ALLEN JULIAN A L
Form 5
January 20, 2010

FORM 5

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).
Form 3 Holdings Reported
Form 4 Transactions Reported

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person [*]
ALLEN JULIAN A L

(Last) (First) (Middle)

C/O SPITFIRE CAPITAL LLC,Â 170 GRANT AVENUE, 5TH FLOOR

(Street)

SAN FRANCISCO,Â CAÂ 94108

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
QUADRAMED CORP [QDHC]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) __X__ Other (specify below)
Former Director

6. Individual or Joint/Group Reporting

(check applicable line)

_X_ Form Filed by One Reporting Person
___ Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				Amount	(A) or (D)	Price			
Common Stock	12/08/2009	Â	S	122,220	D	$ 8.32	0	I	See Footnote 1 [(1)]

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. of D Se Be O En Is Fi (I
					(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ALLEN JULIAN A L C/O SPITFIRE CAPITAL LLC 170 GRANT AVENUE, 5TH FLOOR SAN FRANCISCO,Â CAÂ 94108	Â	Â	Â	Former Director

Signatures

/s/ Julian A.L. Allen	01/20/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Spitfire Fund LP (the "Fund") directly owns these reported shares of QuadraMed Corporation common stock. Spitfire Capital LLC, the investment manager of the Fund, and Spitfire Fund GP LLC, the general partner of the Fund, may be deemed to beneficially own the securities. Mr. Allen is the sole member of both Spitfire Capital LLC and Spitfire Fund GP LLC and exercises sole voting and dispositive power with respect to the securities. Mr. Allen disclaims beneficial ownership of these securities, except to the extent of his pecuniary interest therein.

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, *see* Instruction 6 for procedure.
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1,645

Total backlog

$2,575

$2,641

$2,682

	For the Three Months Ended July 1, 2005	Fiscal Year Ended March 31, 2006	For the Three Months Ended June 30, 2006
New orders	$ 960	$2,568	$ 579

Estimated Remaining Contract Value

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

	April 2, 2004	April 1, 2005	March 31, 2006	June 30, 2006
Estimated remaining contract value	$2,812	$4,413	$5,727	$5,682

Our estimated remaining contract value represents the backlog plus management s estimate of future revenues under indefinite delivery, indefinite quantity contracts that have not been funded, or award term periods that have not yet been earned. These future revenues would be our estimate of revenue that would occur from the end of currently funded task orders until the end of the indefinite delivery, indefinite quantity contracts. Our estimated remaining contract value is based on our experience under contracts, and we believe our estimates are reasonable. However, there can be no assurance that our existing contracts will result in actual revenues in any particular period or at all. These amounts could vary depending upon government budgets and appropriations.

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Explanation of Responses:

Results of Operations

The following table (dollars in thousands) sets forth, for the periods indicated, our historical results of operations:

	For the Three Months Ended			
	June 30, 2006	% of Revenue	July 1, 2005	% of Revenue
Revenues	$ 537,684	100.0 %	$ 425,055	100.0 %
Costs of services (excluding depreciation and amortization disclosed below)	470,334	87.4	378,590	89.1
Selling, general and administrative expenses	27,405	5.1	19,159	4.5
Depreciation and amortization	11,137	2.1	10,685	2.5
Total costs and expenses	508,876	94.6	408,434	96.1
Interest expense	14,814	2.8	13,837	3.3
Interest on mandatory redeemable shares	3,002	0.6	4,051	1.0
Loss on debt extinguishment and preferred stock	9,201	1.7		
(Income) loss from joint ventures	(446)	(0.1)	68	0.0
Interest income	(150)	0.0		
Income (loss) before taxes	2,387	0.4	(1,335)	(0.4)
Provision for income taxes	3,004	0.6	639	0.2
Net loss	$ (617)	(0.2)%	$ (1,974)	(0.6)%

Three Months Ended June 30, 2006 Compared To Three Months Ended July 1, 2005

Consolidated

Revenues. Total revenues increased from $425.1 million for the three months ended July 1, 2005 to $537.7 million for the three months ended June 30, 2006, an increase of $112.6 million or 26.5%. For the three months ended June 30, 2006 and July 1, 2005, approximately 42%, 35% and 23% and approximately 28%, 41% and 31% of our revenues were derived from fixed-price, time-and-materials, and cost-reimbursement contracts, respectively.

Revenues from our ITS segment increased from $255.6 million for the three months ended July 1, 2005 to $355.0 million for the three months ended June 30, 2006, an increase of $99.4 million or 38.9%. The International Narcotics and Law Enforcement Air-Wing (Air-Wing) program increased $39.2 million. The Department of State awarded our current contract under the Air-Wing program during May 2005. As part of the new contract, we successfully transitioned many of the activities under this program from cost-reimbursement to fixed-price. Due to increased flight hour activity in Latin America, revenues under the Air-Wing program increased for the three months ended June 30, 2006, compared to the three months ended July 1, 2005. Additional factors contributing to the increase in revenues included: (i) providing helicopter support under the Air-Wing program for ground eradication efforts in Afghanistan; and (ii) transitioning from cost-reimbursement to fixed-price. Our Civilian Police program contributed $38.5 million to the increase in revenues. The Civilian Police program benefited from the increased number of international police liaison officers deployed in Iraq and Afghanistan during the three months ended June 30, 2006, compared to the three months ended July 1, 2005. In addition, while supporting the Iraq effort, we benefited from operations and maintenance support efforts, as well as additional procurement activities. The Logistic Support programs revenue increased by $17.0 million, compared to the three months ended July 1, 2005. The increase within the Logistics Support programs is primarily due to the added work under the Africa Peacekeeping contract with the Department of State. These increases were partially offset by a reduction in services under the Worldwide Personal Protective Services program. We recently lost four task orders under which we provided personal security services in

Israel, Haiti, Afghanistan and central Iraq. These lost orders contributed to a decrease in revenues of $14.0 million for the three months ended June 30, 2006, compared to the three months ended July 1, 2005.

Revenues from our FTS segment increased from $169.5 million for the three months ended July 1, 2005 to $182.7 million for the three months ended June 30, 2006, an increase of $13.2 million or 7.8%. The FTS increase was primarily driven by an increase in the number of Global Air Traffic Management avionics modification under the Life Cycle Contractor Support program of $8.6 million and an increase in personnel and the level of effort under the Contract Field Team program of $8.4 million. Partially offsetting this increase was the Army Prepositioned Stocks Afloat program, which decreased by $5.2 million mainly because the U.S. government reduced its funding.

Costs of services. Costs of services are comprised of direct labor, direct material, subcontractor costs, other direct costs and overhead. Other direct costs include travel, supplies and other miscellaneous costs. Costs of services increased from $378.6 million for the three months ended July 1, 2005 to $470.3 million for the three months ended June 30, 2006, an increase of $91.7 million or 24.2%. As a percentage of revenue, costs of services dropped from 89.1% in the three months ended July 1, 2005 to 87.4% for the three months ended June 30, 2006. This reduction as a percentage of revenue was due to the following: (i) strong performance on fixed-price task orders under the Civilian Police and the Air-Wing programs; and (ii) improved contract mix resulting from a larger proportion of higher-margin fixed-price and time-and-materials contracts as opposed to lower-margin cost-reimbursement contracts.

Selling, general and administrative expenses. Selling, general and administrative expenses primarily relate to functions such as management, legal, financial accounting, contracts and administration, human resources, management information systems, purchasing and business development. Selling, general and administrative expenses for the three months ended July 1, 2005 were $19.2 million and increased to $27.4 million for the three months ended June 30, 2006, an increase of $8.2 million or 42.7%. In addition, as a percentage of revenue, selling, general and administrative expenses increased from 4.5% for the three months ended July 1, 2005 to 5.1% for the three months ended June 30, 2006. Factors contributing to higher selling, general and administrative expenses for the three months ended June 30, 2006 include: (i) an increase of $4.6 million in segment general and administrative costs necessary to support the growth of our segments, primarily ITS; (ii) an increase of $3.1 million in corporate administrative costs, primarily the result of developing these functions as an independent company; and (iii) an increase of $2.7 million in business development costs. Offsetting the increase in selling, general and administrative expenses is a benefit of $2.3 million related to the collection of an accounts receivable previously written off as bad debt.

Depreciation and amortization. Depreciation and amortization increased from $10.7 million for the three months ended July 1, 2005 to $11.1 million for the three months ended June 30, 2006, an increase of $0.4 million or 3.7%. This increase was primarily due to higher depreciation expense.

Interest expense. Interest expense increased from $13.8 million for the three months ended July 1, 2005 to $14.8 million for the three months ended June 30, 2006. The interest expense incurred related to our senior secured credit facility and our senior subordinated notes. This interest expense includes interest costs applicable to the quarter as well as amortization of deferred financing fees. The increase in interest expense is due to the increase in variable interest rates, compared to the three months ended July 1, 2005, despite our lower outstanding average balance during the three months ended June 30, 2006. Our average interest rate on the senior secured credit facility for the three months ended June 30, 2006 was 7.7%, compared to 6.4% for the three months ended July 1, 2005.

Interest on mandatory redeemable shares. Interest on the mandatory redeemable shares, or preferred stock, was $3.0 million for the three months ended June 30, 2006, compared to $4.1 million for the three months ended July 1, 2005. All of our outstanding preferred stock was redeemed in connection with our Equity Offering in May 9, 2006, resulting in a shorter time outstanding, compared to the three months

Explanation of Responses:

ended July 1, 2005. In addition, we had preferred stock stated value of $195.6 million and $125.0 million at June 30, 2006 and July 1, 2005, respectively.

Loss on debt extinguishment and preferred stock. In conjunction with our Equity Offering in May 2006, we incurred: (i) a premium of $5.7 million associated to the redemption of all of our outstanding preferred stock; (ii) a premium of $2.7 million related to the redemption of a portion of our senior subordinated notes; and (iii) the write-off of $0.8 million in deferred financing costs associated with the early retirement of a portion of our senior subordinated notes.

Income tax expense. We had income tax expense for the three months ended June 30, 2006 of $3.0 million, which is an increase of $2.4 million or 400.0% from income tax expense of $0.6 million for the three months ended July 1, 2005. The increase is primarily due to the $2.1 million in income tax expense related to the premium paid on our preferred stock in connection with the Equity Offering. This premium is considered a discreet item for tax purposes and is not deductible. Income tax expense before consideration of the discreet item was $0.9 million, with an effective tax rate of 38.9%.

Results by Segment

We evaluate segment performance based primarily on the non-GAAP measure of EBIT, which includes the effects of corporate expense allocations. EBIT is a non-GAAP measure that includes operating income, other income and income (loss) from joint ventures. Items that we do not include in EBIT are financing costs, including interest and debt expense and income taxes, each of which we evaluate on a consolidated level. We believe EBIT is a useful measurement of our performance because it provides information that can be used to evaluate the effectiveness of our business from an operational perspective, exclusive of the costs to finance those activities and exclusive of income taxes, neither of which is directly relevant to the efficiency of those operations.

EBIT should not be considered an alternative to, or a more meaningful indicator of our operating performance than, operating income or net income as determined in accordance with GAAP. In addition, our EBIT may not be comparable to a similarly titled measure of another company.

The following table (dollars in thousands) sets forth the revenues and earnings before interest and taxes for our ITS and FTS operating segments, both in dollars and as a percentage of our consolidated revenues for segment revenue and as a percentage of segment specific revenue for segment earnings before interest and taxes, for the three months ended June 30, 2006, compared to the three months ended July 1, 2005.

	For the Three Months Ended					
	June 30, 2006			**July 1, 2005**		
Revenues						
International Technical Services	$ 354,943	66.0	%	$ 255,603	60.1	%
Field Technical Services	182,741	34.0		169,452	39.9	
Other						
Consolidated	$ 537,684	100.0	%	$ 425,055	100.0	%
Earnings before interest and taxes						
International Technical Services	$ 25,900	7.3	%	$ 10,181	4.0	%
Field Technical Services	4,722	2.6	%	7,678	4.5	%
Other	(1,218)	NA		(1,306)	NA	
Consolidated	$ 29,404	5.5	%	$ 16,553	3.9	%

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International Technical Services

Revenues. Revenues from our ITS segment increased from $255.6 million for the three months ended July 1, 2005 to $355.0 million for the three months ended June 30, 2006, an increase of $99.4 million or 38.9%. Revenues from our Air-Wing program increased $39.2 million. The Department of State awarded our current contract under the Air-Wing program during May 2005. As part of the new contract, we successfully transitioned many of the activities under this program from cost-reimbursement to fixed-price. Due to increased flight hour activity in Latin America, revenues under the Air-Wing program increased for the three months ended June 30, 2006, compared to the three months ended July 1, 2005. Additional factors contributing to the increase in revenues included: (i) providing helicopter support under the Air-Wing program for ground eradication efforts in Afghanistan during the three months ended June 30, 2006; and (ii) transitioning from cost-reimbursement to fixed-price. Our Civilian Police program contributed $38.5 million to the increase in revenues. The Civilian Police program benefited from the increased number of international police liaison officers deployed in Iraq and Afghanistan during the three months ended June 30, 2006, compared to the three months ended July 1, 2005. In addition, while supporting the Iraq effort, we benefited from operations and maintenance support efforts, as well as additional procurement activities. The Logistic Support programs revenue increased by $17.0 million, compared to the three months ended July 1, 2005. The increase within the Logistics Support programs is primarily due to the added work under the Africa Peacekeeping contract with the Department of State. These increases were partially offset by a reduction in services under the Worldwide Personal Protective Services program. We recently lost four task orders under which we provided personal security services in Israel, Haiti, Afghanistan and central Iraq. These lost orders contributed to a decrease in revenues of $14.0 million for the three months ended June 30, 2006, compared to the three months ended July 1, 2005.

Earnings before interest and taxes. Earnings before interest and taxes for the three months ended June 30, 2006 were $25.9 million, an increase of $15.7 million, or 153.9%, from $10.2 million for the three months ended July 1, 2005. Earnings before interest and taxes as a percentage of revenue for the three months ended June 30, 2006 and July 1, 2005 was 7.3% and 4.0%, respectively. The increase as a percentage of revenue is due to the following: (i) strong performance on fixed-price task orders under the Civilian Police and Air-Wing programs; and (ii) improved contract mix resulting from a larger proportion of higher-margin fixed-price and time-and-materials contracts as opposed to lower-margin cost-reimbursement contracts.

Field Technical Services

Revenues. Revenues from our FTS segment increased from $169.5 million for the three months ended July 1, 2005 to $182.7 million for the three months ended June 30, 2006, an increase of $13.2 million or 7.8%. The FTS increase was primarily driven by an increase in the number of Global Air Traffic Management avionics modifications under the Life Cycle Contractor Support program of $8.6 million and an increase in personnel and the level of effort under the Contract Field Team program of $8.4 million. Partially offsetting this increase was the Army Prepositioned Stocks Afloat program, which decreased by $5.2 million mainly because the U.S. government reduced its funding.

Earnings before interest and taxes. Earnings before interest and taxes for the three months ended June 30, 2006 were $4.7 million, a decrease of $3.0 million, or 39.0%, from $7.7 million for the three months ended July 1, 2005. Earnings before interest and taxes as a percentage of revenue for the three months ended June 30, 2006 was 2.6% compared to 4.5% for the three months ended July 1, 2005. The primary factors contributing to the decrease are: (i) incurred operating losses of $1.9 million from delivering services to the U.S. Army under our Life Cycle Contractor Support program; and (ii) incurred operating losses of $2.4 million due to operational issues in executing the cost structure outlined in the original proposal for our AH-1/UH-1 services.

Explanation of Responses:

Liquidity and Capital Resources

The following table sets forth cash flow data for the periods indicated therein (dollars in thousands):

	For the Three Months Ended June 30, 2006	July 1, 2005
Net cash provided by operating activities	$2,977	$52,373
Net cash used in investing activities	(3,533)	(912)
Net cash used in financing activities	(3,848)	(36,346)

Cash Flows

Operating Activities. Cash and cash equivalents as of June 30, 2006 were $16.2 million compared to $20.6 million as of March 31, 2006. Net cash provided by operating activities for the three months ended June 30, 2006 was $3.0 million, while net cash provided by operating activities for the three months ended July 1, 2005 was $52.4 million. Operating cash flow for the first quarter of fiscal 2006 reflected unusually high cash collections, which resulted in a $46.1 million source of cash. The first quarter of fiscal 2007 experienced unfavorable timing of cash collections, which resulted in a use of cash of $31.4 million and is expected to reverse during subsequent quarters. The days sales outstanding improved to 80.2 days for the three months ended June 30, 2006, compared to 80.6 days for the three months ended July 1, 2005. Other factors impacting operating cash flow during the three months ended June 30, 2006 included: (i) one-time cash payments of $3.7 million for interest related to the Company s preferred stock; and (ii) payment of special cash bonuses subsequent to our Equity Offering of $3.125 million in the aggregate to our executive officers and certain other members of management. These bonuses rewarded management for their efforts in connection with the successful consummation of our Equity Offering.

Investing Activities. Net cash used in investing activities was $3.5 million and $0.9 million for the three months ended June 30, 2006 and July 1, 2005, respectively. For the three months ended June 30, 2006 and July 1, 2005, the primary use of cash was to purchase property and equipment.

Financing Activities. Net cash used in financing activities was $3.8 million and $36.3 million for the three months ended June 30, 2006 and July 1, 2005, respectively. The cash used during the three months ended June 30, 2006 included: (i) gross proceeds received from the Equity Offering of $375.0 million; (ii) payment of Equity Offering costs of $30.0 million; (iii) partial redemption of senior subordinated notes of $28.8 million, including accrued interest; (iv) redemption of all outstanding preferred stock and related accrued and unpaid interest of $228.5 million; (v) payment of special Class B distribution of $100.0 million and (vi) borrowings related to prepaid insurance of $3.5 million. The cash used in financing activities during the three months ended July 1, 2005 was due to the $35.0 million repayment of borrowings under our revolving credit facility, the $0.9 million scheduled repayment of our bank note borrowings and the $0.5 million purchase of an interest rate cap that limits our exposure to upward movements in variable rate debt.

Based on our current level of operations, we believe our cash flow from operations and our available borrowings under our senior secured credit facility will be adequate to meet our liquidity needs for at least the next twelve months. We cannot be assured, however, that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our senior secured credit facility in an amount sufficient to enable us to repay our indebtedness, including the senior subordinated notes, or to fund our other liquidity needs. Servicing our indebtedness will require a significant amount of cash. Our ability to generate sufficient cash depends on numerous factors beyond our control, and we may be unable to generate sufficient cash flow to service our debt obligations, including making payments on the senior subordinated notes.

Explanation of Responses:

Equity Offering

On May 9, 2006, we consummated an Equity Offering of 25,000,000 shares of our Class A common stock, par value $0.01 per share, at a price of $15.00 per share. The gross proceeds from the Equity Offering of $375.0 million, together with cash on hand, were used: (i) to redeem all of our outstanding preferred stock, of which $222.8 million in stated amount, including accrued and unpaid dividends thereon, was outstanding as of May 9, 2006; (ii) to pay a special Class B distribution in the amount of $100.0 million, representing a return of capital of $95.9 million to DIV Holding LLC, the holder of our common stock; (iii) to redeem $28.0 million of our senior subordinated notes on June 8, 2006; (iv) to pay prepayment penalties of $8.4 million, $5.7 million of which represented prepayment penalties on our preferred stock and $2.7 million of which represented prepayment penalties on our senior subordinated notes; and (v) to pay transaction expenses of approximately $35.0 million, including an underwriters commission of $22.5 million, a fee of $5.0 million to Veritas Capital and $7.5 million of miscellaneous fees and expenses related to the Equity Offering.

Debt and Other Obligations

As of June 30, 2006, we had $632.7 million of indebtedness, including the senior subordinated notes and excluding interest accrued thereon, of which $340.7 million was secured. On the same date, we had approximately $79.8 million available under our senior secured credit facility. This figure gives effect to $10.2 million in outstanding letters of credit, which reduced our availability by that amount.

Our senior secured credit facility contains financial covenants, including a minimum interest coverage ratio and a maximum total debt to EBITDA ratio, and places certain restrictions on our ability to make capital expenditures. These financial ratios include a minimum interest coverage ratio and a leverage ratio. The interest coverage ratio is the ratio of EBITDA (as defined in our senior revolving credit facility) to cash interest expense for trailing quarters. The minimum interest coverage ratio increases from 2:1 to 3.20:1.00 during the term of the senior secured credit facility. The maximum leverage coverage ratio decreases from 6:1 to 3:1 during the term of the senior secured credit facility. The senior secured credit facility also restricts the maximum amount of our capital expenditures during each year of the senior secured credit facility. Capital expenditures are expenditures that are required by GAAP to be included in the purchase of property and equipment. Our senior secured credit facility is secured by substantially all of our assets and the assets of our domestic subsidiaries, by a pledge of all of the capital stock of our domestic subsidiaries and by 65% of the capital stock of our first tier foreign subsidiaries. The initial borrowings thereunder are subject to customary closing conditions.

On January 9, 2006, we entered into a first amendment and waiver of our senior secured credit facility. The first amendment and waiver increased the revolving commitment under our senior secured credit facility by $15.0 million to $90.0 million, which includes an increase in the sub-limit for letters of credit equal to the same amount. The first amendment and waiver also permitted us to: (i) pay a transaction fee to Veritas Capital related to our Equity Offering of up to $10.0 million; (ii) pay a distribution to the holders of our Class B common stock in an amount equal to the sum of (x) $100.0 million plus (y) the proceeds, if any, of the underwriters over-allotment option, net of discount and estimated offering expenses; (iii) redeem all of our then currently outstanding preferred stock; and (iv) redeem up to $65.0 million of the $320.0 million aggregate principal amount of the senior subordinated notes. The first amendment and waiver waived the requirement in the senior secured credit facility that we use 50% of the net cash proceeds from our Equity Offering to prepay loans under the senior secured credit facility and/or permanently reduce the revolving commitments.

On June 28, 2006, the Company, through its operating company, DynCorp International LLC, entered into a second amendment and waiver of our senior secured credit facility, dated February 11, 2005. The second amendment and waiver provided for a senior secured credit facility of $431.6 million, representing

a $90.0 million revolver and a $341.6 million outstanding term loan. The Company did not have an outstanding balance on the revolver on the date of the second amendment and waiver. The maturity date of the amended senior secured credit facility remanis unchanged. The second amendment and waiver also does the following, among other things: (i) decreases the interest rate applicable to the term loan under our senior secured credit facility; (ii) permits us to request an increase in our revolving credit facility by an aggregate amount of up to $30.0 million, provided that none of the existing lenders or any other lender is committed to providing such increase; (iii) increases the amount of capital expenditures permitted under our senior secured credit facility from $4.0 million per fiscal year to $8.0 million per fiscal year; (iv) increases the amount of capitalized leases permitted under our senior secured credit facility; (v) allows for the payment of dividends and the repurchase of our capital stock in the amount of $10.0 million plus, if our leverage ratio (as defined in our senior secured credit facility) is below 3.25:1.00, 25% of our excess cash flow (as defined in our senior secured credit facility) for each fiscal year; and (vi) provides for the first excess cash flow payment, as defined by the senior secured credit facility, to commence on our fiscal year that ends on March 30, 2007.

Other Long-Term Liabilities

Other long-term liabilities represents $3.0 million of tenant improvement concessions pertaining to the Company s lease of one of its facilities. The lease will be amortized over the life of the lease as prescribed by SFAS No. 13, *Accounting for Leases*, and FASB Technical Bulletin 88-1, *Issues Relating to Accounting for Leases*.

Off-Balance Sheet Arrangements

As of March 31, 2006, other than the operating leases discussed above, we had no off-balance sheet arrangements.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with GAAP. The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis, including those relating to revenue recognition and cost estimation on long-term contracts, allowance for doubtful accounts, determination of goodwill and customer-related intangible assets, goodwill impairment, accounting for contingencies and litigation and accounting for income taxes. Our estimates and assumptions have been prepared on the basis of the most current available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could materially differ from these estimates under different assumptions and conditions.

We have several critical accounting policies that are important to the portrayal of our financial condition and results of operations and that require management s most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments complex and difficult have to do with making estimates about the effect of matters that are inherently uncertain. Our critical accounting estimates are as noted below.

Revenue Recognition and Cost Estimation on Long-Term Contracts

We provide our services under fixed-price, time-and-materials and cost-reimbursement contracts. The form of contract, rather than the type of service offering, is the primary determinant of revenue recognition. Revenues are recognized when persuasive evidence of an arrangement exists, services or products have been provided to the client, the sales price is fixed or determinable and collectibility is reasonably assured.

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

Revenue on fixed-price construction or production-type contracts, when they occur, is recognized on the basis of the estimated percentage of completion. Progress towards completion is typically measured based on achievement of specified contract milestones, when available, or based on costs incurred as a proportion of estimated total costs. Profit in a given period is reported at the expected profit margin to be achieved on the overall contract. This method can result in the deferral of costs or profit on these contracts. Management regularly reviews project profitability and underlying estimates. Revisions to the estimates at completion are reflected in results of operations as a change in accounting estimate in the period in which the facts that give rise to the revision become known by management. Revenue on fixed-price contracts that have a duration of less than six months is recognized on the completed contract method. Work in progress is classified as a component of inventory.

We provide for anticipated losses on contracts by a charge to income during the period in which the losses are first identified. Amounts billed but not yet recognized as revenue under certain types of contracts are deferred. Unbilled receivables are stated at estimated realizable value. Contract costs on U.S. government contracts, including indirect costs, are subject to audit and adjustment by negotiations between us and government representatives. Substantially all of our indirect contract costs have been agreed upon through 2004. Contract revenues on U.S. government contracts have been recorded in amounts that are expected to be realized upon final settlement.

Contract costs are expensed as incurred, except as described above and on certain other production-type fixed-price contracts, where costs are deferred until such time that associated revenue is recognized.

Client contracts may include the provision of more than one of our services. For revenue arrangements with multiple deliverables, revenue recognition includes the proper identification of separate units of accounting and the allocation of revenue across all elements based on relative fair values.

Many of our contracts are time-and-materials or fixed hourly/daily rate contracts. For these contracts, revenue is recognized each month based on actual hours/days charged to the program during that month multiplied by the fixed hourly/daily rate in the contract for the type of labor charged. Any material or other direct charges are recognized as revenue based on the actual direct cost plus Defense Contract Audit Agency-approved indirect rates.

Cost-reimbursement type contracts can be either cost plus fixed fee, or cost plus award fee. Revenue recognition for these two contract types is very similar. In both cases, revenue is based on actual direct cost plus Defense Contract Audit Agency-approved indirect rates. In the case of cost plus fixed fee, the fixed fee is recognized based on the ratio of the fixed fee for the contract to the total estimated cost of the contract. In the case of cost plus award fee contracts, the fee is made up of two components, base fee and award fee. Base fee is recognized in the same manner as the fee on cost plus fixed fee contracts. The award fee portion is recognized based on an average of the last two award fee periods or award experience for similar contracts for new contracts that lack specific experience.

Allowance for Doubtful Accounts

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

Determination of Goodwill and Customer-Related Intangible Assets

In accordance with SFAS No. 141, *Business Combinations*, the 2005 Acquisition was accounted for using the purchase method of accounting. This method requires estimates to determine the fair values of assets and liabilities acquired, including judgments to determine any acquired intangible assets such as customer-related intangibles, internally developed technology and tradename, as well as assessments of the fair value of tangible assets such as property and equipment. Liabilities acquired include reserves for litigation and other contingency reserves established prior to, or at the time of, acquisition and require judgment in ascertaining a reasonable value as well.

Third-party valuation firms assisted management in the appraisal of certain assets and liabilities, but even those determinations were based on significant estimates provided by us. For example, the value ultimately assigned to customer-related intangibles and internally developed technology were determined by a third-party valuation firm as of the date of acquisition, based on estimates and judgments provided by us regarding expectations for the estimated future after-tax cash flows from those assets over their lives, including the probability of expected future contract renewals and sales, less a cost-of-capital charge, all of which was discounted to present value. If actual future after-tax cash flows are significantly lower than our estimates, we may be required to record an impairment charge to write down the identifiable intangible assets to their realizable values.

The value assigned to the 2005 Acquisition goodwill equaled the amount of the purchase price in excess of the sum of the amounts assigned to the identifiable acquired assets, both tangible and intangible, less liabilities assumed. At June 30, 2006, we had goodwill of $420.2 million and identifiable intangible assets of $262.8 million.

Goodwill and Intangible Impairment

We review goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We also review goodwill annually, during our fourth quarter, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that goodwill be tested, at a minimum, annually for each reporting unit using a two-step process. A reporting unit is an operating segment, as defined in paragraph 10 of SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, or a component of an operating segment. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. Management judgments include, but are not limited to, estimates for future sales, operating income, depreciation and amortization, income tax payments, working capital changes and capital expenditures, as well as expected growth rates for cash flows and long-term interest rates. The first step of the process consists of estimating the fair value of each of the reporting units based on a discounted cash flow model and comparing those estimated fair values with the carrying values, which includes the allocated goodwill. If a potential impairment is identified, the second step is to measure the impairment loss by comparing the implied fair value of goodwill with the carrying

value of goodwill of the reporting unit. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit s identifiable assets and liabilities from its estimated fair value calculated in step one. The impairment charge, if any, would represent the excess of the carrying amount of the reporting unit s goodwill over the implied fair value of its goodwill. A decline in estimated fair value of a reporting unit could result in an impairment charge to goodwill, which could have a material adverse effect on our business, financial condition and results of operations. We completed our impairment analysis of goodwill as of February 24, 2006, noting no indications of impairment for any of our reporting units. In addition, as of June 30, 2006, there have been no events or circumstances that would indicate an impairment of other identifiable intangibles, such as customer-related intangibles.

Accounting for Contingencies and Litigation

We are subject to various claims and contingencies associated with lawsuits, insurance, tax and other issues arising out of the normal course of business. The consolidated financial statements reflect the treatment of claims and contingencies based on our view of the expected outcome. We consult with legal counsel on issues related to litigation and seek input from other experts and advisors with respect to matters in the ordinary course of business. If the likelihood of an adverse outcome is probable and the amount is estimable, we accrue a liability in accordance with SFAS No. 5, *Accounting for Contingencies.* Significant changes in the estimates or assumptions used in assessing the likelihood of an adverse outcome could have a material effect on our consolidated financial results.

Accounting for Income Taxes

Realization of our deferred tax assets is primarily dependent on future U.S. taxable income. SFAS No. 109, *Accounting for Income Taxes*, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. As a result of recent U.S. operating results together with the Company s forecasts of future pretax operating results, we believe that net deferred tax assets in the amount of $15.8 million are realizable based on the more likely than not standard required for recognition.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. The Company s provision for income taxes is based on a jurisdictional mix of earnings, statutory rates and enacted tax rules. Significant judgment is required in determining the Company s provision for income taxes and in evaluating its tax positions on a worldwide basis. The Company believes its tax position is consistent with the tax laws in the jurisdictions in which it conducts its business. It is possible that these positions may be challenged, which may have a significant impact on the Company s effective tax rate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006, filed with the SEC on June 29, 2006.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are: (1) recorded, processed, summarized and

reported within the time periods specified in the SEC s rules and forms; and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There have been no changes in our internal controls over financial reporting that have occurred during our fiscal quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in legal proceedings from those provided in Part I, Item 3, Legal Proceedings in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006, filed with the SEC on June 29, 2006.

ITEM 1A. RISK FACTORS

There have been no material changes in risk factors from those described in Part I, Item 1A, Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006, filed with the SEC on June 29, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

Exhibit Number	**Description**	
3.1	Certificate of Incorporation of DynCorp International Inc.	(A)
3.2	Amended and Restated Certificate of Incorporation of DynCorp International Inc.	(B)
3.3	Certificate of Correction to the Amended and Restated Certificate of Incorporation of DynCorp International Inc.	(B)
3.4	Bylaws of DynCorp International Inc.	(C)
3.5	Amended and Restated Bylaws of DynCorp International Inc.	(B)
3.6	Certificate of Formation of DIV Holding LLC	(D)
3.7	Amended and Restated Limited Liability Company Operating Agreement of DIV Holding LLC	(D)
3.8	Amendment No. 1 to the Amended and Restated Limited Liability Company Operating Agreement of DIV Holding LLC	(A)
3.9	Amendment No. 2 to the Amended and Restated Limited Liability Company Operating Agreement of DIV Holding LLC	(E)

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3.10	Amendment No. 3 to the Amended and Restated Limited Liability Company Operating Agreement of DIV Holding LLC	(B)
3.11	Amendment No. 4 to the Amended and Restated Limited Liability Company Operating Agreement of DIV Holding LLC	(F)
4.1	Certificate of Designation for Series B participating preferred stock (included in Exhibit 4.3)	(B)
4.2	Registration Rights Agreement, dated as of May 3, 2006, by and among DynCorp International Inc. and DIV Holding LLC	(B)
4.3	Rights Agreement, dated as of May 3, 2006, by and among DynCorp International Inc. and The Bank of New York	(B)
10.1	Credit and Guaranty Agreement, dated as of February 11, 2005, by and among Finance, DI Acquisition and the other Guarantors party thereto, various Lenders party thereto, Goldman Sachs Credit Partners L.P., Bear Stearns Corporate Lending Inc., Bear, Stearns & Co. Inc. and Bank of America, N.A.	(D)
10.2	First Amendment and Waiver, dated January 9, 2006, among DynCorp International LLC, DynCorp International Inc., and certain subsidiaries of the Company, the lenders party thereto, Goldman Sachs Credit Partners L.P. and Bank of America, N.A.	(G)
10.3	Second Amendment and Waiver, dated June 28, 2006, among DynCorp International LLC, DynCorp International Inc., and certain subsidiaries of the Company, the lenders party thereto, Goldman Sachs Credit Partners L.P. and Bank of America, N.A.	(B)
10.4	Employment Agreement effective as of April 12, 2006 between DynCorp International LLC and Stephen J. Cannon	(H)
10.5	Employment Agreement effective as of April 12, 2006 between DynCorp International LLC and Jay K. Gorman	(H)
10.6	Employment Agreement effective as of April 12, 2006 between DynCorp International LLC and Michael J. Thorne	(H)
10.7	Employment Agreement effective as of April 12, 2006 between DynCorp International LLC and Natale S. DiGesualdo	(H)
10.8	Employment Agreement effective as of April 12, 2006 between DynCorp International LLC and R. Y. Morrel	(B)
10.9	Employment Agreement effective as of July 17, 2006 between DynCorp International LLC and Herbert J. Lanese	(F)
10.10	The DynCorp International LLC Executive Incentive Plan	(I)
10.11	The DynCorp International LLC Management Incentive Plan	(I)
10.12	The DynCorp International LLC Key Contributor Plan	(I)
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	

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31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Filed herewith.

(A) Previously filed as an exhibit to DynCorp International Inc. s Amendment No. 2 to Form S-1 (Reg. No. 333-128637), filed with the SEC on November 30, 2005 and incorporated herein by reference.

(B) Previously filed as an exhibit to DynCorp International Inc. s Form 10-K, filed with the SEC on June 29, 2006 and incorporated herein by reference.

(C) Previously filed as an exhibit to DynCorp International Inc. s Amendment No. 1 to Form S-1 (Reg. No. 333-128637), filed with the SEC on November 10, 2005 and incorporated herein by reference.

(D) Previously filed as an exhibit to DynCorp International LLC s Registration Statement on Form S-4/A (Reg. No. 333-127343), filed with the SEC on September 27, 2005 and incorporated herein by reference.

(E) Previously filed as an exhibit to DynCorp International Inc. s Amendment No. 3 to Form S-1 (Reg. No. 333-128637), filed with the SEC on March 27, 2006 and incorporated herein by reference.

(F) Previously filed as an exhibit to DynCorp International Inc. s Form 8-K, filed with the SEC on July 19, 2006 and incorporated herein by reference.

(G) Previously filed as an exhibit to DynCorp International LLC s Form 8-K, filed with the SEC on January 11, 2006 and incorporated herein by reference.

(H) Previously filed as an exhibit to DynCorp International LLC s Form 8-K, filed with the SEC on April 17, 2006 and incorporated herein by reference.

(I) Previously filed as an exhibit to DynCorp International LLC s Form 8-K, filed with the SEC on April 4, 2006 and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNCORP INTERNATIONAL INC.
Date: August 14, 2006
/s/ MICHAEL J. THORNE

Name:	Michael J. Thorne
Title:	Senior Vice President, Chief Financial Officer and Treasurer (principal financial officer and Duly Authorized Officer)

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