed locations. For example, we led the Internal Revenue Service's agency-wide implementation of IBM's Tivoli enterprise systems management (ESM) solution and now assist the IRS in its support of more than 110,000 users. This is one of the largest federal government Tivoli implementations ever undertaken.

Our ESM services include requirements definition, design and architecture development, systems and network management, workflow and configuration management, performance measurement, and call center support. We use a proven

full life cycle methodology that features mature, repeatable processes that are flexible and scalable and can be customized to meet specific client needs. We apply best practices and deliver measurable return on investment by reducing integration time and project risk while providing stable ongoing support.

We have experience with industry-leading commercial ESM software tools, including products from IBM Tivoli; Computer Associates; BMC Remedy; Hewlett-Packard; Cognos; and Peregrine Systems. In addition to the IRS, our ESM clients include the U.S. Army, the Department of Veterans Affairs, DoD's Missile Defense Agency, the U.S. Department of Agriculture Forest Service, and other federal agencies.

Environmental Strategies and Technology

SRA provides environmental strategies and solutions including management consulting and analytical services, policy analysis, alternative dispute resolution services, and IT solutions.

For the EPA and other federal agencies with environmental missions, we assist with the long-term stewardship of land and the environment, ranging from site assessment to establishing reuse options. For state and local governments, we work on program initiatives that promote economic and community redevelopment, voluntary cleanups, and other redevelopment initiatives. We also provide environmental compliance services for industry to assist in complying with federal or state regulations.

Network Operations and Management

The reliable, secure operation of enterprise networks is a necessity for organizations to obtain the greatest value from their knowledge and information assets. SRA helps clients to improve productivity and decrease costs by applying innovative network engineering solutions to ensure their ability to transfer information quickly and efficiently and to meet both their current and future information needs. We also provide network management and operations support to maintain, manage, and improve our clients' network infrastructures. We have extensive experience in selecting, integrating, and maintaining commercial off-the-shelf (COTS) products and developing custom solutions to meet the specific needs of our clients.

Our services include network design and migration; systems and database administration; proactive monitoring for network performance and availability; enterprise backup and recovery; and video and data network consolidation. For example, we provide a broad range of enterprise-wide network engineering to support the U.S. General Accounting Office's IT infrastructure. We also provide network engineering and operations services for a state-of-the-art Network Operations Center (NOC) for the National Guard Bureau and for its GuardNet XXI telecommunications network. Other clients for whom we provide these services include Puget Sound Naval Shipyard and the National Institutes of Health.

▼ March 12, 2003

National Guard Bureau Awards \$115 Million IT Services Contract to SRA

▼ April 4, 2003

SRA Awarded \$22 Million Contract with U.S. Transportation Command

▼ April 9, 2003

Renny DiPentima Receives Azimuth Award for Industry Executive of the Year

OUR BUSINESS

Adroit C4ISR Center

SRA strengthened its leadership position in national security with its acquisition of Adroit Systems, Inc. (Adroit) in January 2003. Adroit, like SRA, has a reputation for delivering outstanding client value, and this acquisition not only complements our existing Command and Control, Communications and Intelligence (C3I) business, but also adds new capabilities — surveillance and reconnaissance — to serve clients in the defense and intelligence communities.

Founded in 1983, Adroit has been a leader in providing Command and Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) services. Most of its business has been directed toward the Department of Defense (DoD) and the intelligence community, providing high-end information engineering solutions in C4ISR, logistics, knowledge management, and intelligence analysis. Adroit has been integrated into the SRA C3I business unit and is now the Adroit C4ISR Center.

Adding reconnaissance and surveillance capabilities to the existing SRA portfolio has long been our goal. When the C3I business unit was established in 1999, it was with the belief that national security would

be an integral part of our nation's future. The addition of the Center enables SRA to offer our defense and intelligence clients added value through a full life cycle C4ISR business and to expand our long-

term capabilities. There is very little overlap in our client base, offering the potential for us to cross-sell our core competencies, including command center engineering, software development, commercial off-the-shelf (COTS) integration, data and text mining, and network engineering.

A fundamental factor in any acquisition that SRA considers is compatibility in corporate cultures and values. Adroit shared our business philosophy, our values, and our commitment to employees. The skilled and experienced personnel of the two companies are now working together as one to deliver comprehensive solutions to our clients' ongoing and increasingly complex challenges.

FY03 Highlights

The Adroit C4ISR Center has a long history of providing scientific, engineering, and technical assistance to DoD's unmanned aerial vehicle (UAV) programs. These remotely piloted aircraft play a critical role in intelligence, surveillance, and reconnaissance missions overseas. We are working with DoD and the Federal Aviation Administration to develop the procedures necessary to safely and effectively integrate UAVs into the U.S. national airspace system.

Under the Advanced Technology Master Caution Panel (ATMCP) contract awarded by the Air Force Laboratory Information Directorate, the Adroit C4ISR Center is helping to enhance the operation of command and control systems at military air

operations centers. ATMCP provides air operations center personnel with an automated alert system to understand how failures and degradations in critical command and control systems affect the mission. It identifies ways to circumvent and correct those problems, and to ensure continued effective air operations. ATMCP supports requirements by providing the right information at the right time to the right people.

The National Imagery and Mapping Agency (NIMA) provides timely and accurate geospatial intelligence in support of national security. The Adroit C4ISR Center has performed modeling, simulation, and analysis of joint airborne imagery systems for NIMA and, in FY03, we helped the Agency establish connectivity and evaluate the performance of IT infrastructure for its various imagery libraries.

Concerns about a terrorist attack before and during the 2003 Super Bowl prompted San Diego area officials to plan and test systems for monitoring and, if needed, for responding to such an event. The Adroit C4ISR Center helped develop, design and execute a series of exercises to validate plans and procedures and reinforce training for responding to a variety of emergencies, including the use of weapons of mass destruction. This support included work on a "Shadow Bowl," a community readiness and medical response drill to prepare first responders and other emergency workers to respond to a possible disaster.

Terry Ryan
Vice President & Director, Adroit C4ISR Center

Anna Hogan
Vice President & Director, Operations, Adroit C4ISR Center

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 2003**

▼ April 10, 2003

SRA Appoints John W. Barter
to Board of Directors

▼ April 28, 2003

SRA Awarded New Contract with
U.S. Marine Corps

▼ April 28, 2003

SRA Named to Washington Post List of the Top
125 Public Companies





Process Modeling for Intelligence, Surveillance, and Reconnaissance

Since 1998, the Adroit C4ISR Center has provided analytical support to the U.S. Air Force to guide policy and investment decisions for its Distributed Common Ground System (AF DCGS). AF DCGS is the Air Force's multi-intelligence, network-centric weapon system that provides decision quality

information to the Joint Task Force and below. We surveyed, analyzed, and documented core processes for current and future intelligence, surveillance and reconnaissance (ISR) systems and then developed models that accurately replicate the functions of current operational systems and simulate current and future operations, procedures, and scenarios. Based on these results, the Air Force adjusted staffing ratios, revised equipment purchases, and increased communications capacity, all of which worked to improve the overall operational effectiveness of the AF DCGS.

SRA is currently supporting the Air Force's Air Combat Command by analyzing and developing a model of the AF DCGS capability to support military operations; determine optimum crew sizes; analyze workload distribution strategy; and examine the impact of modernization on AF DCGS personnel through 2012. Because of the success already demonstrated in modeling ISR systems, SRA was awarded an additional contract in FY03 to work with the Air Force to improve its time critical targeting processes. SRA is providing modeling and analysis services to identify process bottlenecks and help improve the response time for identifying and attacking critical targets. This multi-year effort will include investigating new technologies and processes that may impact the targeting and/or decision cycle times.

SRA welcomes the 309 employees of Adroit Systems, Inc.

CARMEL ALASAGAS • CORNELL ALEXANDER • DENISE ANDERSON • BOB ARBETTER • PATRICE ARMSTRONG • DOLLY ASHLEY • WILLIAM AVANT • KIMBERLY AYER • GARY BATIE
CHRISTOPHER BAUSCH • THOMAS BERESFORD • KARI BINGEN • VELLA BLOOM • BOBBIE BOLLINGER • KERRY BOWDEN • ROBERT BOWDEN • JEFF BRADFORD
ROBERT BRIDGES • CHRISTY BROWER • IAN BROWN • JULIUS BROWN • KELVIN BROWN • DANIEL BRUNO • JENNIFER BUCHANAN • BRANDON BURKE • RICKY BUTLER
ROSEMARY BYRD • DENNIS CAHILL • JOSEPH CALLAHAN • RAYMOND CARSWELL • EDWARD CHANG • STEPHEN CHIEH • DON COFER • BRIAN COLLINS • SHAN COLLINS
DAVID COOPER • JOE COTHRON • ERIN COYNER • KATHRYN CRAWLEY • JEFFREY CRESS • TRACEY CULBERTSON • JON CUMMINGS • KIMBERLY CURTIS • KEITH DAMMANN
LARRY DANIEL • RICHARD DARLING • GREGORY DAUGHTRY • ANGELA DAVIS • BRYAN DAVIS • MATTHEW DAVIS • JOHN DEAN • GREGORY DEVLIN • IVAN DICKSON
DAVID DILEGGE • MONICA DORADO • THERESA DORTON • WILLIAM DRACH • JAY DRYER • BOB DUBE • DENNIS DUCOTE • CHRISTOPHER DURBIN • DAVID DUSANG
COLLEEN EARLY • CAROL EDWARDS • BILL ELDARD • KENNETH ELMORE • STEVEN ERLICH • MICHAEL FAGAN • ROBERT FALSONE • MITCHELL FAUST • SOBIA FAYYAZ
LYNN FELTS • JOHN FERGUSON • RICHARD FINCH • CHRISTOPHER FISHER • ELISABETH FITZHUGH • JON FLANNERY • DON FLEMING • JAMES FOUNTAIN • MITCHELL FOUNTAIN
KIM FOWLER • NEIL FOX • THOMAS FURLOUGH • JEROME FURLOW • MELISSA GALAZIN • ANDREA GARNER • TOM GEHRKI • ROBERT GENDREAU • MICHAEL GETHING
GINA GIGLER • DICK GOEBEL • JEFFERY GOMBOS • JOHN GORDON • RONNIE GORDON • JOSEPH GOYETTE • BILL GRABOWSKI • JEFFERY GRAVER • RYAN GRAVES • DAVE GRILLEY
DAVID GUDORF • ARTHUR GUNN • BARBARA GURR • JOHNNY GURR • MICHAEL HADDAD • JENNIFER HALL • RONALD HALL • CANDICE HARDIN • CHARLES HEATH
MARIA HERNANDEZ • ANGELA HESS • MARK HESS • ANNA HOGAN • DAVE HOLMES • VALERIE HONEYSUCKLE • TOM HOULROYD • DOROTHY HUGHES • MICHELLE HUMPHREY
RON HUNTER • PAUL IGLESIA • KEVIN JACK • JOHN JACKSON • THOR JAMES • TONY JENNINGS • CYRUS JILLA • SYLVIA JOHNSON • ROBERT JOHNSTON • RUBIN JONES
MITCH JUKANOVICH • PAMELA KADLUBEK • KENNETH KAMPPILA • MICHAEL KATSUFRAKIS • RUSS KELLER • RONALD KELLY • HERBERT KEMP • KAY KENDALL • KEN KIDDER
JOHN KITTLE • KAREN KLIMKIEWICZ • ANTHONY KNOLL • KARA KNUTSON • HANK KRAUER • LAURA KRETZING • MICHAEL LEE • RANDY LEFORT • JOHN LEVY • JEFFREY LINDSAY
JOHN LINDSAY • JOE LIPHAM • DAVID LITCHFIELD • CHRIS LITSAS • JAMES LITSCH • MARK LOCHER • ROSEMARY LOMIS • KENNETH LONG • TONYA LOVATO • KAREN LOVEJOY
LOUIE LULOFF • JOHANNA MACKIE • CYNTHIA MADISON • DUANE MAKI • MAUREEN MANGAR • BRENT MARLER • LINDA MARSHALL • HENRY MASON • JOHN MAYES
ALBERT MCCABE • MITCHELL MCCOOLEY • GREGORY MCCRAY • CATHY MCDANIEL • MICHAEL MCGANNON • ROB MCHENRY • REGINA MCNEIL • MICHELLE MCVEY
MICHELLE MEADOWS • ROBIN MELVIN • CHARLES MENZA • DARRYL MIDDLETON • DANA MILLER • MARIE MILLIGAN • BENJAMIN MINER • MELISSA MITCHELL
CHRISTOPHER MOORE • RIC MORENO • BETTY MORGAN • BRYAN MORGAN • JUSTINE MOSELEY • RYAN MOSLEY • MICHAEL MULQUEEN • LAURA MUSGROVE • ALLAN NEASE
PAUL NELSON • LAURENCE NEWCOME • AARON NEWMAN • DANIEL NEWTON • LINDA NICHOLS • MICHAEL O'CONNOR • STEVEN OLIVER • ANDREA PACLEY • TODD PALMER
TRACY PARRISH • JIM PATERSON • DANA PENNELL • WILLIAM PHILBIN • DIMAS PINZON • JOYCE POOL • LISA POOLE • FRANK PRATT • JOSEPH PRESSEL • GREGORY QUEEN
RICHARD RAFTERY • ALFRED RANDALL • ALLEN RANSOM • CHRISTINA RAY • DWIGHT REED • CHARLES REEVES • PATRICK REGAN • MEGAN REICHERT • JEFFREY RIBEL
SHANNON RIBEL • SCOTT RITCHIE • STEFANIE ROBERTS • MARC ROESE • WARREN ROGERS • GREGORY ROMAN • ANN ROWLAND • ROOSEVELT ROY • PATRICK RYAN
TERRY RYAN • COURTNEY SALTHOUSE • STEVEN SALVAGGIO • MICHAEL SANDERS • PATRICK SARGENT • THOMAS SAUL • RODNEY SAUNDERS • RYAN SCHAEFER
STEVEN SCHAFER • BOB SCHEIDELER • RUSSELL SCHOLL • MARY SCROGGS • PEGGY SEEFELD • WALTER SEEFELD • JOHN SHAKESPEARE • RICHARD SHARITS • JULIAN SHARPE
STEVE SHERBURNE • RON SIMMONS • KIMBERLY SKELDING • DANIELLE SKOTNICKI • ANDREW SMITH • CHUCK SMITH • DAVE SMITH • JOHN SMITH • LINDA SMITH
ROBERT SMITH • THOMAS SMITH • VALJEAN SNYDER • STEVE SOKOLY • CHRISTOPHER SOLIDAY • TED SOLIDAY • KAREN SOTO • JOEL STAMMEN • CRAIG STANSIFER
DOUG STERLING • HARRY STICKLEY • JAMES STOVER • MARK STRANDBURG • MARK STRAUER • JON STUCK • BILL SULLIVAN • TANYA TANNER • MATTHEW TAYLOR
GEORGE TEAS • LORNE TEITELBAUM • DARRELL THACKER • JENNIFER THIEKE • DONNA THOMPSON • ROBERT THOMPSON • STEVEN THOMPSON • TERRY TILLSON
JAMES TIMMERMEYER • SEAN TYTLER • ELIZABETH VASQUEZ • ROBERT VLASICS • MONICA VOHRA • SANDEEP VOHRA • DUANE WADE • DREXEL WAGGONER
MICHAEL WALLACE • BOB WALTER • MARK WARNER • CHASE WARREN • RANDY WARREN • DAVID WEST • WILLIAM WHITE • ERIC WIETSTRAK • ROD WILKINSON
MIKE WILLOUGHBY • ALLEN WILSON • CINDY WILSON • DAVID WILSON • STEPHEN WINTER • ROBERT WOHLERS • LAURA YAGER • MIKE YANNELLO • GREG YAWN
CASEY YOST • MATTHEW YOUNG • DANIEL ZAPATA • MICHAEL ZYWIEN

Research and Development

We are in the business of solving our clients' problems, and often these solutions require the application of advanced information technology. The SRA research and development (R&D) team works closely with our client-facing teams to ensure that our investments are focused on meeting current and future client technology needs.

Investments in R&D lay the foundation for innovative offerings and solutions, while also giving us a competitive edge and enabling our staff to meet the challenges faced by our clients. For more than 20 years, we have pursued both internally-funded R&D and Government-funded R&D in areas such as natural language understanding, data mining, machine learning, knowledge management, information fusion, wireless applications, information assurance, and bioinformatics. By anticipating key emerging technologies and focusing our research efforts in those areas, we have leveraged our advanced technology solutions and expertise to solve real-world client problems such as:

Analytical Tools Addressing Homeland Security

One of the key challenges in identifying and acting on potential threats is to recognize and correlate disparate pieces of information obtained from intelligence documents, law enforcement reports, and other sources. SRA has developed an analytical tool called NetOwl® InstaLink which aids analysts in discovering potential threats in real-time. This information extraction and visualization software enables an analyst to visualize crucial links buried in texts. InstaLink also offers built-in support for analysts tasked with preparing timely briefings to decision makers.

Arabic Language Processing

SRA has been long known for its expertise in computer-based processing of non-English text. In the past year, we have updated our Arabic language processing capabilities significantly. The latest Arabic version of NetOwl Extractor, which extracts critical information from Arabic texts, has been licensed to government agencies to be used in their counter-terrorism efforts.

Mobile Data Entry at Disaster Sites

SRA has developed a mobile data entry platform used by federal assistance workers in disaster areas as they assess property damage to affected properties. SRA emphasized cross-platform development to ensure that the application works on a variety of devices ranging from personal digital assistants (PDAs) to Tablet PCs. Users of the platform may take digital photographs, add sketches, and automatically generate the coordinates of their location. The platform can utilize wireless Bluetooth, Wifi, cellular, and satellite communications for both data collection and synchronization to backend databases.

Enterprise Information Access on Mobile Devices

SRA further extended its GistIt® wireless platform with the addition of formatted e-mail attachment viewing on Java-based PDAs. The GistIt platform also embeds our automated document summarization capability, expediting assessment and response to long e-mails or attachments. The software also enables organizations to access up-to-date contact and contingency plan information, quickly and securely, in the event of an emergency.



Dan Fleck
Senior Application Developer

John Bordeaux
Director, Knowledge Management

**DEMONSTRATING EXCELLENCE AT SRA
SINCE 1997 AND 2000**

▼ May 12, 2003

U.S. General Services Administration Awards
\$8.5 Million Contract to SRA

▼ May 12, 2003

SRA Recognized by Washington Technology as
32nd Largest Federal IT Prime Contractor

▼ June 9, 2003

SRA Promotes Jeffrey B. Westerhoff to Senior
Vice President



Jennifer Buchanan
Director, National Security Space Architect Support

DEMONSTRATING EXCELLENCE AT SRA SINCE 2003

Bioinformatic Research Tools

SRA combines bioinformatics and data analysis expertise in developing leading-edge tools to assist medical researchers and clinicians. Our systems integration and software development approaches support scientists working to manage and analyze their data, as well as clinicians administering clinical protocol and trial results. Through a combination of federally funded research projects, our program combines research and development as well as informatics solutions for addressing complex and computationally intensive data management needs. Working together with our clients, we provide bioinformatics solutions to facilitate the identification of novel therapeutics and support the discovery process.

Information Access through Instant Messaging

Instant Messaging (IM) is becoming a frequent method of communication within organizations. SRA has developed software that supplements enterprise-wide IM solutions by enabling users to access frequently requested enterprise information by chatting with “bots” capable of responding to complex, unstructured inquiries and requests. Short responses can be delivered immediately through IM, then potentially backed up with longer, more detailed e-mailed responses. We customize this software for individual organizations.

Organizing Enterprise Content

SRA develops tools to organize and analyze large, unstructured data sets that reside in enterprise repositories. These tools extract strategically valuable patterns from free text, automatically restructuring the texts into easy to analyze form. For example, our document clustering tool enhances Web portals by automatically organizing and categorizing enterprise content. SRA has also developed a document categorization solution to automatically prioritize air traffic safety field reports.

U.S. Department of Defense



Logistics Automatic Identification Technology

SRA has assisted DoD in a services-wide logistics initiative to integrate automatic identification technology (AIT) into military logistics processes since 1998. AIT technologies include bar coding, smart cards, optical memory cards, radio-frequency identification (RFID) tags, and satellite technology. They enable DoD to track military personnel, equipment, and cargo in real time worldwide. SRA assists AIT lead organizations in managing DoD AIT architecture; directing and executing implementation; and identifying the most mission-effective and cost-efficient suite of AIT capabilities.

AIT implementation and integration help DoD improve combat support of U.S. armed forces. In FY03, SRA supported the rapid expansion of the use of RFID tags to all U.S. Central Command components, selected aerial and sea ports, and vendors to provide improved asset visibility. For Operation Iraqi Freedom, SRA supports DoD in coordinating the use of RFID tags for supplies and equipment air- and sealifted to Kuwait and Iraq. This enables commanders at all levels to keep track of critical supplies in the distribution system. We also work with DoD to integrate Iridium satellite tracking technology to provide secure DoD in-transit visibility information and give DoD and civilian users increased flexibility when sending data to various worldwide locations. The use of Iridium satellite technology includes a Global Positioning System that provides the global geographic location of assets to within three meters. This technology is also being used during Operation Iraqi Freedom to track U.S. Marine Corps convoys and critical items of equipment.

▼ June 18, 2003

SRA Announces Follow-On Public Offering of 3,025,000 Shares of Class A Common Stock at \$30 Per Share

▼ June 30, 2003

SRA Awarded \$3.4 Million Contract with Defense Information Systems Agency

Summary Results of Consolidated Operations

This summary highlights the key elements of our results of operations for the fiscal year ended June 30, 2003. To develop a full understanding of the results, please read the financial statements and notes included elsewhere in this report and our Form 10-K filed with the SEC.

Revenue increased by 25% to \$450.4 million for the year. Backlog, or signed business orders, increased 51% to approximately \$1.6 billion at the end of the year. Quarterly operating margins during FY03 increased from 7.0% in the September quarter; to 9.4% in the December quarter; to 9.9% in the March quarter; to 10.6% in the June quarter. Operating margins for the year increased to 9.3% from 5.1%. Net income for the year increased by 163% to \$29.7 million, or 6.6% of revenue. Diluted earnings per share were \$1.25, based on 23.7 million shares, up 89% year over year. The diluted share count increased 39%, from 17.0 million shares for FY02, primarily as a result of our initial public offering (IPO) in May 2002.

Cash flows from operations were \$43.3 million for the year, or about 1 and 1/2 times net income, reflecting the high quality of earnings. We used \$46.3 million of cash in investing activities as we paid the earn-out of \$8.0 million associated with the acquisition of The Marasco Newton Group, Ltd. (MNG) and completed the Adroit Systems, Inc. (Adroit) acquisition using \$33.3 million of cash. Capital expenditures were \$9.6 million, or 2.1% of revenue. Cash flows from financing activities were \$74.1 million, driven by the June 2003 follow-on public offering net proceeds of approximately \$71 million.

We continued to strengthen our balance sheet. Cash and short-term investments were \$158.7 million at the end of the year. Accounts receivable were \$119.2 million. Days sales outstanding (DSO) improved by 11 days to 80 days at the end of the year. Goodwill totaled \$36.2 million at year end, an increase of more than \$33 million year over year due to acquisitions. At the end of FY03, we had approximately \$365 million of assets, consisting primarily of cash and cash equivalents, short-term investments, and accounts receivable, with just \$400,000 of bank debt. Stockholders' equity was \$283.0 million.

In October 2002, we sold our Assentor practice. Assentor software leveraged our text mining expertise to perform e-mail compliance functions for many investment banks. We sold Assentor in order to sharpen our focus on the federal government consulting and systems integration business — now essentially 100% of our business. The sale of the Assentor practice generated a non-operating gain of \$4.7 million.

In December 2002, we accelerated the payment of the earn-out associated with the purchase of MNG, as MNG met its earn-out targets ahead of schedule. MNG, an environmental consulting and solutions practice, was our first government services acquisition.

In January 2003, we purchased Adroit, our second government services acquisition. Adroit specializes in command, control, communications, computers, intelligence, surveillance and reconnaissance and broadens our capabilities substantially in these areas. We have consolidated Adroit's operating results since the January 31, 2003 closing date. The acquisitions of Adroit and MNG have enabled us to leverage our centralized corporate support functions, helping to reduce our selling, general and administrative expenses as a percentage of revenue.

In June 2003, we completed a follow-on public offering of class A common stock at \$30.00 per share in which the company raised approximately \$71 million from the sale of 2,526,878 newly-issued shares. The follow-on public offering had minimal impact on FY03 interest income, diluted shares, and earnings per share.

SRA International, Inc., and Subsidiaries

Consolidated Balance Sheets

As of June 30, 2002 and 2003 (In Thousands, Except Share and Per Share Amounts)

	2002	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$87,137	\$158,264
Short-term investments.....	—	433
Accounts receivable, net.....	95,862	119,224
Prepaid expenses and other.....	6,283	12,434
Deferred income taxes, current.....	4,573	5,980
Total current assets.....	193,855	296,335
PROPERTY AND EQUIPMENT, at cost:		
Leasehold improvements.....	14,955	17,871
Furniture, equipment, and software.....	44,435	51,045
Total property and equipment.....	59,390	68,916
Accumulated depreciation and amortization.....	(40,183)	(48,275)
Total property and equipment, net.....	19,207	20,641
OTHER ASSETS:		
Goodwill.....	2,957	36,171
Identified intangibles, net.....	2,092	6,120
Deferred compensation trust.....	3,394	3,483
Deferred income taxes, noncurrent.....	4,185	1,308
Investments and other.....	603	653
Total other assets.....	13,231	47,735
Total assets.....	\$226,293	\$364,711
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$13,267	\$18,640
Accrued payroll and employee benefits.....	20,942	26,614
Accrued expenses.....	19,997	26,077
Current portion of long-term debt.....	1,600	400
Billings in excess of revenue recognized.....	6,480	4,949
Total current liabilities.....	62,286	76,680
LONG-TERM DEBT, net of current portion.....	400	—
OTHER LONG-TERM LIABILITIES.....	4,163	5,016
Total liabilities.....	66,849	81,696
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$0.20 per share; 5,000,000 shares authorized; none issued.....	—	—
Class A common stock, par value \$0.004 per share; 180,000,000 shares authorized; 17,695,297 and 22,578,007 shares issued as of June 30, 2002 and 2003; 11,528,773 and 16,526,672 shares outstanding as of June 30, 2002 and 2003.....	74	93
Class B common stock, par value \$0.004 per share; 55,000,000 shares authorized; 11,123,887 and 10,452,753 shares issued as of June 30, 2002 and 2003; 9,182,711 and 8,511,577 shares outstanding as of June 30, 2002 and 2003.....	43	40
Additional paid-in capital.....	129,567	224,808
Treasury stock, at cost.....	(45,422)	(47,057)
Notes receivable from stockholders.....	(78)	—
Deferred stock-based compensation.....	(720)	(509)
Retained earnings.....	75,980	105,640
Total stockholders' equity.....	159,444	283,015
Total liabilities and stockholders' equity.....	\$226,293	\$364,711

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

SRA International, Inc., and Subsidiaries

Consolidated Statements of Operations

For the Years Ended June 30, 2001, 2002, and 2003 (In Thousands, Except Share and Per Share Amounts)

	2001	2002	2003
Revenue.....	\$ 312,548	\$ 361,197	\$ 450,375
Operating costs and expenses:			
Cost of services.....	221,835	258,863	316,672
Selling, general and administrative.....	84,985	76,143	82,753
Depreciation and amortization.....	8,045	7,684	8,962
Reimbursement of expenses upon formation of Mantas, Inc.	(6,485)	—	—
Total operating costs and expenses.....	308,380	342,690	408,387
Operating income.....	4,168	18,507	41,988
Interest expense.....	(879)	(433)	(111)
Interest income.....	82	332	1,498
Gain on sale of equity method investment.....	11,776	373	1,031
Gain on sale of Assentor practice.....	—	—	4,685
Other (expense) income.....	(2,391)	1,775	—
Income before taxes.....	12,756	20,554	49,091
Provision for income taxes.....	5,383	9,277	19,431
Net Income.....	\$ 7,373	\$ 11,277	\$ 29,660
Earnings per share:			
Basic.....	\$ 0.54	\$ 0.77	\$ 1.39
Diluted.....	\$ 0.45	\$ 0.66	\$ 1.25
Weighted-average shares:			
Basic.....	13,563,723	14,630,512	21,345,155
Diluted.....	16,401,370	17,030,717	23,729,986

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended June 30, 2001, 2002, and 2003 (In Thousands, Except Share Amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Treasury Stock		Notes Receivable from Stockholders	Deferred Stock-Based Compensation	Retained Earnings	Total
	Shares	Amount	Shares	Amount		Shares	Amount				
Balance, July 1, 2000.....	7,061,782	\$ 28	12,707,941	\$ 51	\$ 8,399	(6,102,562)	\$(23,746)	\$ —	\$ —	\$57,330	\$42,062
Net income.....	—	—	—	—	—	—	—	—	—	7,373	7,373
Issuance of common stock.....	1,190,823	5	—	—	2,138	—	—	—	—	—	2,143
Repurchase of common stock.....	—	—	—	—	—	(1,259,703)	(12,263)	—	—	—	(12,263)
Tax benefits of stock option exercises.....	—	—	—	—	3,797	—	—	—	—	—	3,797
Shares converted between classes.....	367,647	1	(367,647)	(1)	—	—	—	—	—	—	—
Balance, June 30, 2001.....	8,620,252	34	12,340,294	50	14,334	(7,362,265)	\$(36,009)	—	—	64,703	43,112
Net income.....	—	—	—	—	—	—	—	—	—	11,277	11,277
Issuance of common stock, net of offering expenses.....	7,842,009	33	—	—	99,906	—	—	—	—	—	99,939
Reissuance of treasury stock.....	—	—	—	—	7,016	535,348	2,995	—	—	—	10,011
Repurchase of common stock.....	—	—	—	—	—	(1,280,783)	(12,408)	—	—	—	(12,408)
Tax benefits of stock option exercises.....	—	—	—	—	6,563	—	—	—	—	—	6,563
Shares converted between classes.....	1,216,407	7	(1,216,407)	(7)	—	—	—	—	—	—	—
Issuance of notes receivable upon exercise of stock options.....	16,629	—	—	—	91	—	—	(91)	—	—	—
Repayments of notes receivable from stockholders....	—	—	—	—	—	—	—	13	—	—	13
Compensatory stock options issued or modified.....	—	—	—	—	1,657	—	—	—	(843)	—	814
Amortization of deferred stock-based compensation related to stock options.....	—	—	—	—	—	—	—	—	123	—	123
Balance, June 30, 2002.....	17,695,297	74	11,123,887	43	129,567	(8,107,700)	\$(45,422)	(78)	(720)	75,980	159,444
Net income.....	—	—	—	—	—	—	—	—	—	29,660	29,660
Issuance of common stock, net of offering expenses.....	4,211,576	16	—	—	77,855	—	—	—	—	—	77,871
Reissuance of treasury stock.....	—	—	—	—	4,764	223,521	1,332	—	—	—	6,096
Repurchase of common stock.....	—	—	—	—	—	(108,332)	(2,967)	—	—	—	(2,967)
Tax benefits of stock option exercises.....	—	—	—	—	12,622	—	—	—	—	—	12,622
Shares converted between classes.....	671,134	3	(671,134)	(3)	—	—	—	—	—	—	—
Repayments of notes receivable from stockholders.....	—	—	—	—	—	—	—	78	—	—	78
Amortization of deferred stock-based compensation related to stock options.....	—	—	—	—	—	—	—	—	211	—	211
Balance, June 30, 2003.....	22,578,007	\$ 93	10,452,753	\$ 40	\$224,808	(7,992,511)	\$(47,057)	\$—	\$(509)	\$105,640	\$283,015

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

SRA International, Inc., and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2001, 2002, and 2003 (In Thousands)

	2001	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 7,373	\$ 11,277	\$ 29,660
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization.....	8,393	7,866	9,042
Stock-based compensation.....	—	937	211
Tax benefits of stock option exercises.....	3,797	6,563	12,622
Deferred income taxes.....	(3,915)	(25,074)	(785)
Gain on sale of equity method investment.....	(11,776)	(373)	(1,031)
Gain on sale of Assentor practice.....	—	—	(4,685)
Changes in assets and liabilities, net of the effect of acquisitions:			
Accounts receivable.....	(2,856)	11,609	(12,704)
Prepaid expenses and other.....	2,035	(2,539)	(3,609)
Accounts payable.....	4,011	(6,894)	4,496
Accrued payroll and employee benefits.....	3,596	1,432	3,982
Accrued expenses.....	5,206	2,409	5,465
Billings in excess of revenue recognized.....	1,168	2,122	(1,695)
Other.....	(464)	(129)	2,342
Net cash provided by operating activities.....	<u>16,568</u>	<u>9,206</u>	<u>43,311</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures.....	(10,527)	(5,580)	(9,596)
Purchases of investments.....	—	—	(8,353)
Proceeds from sale of investments.....	—	—	7,270
Proceeds from sale of property and equipment.....	569	3	—
Proceeds from sale of equity method investment.....	10,876	373	1,031
Proceeds from sale of Assentor practice.....	—	—	4,685
Acquisition of The Marasco Newton Group, Ltd., net of cash acquired.....	—	(7,087)	(8,006)
Acquisition of Adroit Systems, Inc., net of cash acquired.....	—	—	(33,304)
Net cash provided by (used in) investing activities.....	<u>918</u>	<u>(12,291)</u>	<u>(46,273)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net repayments under revolving line of credit.....	(4,990)	—	—
Repayment of equipment loans.....	(777)	(546)	—
Repayment of term loan.....	(1,600)	(1,600)	(1,600)
Repayment of The Marasco Newton Group, Ltd. debt acquired.....	—	(5,195)	—
Repayment of Adroit Systems, Inc. debt acquired.....	—	—	(990)
Issuance of common stock, net of offering expenses.....	2,143	99,952	77,950
Reissuance of treasury stock.....	—	10,011	1,696
Purchase of treasury stock.....	(12,263)	(12,408)	(2,967)
Net cash (used in) provided by financing activities.....	<u>(17,487)</u>	<u>90,214</u>	<u>74,089</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1)	87,129	71,127
Cash and cash equivalents, beginning of period.....	<u>9</u>	<u>8</u>	<u>87,137</u>
Cash and cash equivalents, end of period.....	<u>\$ 8</u>	<u>\$ 87,137</u>	<u>\$158,264</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period —			
Interest.....	\$ 894	\$ 524	\$ 131
Income taxes.....	<u>\$ 3,887</u>	<u>\$ 27,842</u>	<u>\$ 8,091</u>
Cash received during the period —			
Interest.....	\$ 83	\$ 263	\$ 1,317
Income taxes.....	<u>\$ 34</u>	<u>\$ 154</u>	<u>\$ 168</u>

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

SRA International, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Years Ended June 30, 2001, 2002, and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of SRA International, Inc. (a Delaware corporation), and its wholly-owned subsidiaries (SRA or the Company). All significant intercompany transactions and balances have been eliminated. Investments in other companies in which the Company exerts significant influence but does not have a controlling interest are accounted for using the equity method of accounting.

Nature of Business

SRA is a leading provider of information technology services and solutions primarily to a wide variety of federal government clients in three principal markets: national security, civil government, and health care and public health. Since SRA's founding in 1978, the Company has derived substantially all of its revenue from services provided to federal government clients, and SRA expects that services provided to federal government clients will continue to account for substantially all of its revenue.

Revenue from contracts with federal government agencies was 93 percent, 96 percent, and 99 percent of total revenue for the years ended June 30, 2001, 2002, and 2003, respectively. Revenue from contracts with clients in the Department of Defense and the National Guard accounted for 47 percent, 53 percent, and 58 percent of total revenue for the years ended June 30, 2001, 2002, and 2003, respectively. The Internal Revenue Service, as a client group, accounted for approximately 10 percent of revenue for the year ended June 30, 2002. No other client or client group accounted for more than 10 percent of revenue in the periods presented herein.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments in determining the reported amounts of assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates including those related to revenue recognition, doubtful accounts receivable, goodwill and other intangible assets, and other contingent liabilities. The Company bases its estimates on historical experience and various other factors that are deemed reasonable at the time the estimates are made. Actual results may differ from estimates under different assumptions or conditions. See the Revenue Recognition section of this Note and Notes 2, 3, 4, 8, 9, 10 and 16 for additional information on certain estimates included in the Company's consolidated financial statements.

Revenue Recognition***Contract Accounting***

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered, the contract price is fixed or determinable, and collectibility is

reasonably assured. SRA uses a standard management process to determine whether all required criteria for revenue recognition have been met. Absent evidence to the contrary, the Company recognizes revenue as follows. Revenue on cost-plus-fee contracts is recognized to the extent of costs actually incurred plus a proportionate amount of the fee earned. Fixed fees under cost-plus-fee contracts are considered earned in proportion to the allowable costs actually incurred in performance of the contract. Revenue on time-and-materials contracts is recognized based on the hours actually incurred at the negotiated contract billing rates, plus the cost of any allowable material costs and out-of-pocket expenses. Revenue on fixed-price contracts generally is recognized using the percentage-of-completion method of contract accounting. Unless it is determined as part of the Company's standard review process that overall progress on a contract is not consistent with costs expended to date, SRA determines the percentage completed based on the percentage of costs incurred to date in relation to total estimated costs expected upon completion of the contract. Revenue on fixed-price contracts pursuant to which a customer pays us a specified amount to provide only a particular service for a stated time period, or so-called fee-for-service arrangement, is recognized as amounts are billable, assuming all other criteria for revenue recognition are met. Performance-based fees, including award fees, under any contract type are considered earned only when the Company can demonstrate satisfaction of a specific performance goal or has received contractual notification from a client that the fee has been earned. To the extent that a revised estimate affects contract profit or revenue previously recognized, the Company records the cumulative effect of the revision in the period in which the facts requiring the revision become known. The full amount of an anticipated loss on any type of contract is recognized in the period in which it becomes known.

From time to time, the Company may proceed with work based on customer direction pending finalization and signing of formal contract documents. The Company has an internal process for approving any such work. Revenue associated with such work is recognized only when it can be reliably estimated and realization is probable.

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

Unbilled accounts receivable are stated at the lower of actual cost incurred plus accrued profits or net estimated realizable value of incurred costs, reduced by billings to date. It is the Company's policy to provide reserves for the collectibility of accounts receiv-

able when it is determined that it is probable that the Company will not collect all amounts due and the amount of the reserve requirements can be reasonably estimated.

Revenue for the years ended June 30, 2001, 2002, and 2003 was generated from the following contract types:

	2001	2002	2003
Cost-plus-fee.....	62%	52%	43%
Time-and-materials.....	23	31	37
Fixed-price.....	15	17	20

Software Licensing and Related Activities

The Company enters into arrangements, which may include the sale of licenses of the Company's proprietary software, consulting services and maintenance, or various combinations of each element. The Company recognizes revenue based on Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended, and modified by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 modified SOP 97-2 by requiring revenue to be recognized using the "residual method" if certain conditions are met. Revenue is recognized based on the residual method when an agreement has been signed by both parties, the fees are fixed or determinable, collection of the fees is probable, delivery of the product has occurred, and no other significant obligations remain. In the limited cases where return or refund rights have been offered, the Company defers all revenue recognition until the end of the return or refund period. Total software licensing and related activities revenue was \$6,140,000, \$4,385,000, and \$1,468,000 for the years ended June 30, 2001, 2002, and 2003, respectively. Software licensing of the Company's proprietary software and related activities revenue was two percent or less of consolidated revenue for all periods presented.

Research and Development Costs

Research and development costs are expensed as incurred. Total research and developments costs, which are included in selling, general, and administrative expenses, were \$1,906,000, \$1,783,000, and \$1,454,000 for the years ended June 30, 2001, 2002, and 2003, respectively.

Capitalized Software Development Costs

Software development costs for products are capitalized subsequent to the establishment of technological feasibility, as evidenced by detailed program designs, a product design, or a working model of the software product. Capitalization ceases when the products are available for general release to clients. Annual amortization is the greater of the amount computed using the ratio that current gross revenue for a product bear to total expected gross revenue for that product, or the amount computed using the straight-line method over the estimated economic

lives of the products (generally not to exceed three years). Amortization expense of \$348,000, \$182,000, and \$80,000 was recorded for the years ended June 30, 2001, 2002, and 2003, respectively, and is reflected as cost of services in the consolidated statements of operations.

Internal-Use Computer Software

The Company capitalizes costs incurred to license and implement software for internal-use in accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal-Use." Such costs are amortized over periods ranging from three to five years. Internal-use software costs capitalized were \$2,262,000, \$604,000, and \$0 for the years ended June 30, 2001, 2002, and 2003, respectively.

Impairment of Long-Lived Assets

Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets, and other intangibles, may not be fully recoverable, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If any impairment were indicated as a result of this review, the Company would recognize a loss based on the amount by which the carrying amount exceeds the estimated discounted future cash flows.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, less valuation allowances, if required. Enacted statutory tax rates are used to compute the tax consequences of these temporary differences. Historically, the Company's deferred income taxes have resulted primarily from differences in the timing of income and expense recognition because the Company used the accrual method of accounting for financial reporting and the cash method of accounting for income tax reporting. In February 2002, the Company adopted the accrual method of accounting for income tax reporting. See Note 9 for additional disclosure with respect to this change in accounting method for income tax reporting purposes.

Deferred Compensation Plan

Certain employees of the Company are eligible to defer a specified percentage of their cash compensation by having it contributed to a nonqualified deferred compensation plan. Eligible employees may defer up to 25 percent of their annual base salary and up to 50 percent of annual performance bonuses. The Company funds its deferred compensation liabilities by making cash contributions to a Rabbi Trust at the time the salary or bonus being deferred would otherwise be payable to the employee. Gains or losses on amounts held in the Rabbi Trust are fully allocable to

Notes to Consolidated Financial Statements

(continued)

plan participants. As a result, there is no net impact on the Company's results of operations, and the liability to plan participants is fully funded at all times.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

The Company considers all investments with maturity dates of more than three months and less than one year to be short-term investments.

Property and Equipment

Property and equipment, including major additions or improvements thereto, are recorded at cost and depreciated over their estimated useful lives ranging from three to seven years using the straight-line method. Leasehold improvements are amortized over the lesser of the lease term or the asset's estimated useful life, but typically not exceeding seven years, using the straight-line method. Depreciation and amortization expense related to property and equipment, including capitalized internal-use computer software, was \$8,045,000, \$7,545,000, and \$8,361,000 for the years ended June 30, 2001, 2002, and 2003, respectively.

Concentration of Credit Risk and Fair Value of Financial Instruments

Financial instruments that potentially subject the Company to credit risk consist primarily of cash equivalents, short-term investments, and accounts receivable. The Company believes that concentrations of credit risk with respect to cash equivalents and short-term investments are limited due to the high credit quality of these investments. The Company's investment policy requires that investments be in direct obligations of the U.S. government, certain U.S. government sponsored entities, a limited number of other investment vehicles that are secured by direct or sponsored U.S. government obligations, and certain high-quality municipal debt obligations. The Company believes that concentrations of credit risk with respect to accounts receivable are limited as they are primarily federal government receivables. At June 30, 2002 and 2003, the Company's carrying value of financial instruments approximated fair value.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing reported net income by the weighted-average number of common shares outstanding. Diluted EPS considers the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The difference between basic and diluted weighted-average common equivalent shares with respect to the Company's EPS calculation is due entirely to the assumed exercise of stock options. The dilu-

tive effect of stock options for each period reported is summarized below:

	2001	2002	2003
Basic weighted – average common shares outstanding.....	13,563,723	14,630,512	21,345,155
Effect of potential exercise of stock options.....	2,837,647	2,400,205	2,384,831
Diluted weighted – average common shares outstanding.....	16,401,370	17,030,717	23,729,986

Stock options that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS, because to do so would have been antidilutive, were 639,961 for the year ended June 30, 2001.

Stock options granted to employees are accounted for using the intrinsic value method. Under this method, compensation cost is the excess, if any, of the fair value of the Company's stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Income tax benefits attributable to nonqualified stock options exercised are credited to additional paid-in capital.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation in each period presented (in thousands, except per share amounts).

	2001	2002	2003
Net income, as reported.....	\$ 7,373	\$11,277	\$29,660
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects.....	—	937	211
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.....	(2,787)	(3,154)	(2,479)
Pro forma net income.....	\$ 4,586	\$ 9,060	\$27,392
Earnings per share:			
Basic—as reported.....	\$ 0.54	\$ 0.77	\$ 1.39
Basic—pro forma.....	\$ 0.34	\$ 0.62	\$ 1.28
Diluted—as reported.....	\$ 0.45	\$ 0.66	\$ 1.25
Diluted—pro forma.....	\$ 0.28	\$ 0.53	\$ 1.15

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards

(SFAS) No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated asset retirement cost would be capitalized as part of the carrying amount of the long-lived asset. The Company adopted this new standard as of July 1, 2002, and it had no impact on the Company’s financial position, results of operations, or cash flows.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” which replaces SFAS No. 121. SFAS No. 144 requires that long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company adopted this new standard as of July 1, 2002, and it had no impact on the Company’s financial position, results of operations, or cash flows.

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” Among other things, SFAS No. 145 rescinds both SFAS No. 4, “Reporting Gains and Losses from Extinguishment of Debt,” and the amendment to SFAS No. 4, SFAS No. 64, “Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements.” Through this rescission, SFAS No. 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. Generally, SFAS No. 145 is effective for transactions occurring after May 15, 2002. The Company adopted this new standard as of July 1, 2002, and it had no impact on the Company’s financial position, results of operations, or cash flows.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” which became effective January 1, 2003. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” SFAS No. 146 requires that an exit or disposal activity-related cost be recognized when the liability is incurred instead of when an entity commits to an exit plan. The Company adopted this new standard as of January 1, 2003 and it had no impact on the Company’s financial position, results of operations, or cash flows.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 elaborates on the disclosures to be made by a guarantor in interim and annual financial statements about its

obligations under certain guarantees. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Since the Company had no guarantees as of January 1, 2003, the adoption of FIN 45 had no impact on the Company’s financial position, results of operations, or cash flows.

In November 2002 and May 2003, the FASB’s Emerging Issues Task Force, or EITF, finalized EITF Issue 00-21, “Revenue Arrangements with Multiple Deliverables.” EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. It also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in an arrangement. EITF 00-21 does not apply to deliverables in arrangements to the extent the accounting for such deliverables is within the scope of other existing higher-level authoritative accounting literature. The Company must adopt the provisions of EITF 00-21 for new contracts entered into on or after July 1, 2003. The Company does not expect the application of EITF 00-21 to have a material impact on the Company’s financial position, results of operations, or cash flows.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123.” SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation should the Company elect to make such a voluntary change. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. These amended disclosure requirements are applicable for annual financial statements issued for fiscal years ending after December 15, 2002. The Company has adopted the disclosure requirements of SFAS No. 148.

In January 2003, the FASB issued FIN 46, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.” This interpretation provides guidance for identifying a controlling financial interest established by means other than voting interests. It requires consolidation of variable interest entities by an enterprise that holds such a controlling financial interest (the primary beneficiary). The primary beneficiary of a variable interest entity is defined as the party that absorbs a majority of the entity’s expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity. All enterprises with a variable interest in variable interest entities created after January 31, 2003, must apply the provisions of FIN 46 to those entities immediately. Enterprises with a vari-

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able interest in a variable interest entity created before February 1, 2003, must apply the provisions of FIN 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The Company does not have a variable interest in any variable interest entity and therefore does not expect the provisions of FIN 46 to have a material impact on its financial position, results of operations, or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities," which clarifies and amends certain definitions and characteristics of derivative instruments contained in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," and other existing pronouncements. This statement is effective for contracts entered into or modified after June 30, 2003. The Company does not expect the adoption of this new standard to have a material impact on the Company's financial position, results of operations, or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability, or as an asset in some circumstances. This statement is effective for financial instruments entered into or modified after May 31, 2003. The Company does not have financial instruments within the scope of SFAS No. 150, and therefore its adoption had no impact on the Company's financial position, results of operations, or cash flows.

In May 2003, the EITF reached a consensus on EITF Issue 01-08, "Determining Whether an Arrangement Contains a Lease." EITF 01-08 provides guidance on how to determine whether an arrangement between the Company and a customer contains a lease that is within the scope of FASB Statement No. 13, "Accounting for Leases." The guidance in EITF 01-08 is based on whether the arrangement conveys to the customer the right to use a specific asset. EITF 01-08 will be effective for arrangements entered into or modified on or after July 1, 2003. The Company does not expect the adoption of EITF 01-08 to have a material impact on its financial position, results of operation, or cash flows.

Reclassifications

Certain reclassifications have been made to prior-period balances to conform to the current-period presentation.

2. ACCOUNTS RECEIVABLE:

Accounts receivable, net as of June 30, 2002 and 2003 consisted of the following (in thousands):

	2002	2003
Billed and billable, net of allowance of \$1,050 and \$1,378 as of June 30, 2002 and 2003, respectively...	\$88,089	\$110,073
Unbilled:		
Retainages.....	3,188	3,442
Revenue recorded in excess of milestone billings on fixed price contracts.....	4,360	5,917
Revenue recorded in excess of contractual authorization, billable upon receipt of contractual amendments/documents.....	1,070	1,967
Indirect costs incurred and charged to cost-plus contracts in excess of provisional billing rates....	707	—
Allowance for contract disallowances.....	(1,552)	(2,175)
Total unbilled.....	7,773	9,151
Total.....	\$95,862	\$119,224

The billable receivables included in the billed and billable line item above represent primarily revenue earned in the final month of the reporting period that were billable as of the balance sheet date. These billable receivables are typically billed and collected within 90 days of the balance sheet date.

Consistent with industry practice, certain receivables related to long-term contracts and programs are classified as current, although a portion of these amounts is not expected to be realized within one year. Unbilled accounts receivable at June 30, 2003 are expected to be collected within one year except for approximately \$1.1 million. This amount relates to a portion of retainages and will be billable upon the completion of certain contracts.

3. GOODWILL AND OTHER INTANGIBLE ASSETS:

The components of goodwill and other intangible assets as of June 30, 2002 and 2003 are as follows (in thousands):

	2002	2003
Goodwill.....	\$2,957	\$36,171
Intangible assets.....	2,231	6,860
Subtotal.....	5,188	43,031
Less: Accumulated amortization.....	(139)	(740)
Total.....	\$5,049	\$42,291

Goodwill must be reviewed annually for impairment. The Company has elected to perform this review at the beginning of each calendar year. The Company performed the annual goodwill impairment analysis as of January 1, 2003 and concluded that there was no impairment of goodwill. The other intangible assets of \$2.2 million as of June 30, 2002 and \$6.9 million as of June 30, 2003 were all assigned to contract rights. Aggregate amortization expense of other intangible assets was \$139,000 for the year ended

June 30, 2002 and \$601,000 for the year ended June 30, 2003. Other intangible assets are being amortized on a straight-line basis over a period of 6 to 8 years.

Estimated amortization expense is as follows for the periods indicated (in thousands):

Years ending June 30,	
2004	\$ 1,050
2005	1,050
2006	1,050
2007	1,050
2008	1,050
Thereafter	870
Total	\$ 6,120

4. ACCRUED EXPENSES:

Accrued expenses as of June 30, 2002 and 2003, consisted of the following (in thousands):

	2002	2003
Vendor obligations.....	\$ 12,650	\$17,338
Insurance.....	3,277	4,189
Taxes and other.....	4,070	4,550
Total.....	\$ 19,997	\$26,077

5. DEBT:

Long-term debt as of June 30, 2002 and 2003, consisted of the following (in thousands):

	2002	2003
Term loan (6.89%).....	\$ 2,000	\$ 400
Less—Current portion of long-term debt.....	(1,600)	(400)
Total.....	\$ 400	\$ —

In August 2001, the Company entered into a \$60.0 million credit facility (the New Agreement) that expires on December 31, 2003. The initial commitment under this facility is \$40.0 million and the Company has the option, provided no event of default under the New Agreement exists, of increasing the amount committed in two increments of \$10.0 million. The Company may use this facility for general corporate purposes including working capital financing, capital purchases, acquisitions, and stock repurchases. Amounts that can be outstanding on the facility are limited to a borrowing base tied to the Company's accounts receivable balances. The borrowing base exceeded \$60.0 million at June 30, 2003. The New Agreement contains customary covenants and requires that specified financial ratios be maintained. The financial ratios include a maximum debt-to-cash-flow ratio, a minimum cash-flow-to-fixed-charge-coverage ratio, and a maximum debt-to-equity threshold. The New Agreement is unsecured as long as specified financial ratios are met, which as of June 30, 2003, was the case. The Company may elect to pay interest at

either the prime rate of its bank or its bank's London interbank offered rate (LIBOR) index plus a margin that is determined quarterly based on the Company's debt-to-cash flow ratio.

The outstanding revolving line of credit balance and the equipment loan balance under the Company's old credit facility (the Old Agreement) were transferred to the New Agreement concurrent with closing. The term loan (the Term Loan) entered into under the Old Agreement remained in place through June 30, 2003, subject to the general terms and conditions of the New Agreement. The Term Loan interest rate was fixed at 6.89 percent, was payable in quarterly installments of \$400,000, and matured on July 1, 2003. The Term Loan included penalties for prepayment. The average revolving line of credit interest rate was 7.0 percent, 4.0 percent, and 2.8 percent for the years ended June 30, 2001, 2002, and 2003, respectively. Total interest expense under all credit facilities was \$879,000, \$433,000, and \$2,000 for the years ended June 30, 2001, 2002, and 2003, respectively. The maximum revolving line of credit balance was \$20,365,000, \$24,759,000, and \$3,662,000 for the years ended June 30, 2001, 2002, and 2003, respectively. The average monthly revolving line of credit balance outstanding was \$7,003,000, \$4,068,000, and \$52,000 for the years ended June 30, 2001, 2002, and 2003, respectively. The Company had an outstanding letter of credit of \$1,370,000 at June 30, 2003.

6. OTHER LONG-TERM LIABILITIES:

Other long-term liabilities as of June 30, 2002 and 2003, consisted of the following (in thousands):

	2002	2003
Liability to deferred compensation plan participants.....	\$3,394	\$3,483
Unearned rent abatements, net of current portion and other.....	769	1,533
Total.....	\$4,163	\$5,016

7. BENEFIT PLAN:

The Company maintains a defined contribution plan, the SRA International, Inc. 401(k) Savings Plan (the Plan). All regular and full-time employees are generally eligible to participate. The board of directors of SRA may elect to make matching or other discretionary contributions to the Plan. The Company's matching contribution expense was \$2,768,000, \$4,190,000, and \$2,973,000 for the years ended June 30, 2001, 2002, and 2003, respectively, including the value of the stock described in the next paragraph. The matching contribution expense for the year ended June 30, 2002 was approximately \$1.0 million higher than expected because the value per share of the shares contributed by the Company to the Plan was higher on the contribution date than when the original per-share determination was made.

Plan participants may elect to receive all the matching contributions in cash; otherwise 50 percent of the matching contributions are made in the form of Company stock. Matching contributions are earned by participants on the basis of their calendar year con-

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tributions to the Plan. The Company makes the matching contributions, including the transfer of class A common stock, each January for participant contributions made during the previous calendar year. The Company contributed 105,995, 118,419, and 62,616 shares of class A common stock to the Plan during the years ended June 30, 2001, 2002, and 2003, respectively.

8. STOCKHOLDERS' EQUITY AND STOCK OPTIONS:

Preferred Stock

The Company is authorized to issue 5,000,000 shares of preferred stock, \$0.20 par value per share, the terms and conditions of which are determined by the board of directors at each issuance. No preferred stock has been issued.

Common Stock

Holders of class A common stock are entitled to dividends per share in an amount equal to dividends per share declared and paid on class B common stock. Holders of both classes of common stock vote as a single class, with each share of class A common stock having one vote per share and each share of class B common stock having ten votes per share. Holders of both classes of common stock would share ratably in the net assets of the Company upon its liquidation or dissolution.

Treasury Stock

The Company has purchased common stock in each of the periods presented in the accompanying financial statements. These treasury stock transactions reflect the Company's historical practice of purchasing up to a specified number of shares approved by the board of directors at the then fair market value. Prior to becoming publicly traded, the Company retained an independent valuation firm to assist the board of directors in assessing the fair value of the stock. Only shares held by stockholders for more than six months were eligible to be purchased by the Company under this limited stock repurchase plan. The limited stock repurchase plan was discontinued when the Company became publicly traded. Additionally, the Company's stock option agreements allow employees to have shares withheld to pay their minimum tax withholding due upon exercise of nonqualified stock options.

Private Placement of Stock

In April 2002, the Company and several of its stockholders, including its executive officers, entered into a stock purchase agreement with four investment entities affiliated with a private investment group, whereby the entities purchased an aggregate of 2,117,645 shares of class A common stock at a per share price of \$18.70. Pursuant to the stock purchase agreement, the Company sold 535,348 shares of class A common stock.

Public Offerings

In June 2002, the Company completed its Initial Public Offering, issuing 5,750,000 shares of class A common stock, all of which were issued and sold by the Company, at a price of \$18.00

per share before expenses. Net proceeds to the Company were approximately \$94.2 million, after deducting expenses related to the offering and the portion of the underwriting discount payable by the Company.

In June 2003, the Company completed a follow-on offering of 3,478,750 shares of class A common stock, of which 2,526,878 were issued and sold by the Company and 951,872 were sold by selling stockholders, at a price of \$30.00 per share before expenses. Net proceeds to the Company were approximately \$71.1 million, after deducting expenses related to the offering and the portion of the underwriting discount payable by the Company. The Company did not receive any proceeds from the sale of stock by selling stockholders.

Stock Options

The Company maintained a key employee incentive plan that was approved by the Company's stockholders in November, 1994. All options granted by the Company from November 1994 until January 2002 were granted under this plan. Following completion of the Company's initial public offering of stock, no additional options may be granted under this plan. Under the terms of the plan, options to purchase class A common stock or class B common stock were granted by the board of directors to key employees. The option price per share was determined by the board of directors and generally was no less than the fair value of the stock on the date of grant of the option. Prior to becoming publicly traded, the Company retained an independent valuation firm to assist the board of directors in assessing the fair value of the stock. Each option is exercisable within periods and in increments determined by the board of directors.

The Company recognized compensatory stock option expense on stock options issued below fair market value or upon modification of option terms of \$937,000 for the year ended June 30, 2002 and \$211,000 for the year ended June 30, 2003. Deferred stock-based compensation of \$509,000 as of June 30, 2003 will be expensed over the 29-month remaining vesting period of the related options.

In March 2002, the Company adopted the SRA International, Inc. 2002 Stock Incentive Plan. Upon adoption, up to 3,529,411 shares of class A common stock were reserved for issuance under the 2002 plan. Pursuant to the terms of the 2002 plan, the number of shares authorized for issuance under the plan automatically increases at the beginning of each fiscal year, beginning with the fiscal year ending June 30, 2004. On July 1, 2003, an additional 751,252 shares of class A common stock were reserved for issuance under the terms of the 2002 plan. The 2002 plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock, and other stock-based awards. The 2002 plan is administered by the board of directors or a committee of the board of directors, which shall determine the number of shares covered by options, the exercise price, the vesting period, and the duration of such option grants. The board of directors also has the authority under the 2002 plan to determine the number of shares of common stock subject to any restricted stock or other

stock-based awards and the terms and conditions of such awards. The 2002 plan expires in March 2012.

The following table summarizes stock option activity for the years ended June 30, 2001, 2002, and 2003:

	Number of Shares	Weighted-Average Exercise Price
Shares under option, July 1, 2000.....	7,959,241	\$4.05
Options granted.....	587,817	8.53
Options exercised.....	(1,107,770)	1.70
Options cancelled and expired.....	(556,337)	7.84
Shares under option, June 30, 2001....	6,882,951	4.59
Options granted.....	107,344	10.10
Options exercised.....	(1,990,183)	1.84
Options cancelled and expired.....	(123,420)	8.32
Shares under option, June 30, 2002....	4,876,692	5.76
Options granted.....	1,072,475	24.41
Options exercised.....	(1,684,698)	4.06
Options cancelled and expired.....	(89,247)	14.00
Shares under option, June 30, 2003...	4,175,222	11.06
Options exercisable at June 30, 2003...	2,530,574	6.07
Shares reserved for option awards at June 30, 2003.....	2,486,326	

Information with respect to stock options outstanding and stock options exercisable at June 30, 2003, was as follows:

Range of Exercise Price	Number Outstanding	Options Outstanding	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$0.40 – \$0.59	512,535	3.43 years	\$0.55
\$3.54 – \$6.34	780,679	4.36	5.80
\$6.82 – \$10.15	1,838,923	12.05	8.65
\$21.70 – \$24.80	1,043,085	14.20	24.40

Range of Exercise Price	Number Outstanding	Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$0.40 – \$0.59	512,535	3.43 years	\$0.55
\$3.54 – \$6.34	780,679	4.36	5.80
\$6.82 – \$10.15	1,237,360	11.80	8.52

The Company has 10-year and 15-year options. For disclosure purposes, the fair value of each option is estimated on the date of grant using the Black-Scholes (Minimum Value) option-pricing model. The following weighted-average assumptions were used for option grants during the years ended June 30, 2001, 2002, and 2003, respectively: dividend yield of 0 percent (as the Company has not paid dividends in the past); expected volatility of 0 percent, 44 percent, and 47 percent; expected average lives of 5 years for all

periods presented (based on the Company's experience); and, risk-free interest rates of 5.4 percent, 5.0 percent, and 3.2 percent. The weighted-average fair value of the stock options granted for the years ended June 30, 2001, 2002, and 2003, was \$2.02, \$11.36, and \$11.11, respectively. Using the Black-Scholes model, the total value of the options granted for the years ended June 30, 2001, 2002, and 2003, was \$1,185,000, \$1,219,000, and \$11,910,000, respectively.

Stock Purchase Arrangement

The Company maintains a term life insurance policy on its chief executive officer, and has in the past maintained such policies on other executives. Expenses recognized under these policies were \$651,000, \$610,000, and \$150,000 for the years ended June 30, 2001, 2002, and 2003, respectively. In September 2002, certain insurance policies were amended to reduce the amount of insurance retained on its chief executive officer from \$80 million to \$10 million. An amended stock purchase agreement with the Company's chief executive officer requires the Company to maintain this \$10 million of insurance through December 2010. In the event this policy ceases to be available before the end of 2010, the Company has agreed it will purchase and maintain new life insurance policies providing the maximum coverage for the remainder of that period that can be purchased with the same overall annual premiums of approximately \$53,000. The Company is the sole beneficiary of this policy and is required to use any proceeds received to repurchase shares from the chief executive officer's estate upon his death.

9. INCOME TAXES:

The provision (benefit) for federal and state income taxes for the years ended June 30, 2001, 2002, and 2003, included the following (in thousands):

	2001	2002	2003
Current provision:			
Federal.....	\$7,866	\$29,071	\$15,362
State.....	1,432	5,280	2,926
Deferred (benefit) provision:			
Federal.....	(3,312)	(21,191)	1,099
State.....	(603)	(3,883)	44
Total income tax provision.....	\$5,383	\$ 9,277	\$19,431

The Company's effective income tax rate varied from the statutory federal income tax rate for the years ended June 30, 2001, 2002, and 2003 as follows:

	2001	2002	2003
Statutory federal income tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit.....	3.9	3.9	3.9
Stock-based compensation and 401(k) contribution expense.....	—	2.7	0.2
Nondeductible expenses and other....	3.3	3.5	0.5
Effective tax rate.....	42.2%	45.1%	39.6%

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The components of the net deferred tax asset as of June 30, 2002 and 2003 were as follows (in thousands):

	2002	2003
Deferred tax assets:		
Compensated absences and other accruals		
not yet deductible for tax purposes.....	\$6,468	\$7,829
Financial statement depreciation in excess of		
tax depreciation.....	3,400	2,622
Deferred compensation.....	1,560	1,598
Other.....	175	—
	<u>11,603</u>	<u>12,049</u>
Deferred tax liabilities:		
Identified intangibles.....	—	(2,327)
Unbilled contract revenue.....	(1,913)	(1,865)
Capitalized software.....	(932)	(533)
Other.....	—	(36)
	<u>(2,845)</u>	<u>(4,761)</u>
Net deferred tax asset.....	<u>\$8,758</u>	<u>\$7,288</u>

On February 28, 2002, the Company executed a Closing Agreement and Final Determination with the Internal Revenue Service (IRS) that settled all outstanding issues raised by the IRS with respect to an audit of the Company's June 30, 1996 tax return. The primary issue related to the Company's use of the cash receipts and disbursements method of accounting for income tax purposes. The IRS asserted that the Company did not qualify to use this method of accounting. While the Company disagreed with the IRS on this matter, in order to bring the matter to closure, SRA agreed to convert from the cash method to the accrual method effective July 1, 2000. As part of the settlement, the IRS accepted the Company's use of the cash method for tax returns filed through June 30, 2000. The effect of this change required that the Company pay deferred federal and state income taxes, plus interest accrued from September 24, 2001 to February 28, 2002. On February 28, 2002, the Company paid the federal portion of these taxes totaling \$18.6 million, plus interest of \$538,000. The Company also paid \$3.2 million of state taxes representing substantially all of the required additional state tax payments.

The Company had previously established a reserve of approximately \$2.6 million relating to the estimated probable interest on the tax liability. The provision for this accrual is reflected in other expense in the statements of operations through June 30, 2001. Because this reserve exceeded the amount of the actual federal interest payments and the Company's estimated state interest payments, the Company reversed approximately \$1.8 million of the reserve in the year ended June 30, 2002. This reversal is reflected as other income in the statement of operations for the year ended June 30, 2002.

10. COMMITMENTS AND CONTINGENCIES:

Government Contracting

Payments to the Company on cost-plus-fee contracts are provisional and are subject to adjustment upon audit by the Defense

Contract Audit Agency. Audits through June 30, 2001 have been completed. In the opinion of management, audit adjustments that may result from audits for periods after June 30, 2001 are not expected to have a material effect on the Company's financial position, results of operations, or cash flows.

Additionally, federal government contracts, by their terms, generally can be terminated at any time by the federal government, without cause, for the convenience of the federal government. If a federal government contract is so terminated, SRA would be entitled to receive compensation for the services provided and costs incurred through the time of termination, plus a negotiated amount of profit. Federal government contractors who fail to comply with applicable government procurement-related statutes and regulations may be subject to potential contract termination, suspension and debarment from contracting with the government, or other remedies. Management believes the Company has complied with all applicable procurement-related statutes and regulations.

Leases

Net rent expense for the years ended June 30, 2001, 2002, and 2003 was as follows (in thousands):

	2001	2002	2003
Office space.....	\$11,237	\$11,759	\$14,278
Sublease income.....	(923)	(1,572)	(1,332)
Subtotal.....	10,314	10,187	12,946
Furniture and equipment.....	684	634	707
Total.....	<u>\$10,998</u>	<u>\$10,821</u>	<u>\$13,653</u>

Future minimum rental commitments under noncancellable operating leases, primarily for office space, are as follows (in thousands):

	Rental Commitments	Sublease Income	Net Commitments
Years ending June 30,			
2004.....	\$ 17,106	\$ 863	\$ 16,243
2005.....	15,786	561	15,225
2006.....	14,479	228	14,251
2007.....	13,079	—	13,079
2008.....	11,223	—	11,223
Thereafter.....	62,102	—	62,102
Total minimum			
lease payments.....	<u>\$ 133,775</u>	<u>\$ 1,652</u>	<u>\$ 132,123</u>

Leases for certain office space entitle the Company to rent abatements pursuant to its lease agreements. The rent abatements are amortized as reductions in rent expense over the term of the respective leases. Certain lease commitments will be subject to adjustment based on changes in the Consumer Price Index.

Litigation

The Company is involved in various legal proceedings concerning matters arising in the ordinary course of business. The Company currently believes that any ultimate liability arising out

of these proceedings will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

11. GAIN ON SALE OF EQUITY METHOD INVESTMENT:

In February 2001, the Company recognized a pre-tax gain of \$11,776,000 on the sale of its minority interest in Mail2000, Inc. Approximately \$900,000 of this gain related to amounts previously accrued by the Company for probable losses under funding commitments by the Company to Mail2000, Inc. The Company deferred recognition of contingent gains attributable to the portion of its sales proceeds that were deposited in escrow to cover certain contingencies. In the year ended June 30, 2002, an additional pre-tax gain of \$373,000 was recognized when the Company received its portion of proceeds from the settlement of the first of two issues for which funds were escrowed. In the year ended June 30, 2003, additional pre-tax gains of \$1.0 million were recognized when the Company received its portion of proceeds from the remaining settlement of indemnification escrow agreements. As of June 30, 2003, all escrows related to the sale of Mail2000, Inc. have been distributed.

12. GAIN ON SALE OF ASSENTOR PRACTICE:

In October 2002, the Company sold its Assentor practice for approximately \$5 million, resulting in a pre-tax gain of \$4.7 million. All proceeds due as a result of this sale were received in October 2002 upon closing.

13. REIMBURSEMENT OF EXPENSES UPON FORMATION OF MANTAS, INC.:

On December 15, 2000, the Company formed a wholly-owned subsidiary, Mantas LLC, with the expectation that the Company would soon transfer its Mantas service offering, consisting of contracts, people, and intellectual property, to Mantas LLC and a third party investor would purchase an equity interest in Mantas LLC for cash. After completing due diligence in December 2000, the third party investor expected to fund this newly formed entity on or about January 1, 2001. However, the actual closing was delayed until May 24, 2001 to allow an additional investor to participate. The Company continued to own, develop and operate the Mantas service offering it had planned to transfer to Mantas LLC until May 24, 2001. The Company did this with the understanding from the third party investors that once Mantas LLC was funded, the Company would be reimbursed by Mantas LLC for the operating costs of the Mantas service offering from January 1, 2001 to closing. However, there was no signed agreement in place that would have obligated the third party investors to fund Mantas LLC and no ownership interest in the Company's Mantas service offering had been transferred to the third party investors. Therefore, the Company had all risks and rewards of ownership with respect to the Mantas service offering through closing on May 24, 2001.

Operations of the Mantas service offering for the period from January 1, 2001 to May 24, 2001 resulted in the Company incurring \$9.9 million of expenses (\$5.5 million in the quarter ended March 31, 2001 and \$4.4 million in the quarter ended June 30, 2001) and

realizing \$3.4 million of revenue (\$1.1 million in the quarter ended March 31, 2001 and \$2.3 million in the quarter ended June 30, 2001), which were included in the Company's operating results as revenue and expenses. On May 24, 2001, the Company converted Mantas LLC from a limited liability company to a Delaware corporation and changed its name to Mantas, Inc. The Company transferred the contracts, people, and intellectual property rights of its Mantas service offering to Mantas, Inc. in exchange for a 52 percent non-controlling interest in Mantas, Inc. and the third party investors contributed \$15 million and other consideration for their interests in Mantas, Inc. Subsequent to May 24, 2001, Mantas, Inc. reimbursed the Company for the costs described above and the Company paid Mantas, Inc. for the revenue earned by the Company on Mantas, Inc. contracts for the period January 1, 2001 to May 24, 2001. This resulted in a net reimbursement to the Company of approximately \$6.5 million which is recorded as a separate component of operations under "Reimbursement of expenses upon formation of Mantas, Inc." Since May 24, 2001, the Company has accounted for its investment in Mantas, Inc. using the equity method of accounting as it has significant influence but not control since the Company does not control Mantas, Inc.'s Board of Directors. The Company's ownership interest and influence was reduced to approximately 29 percent when the second round of Mantas, Inc. funding occurred on April 5, 2002, with the full funding provided by one of the third party investors.

14. RELATED PARTY TRANSACTIONS:

Since May 24, 2001 (Closing), Mantas has utilized certain services provided by the Company. Mantas reimburses the Company for the cost of such services. Mantas leases space from the Company and receives other support services related to its occupancy. Sublease income and amounts due for other support services provided were approximately \$1.6 million from Closing through June 30, 2002 and \$891,000 for the year ended June 30, 2003. The Company also allows Mantas to obtain certain travel and insurance-related services utilizing the Company's existing relationships with vendors. The total of such services received by Mantas was approximately \$1.4 million from Closing through June 30, 2002 and \$1.5 million for the year ended June 30, 2003. Additionally, the Company provides labor services when requested by Mantas to support its administrative and client support activities. Approximately \$875,000 of such labor services were provided from Closing through June 30, 2002 and \$295,000 for the year ended June 30, 2003. At June 30, 2002 and June 30, 2003, amounts due from Mantas for all services utilized were approximately \$118,000 and \$221,000, respectively, which amounts were subsequently paid by Mantas to the Company.

15. SEGMENT REPORTING:

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. SRA reports three operating segments — Consulting & Systems Integration (C&SI), Emerging Technologies (ET), and

Notes to Consolidated Financial Statements

(continued)

Legal Systems Integration (LSI). The C&SI segment focuses on the Company's three principal markets: national security, health care and public health, and civil government. The ET segment historically performed advanced technology research and development, sought commercial applications for this research and development, and managed and maintained the Company's proprietary software product offerings. As of June 30, 2002, substantially all ET segment activities had ceased. As of July 1, 2002, the only remaining activity in the ET segment was the Assentor practice. In October 2002, the Company sold its Assentor practice. The LSI segment consists of the Company's prior legal systems integration business, that was closed as of December 31, 2000. Historically, the portion of selling, general, and administrative expenses that relate to corporate support functions and depreciation and amortization are allocated to segments based on the ratio of segment labor expense to total labor expense, exclusive of corporate selling, general, and administrative labor expense. The total amount of corporate selling, general, and administrative expense allocated to segments was \$37.2 million and \$35.9 million for the years ended June 30, 2001 and 2002, respectively. With the elimination of all ET segment activities in the year ended June 30, 2003, all selling, general, and administrative expenses that relate to corporate support functions for the year ended June 30, 2003 were assigned to the C&SI segment. The Company only tracks accounts receivable and goodwill by segment. No other assets are specifically assigned to a segment.

Reportable Segments (in thousands)

Year Ended June 30, 2001	C&SI	ET	LSI	Total
Revenue.....	\$294,892	\$14,168	\$3,488	\$312,548
Depreciation and amortization..	6,938	1,297	158	8,393
Operating income (loss).....	16,263	(8,208)	(3,887)	4,168
Accounts receivable, net at June 30, 2001.....	96,188	390	870	97,448

Year Ended June 30, 2002	C&SI	ET	LSI	Total
Revenue.....	\$356,246	\$4,951	\$ —	\$361,197
Depreciation and amortization..	7,371	495	—	7,866
Operating income (loss).....	24,665	(6,158)	—	18,507
Accounts receivable, net at June 30, 2002.....	94,463	1,299	100	95,862
Goodwill.....	2,957	—	—	2,957

Year Ended June 30, 2003	C&SI	ET	LSI	Total
Revenue.....	\$449,298	\$1,077	\$ —	\$450,375
Depreciation and amortization..	8,969	73	—	9,042
Operating income (loss).....	42,034	(46)	—	41,988
Accounts receivable, net at June 30, 2003.....	119,224	—	—	119,224
Goodwill.....	36,171	—	—	36,171

16. ACQUISITIONS:

In January 2002, the Company acquired, by merger, all of the outstanding stock of The Marasco Newton Group, Ltd. (MNG), a privately-held company providing information technology, management, and environmental policy solutions primarily for federal government agencies. Initial payments of approximately \$7.2 million were made to acquire MNG. The results of MNG have been included in these consolidated financial statements from the January 4, 2002 date of the acquisition. Approximately \$2.2 million of the initial payments were allocated to identified intangibles and approximately \$3.0 million to goodwill. In connection with the acquisition, the Company assumed and subsequently repaid debt of approximately \$5.2 million. In December 2002, the Company made earn-out payments of \$8.7 million to the former stockholders of MNG representing all of the previously contingent purchase price. This additional purchase price was assigned to goodwill.

In January 2003, the Company acquired, by merger, all of the outstanding stock of Adroit Systems, Inc. (Adroit), a privately-held company specializing in national security, particularly providing services in the area of command and control, communications, computers, intelligence, surveillance, and reconnaissance to U.S. intelligence and defense organizations. The results of Adroit have been included in these consolidated financial statements from the January 31, 2003 date of the acquisition. The net purchase price consisted of initial payments to Adroit stockholders of approximately \$33.3 million, with another \$5.0 million deposited in escrow to secure indemnification obligations of the former stockholders of Adroit. In connection with the acquisition, we assumed and subsequently repaid debt of approximately \$1.0 million. In addition, Adroit executives used \$4.4 million of the net purchase price proceeds to buy an aggregate of 160,905 shares of SRA International, Inc. class A common stock at a price equal to the average closing stock price on the twenty trading days preceding the closing date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, including acquisition expenses, at the date of acquisition (in thousands).

Current assets.....	\$13,695
Property and equipment, net.....	1,180
Goodwill.....	24,516
Identified intangible assets.....	4,629
Total assets acquired.....	44,020
Current liabilities.....	(3,326)
Other liabilities.....	(2,331)
Total liabilities assumed.....	(5,657)
Net assets acquired.....	\$38,363

The identified intangible assets of \$4.6 million were assigned to contract rights and are being amortized on a straight-line basis over a period of six years.

The following unaudited pro forma information presents

consolidated information as if the acquisition of Adroit had occurred on July 1, 2001. The pro forma information is provided based on historical data that does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of operations of the combined entity (in thousands, except per share amounts).

	Pro Forma	
	2002	2003
Revenue.....	\$400,006	\$478,727
Net income.....	11,626	31,012
Basic earnings per share.....	0.79	1.45
Diluted earnings per share.....	0.68	1.30

17. QUARTERLY FINANCIAL DATA (UNAUDITED) (in thousands, except per share amounts):

Year Ended June 30, 2002	Revenue	Operating Income	Income Before Taxes	Net Income	Earnings Per Share (a)	
					Basic	Diluted
1st Quarter.....	\$ 77,594	\$1,974	\$2,282	\$1,197	\$0.09	\$0.08
2nd Quarter.....	82,986	2,912	2,968	1,264	0.09	0.08
3rd Quarter.....	99,175	5,908	7,564	4,433	0.32	0.27
4th Quarter.....	101,442	7,713	7,740	4,383	0.26	0.22
Year Ended June 30, 2003						
1st Quarter.....	\$101,538	\$7,067	\$8,486	\$5,007	\$0.24	\$0.21
2nd Quarter.....	105,311	9,917	15,024	9,005	0.43	0.38
3rd Quarter.....	116,405	11,511	11,796	7,170	0.33	0.30
4th Quarter.....	127,121	13,494	13,786	8,478	0.38	0.35

(a) The sum of earnings per share for the four quarters in both years differs from the annual earnings per share due to the required method of computing the weighted average number of shares in the interim period.

Independent Auditors' Report

To the Board of Directors and Stockholders of SRA International, Inc.:

We have audited the accompanying consolidated balance sheets of SRA International, Inc. and Subsidiaries (the Company) as of June 30, 2002 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, the consolidated financial statements present fairly, in all material respects, the financial position of SRA International, Inc. and Subsidiaries as of June 30, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.



McLean, Virginia
July 28, 2003

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- 2 - Compensation
- 3 - Governance

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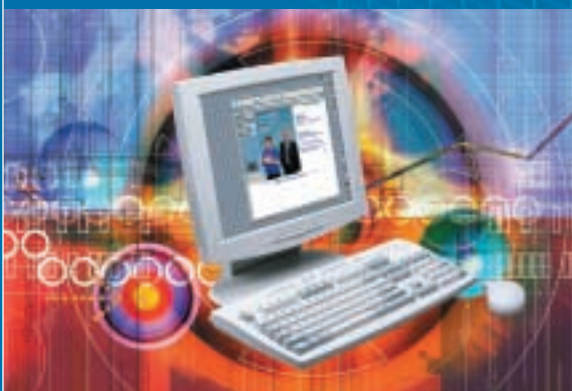
Vice Presidents

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Director, Health Systems

Dr. Chinatsu Aone
Director, Natural Language
Technology

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Stockholder Information

Stock Listing

SRA International, Inc. is traded on the New York Stock Exchange under the symbol SRX.

Stockholder Services

All questions concerning registered stockholder accounts and stock transfer matters, including name or address changes and transfers, should be directed to our transfer agent and registrar:

**American Stock Transfer
and Trust Company**
59 Maiden Lane
New York, NY 10007
(800) 937-5449
www.amstock.com

Independent Accountants

Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, VA 22102

Annual Meeting

The annual meeting of stockholders will be held in November 2003. For additional information, please visit the Investor Relations section of the SRA Web site (www.sra.com).

Annual Report on Form 10-K

Stockholders may obtain without charge a copy of the SRA Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, by writing to:

SRA International, Inc.
Investor Relations
4300 Fair Lakes Court
Fairfax, VA 22033

Additional Information

The SRA Web site (www.sra.com) contains valuable information, such as financial results, corporate news releases, and management profiles. Inquiries for additional investor information should be directed to:

Stuart Davis

Director, Investor Relations
(703) 502-7731
investor@sra.com

SRA
INTERNATIONAL, INC.
25th Anniversary
Celebrating Twenty-Five Years of Excellence

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