



Booz | Allen | Hamilton

THE ART AND SCIENCE OF  
**TRANSFORMATION**

*Impact Report 2018*

FISCAL YEAR 2018  
ANNUAL REPORT

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## DEAR COLLEAGUES AND FELLOW STOCKHOLDERS,

As a company in business for more than a century, Booz Allen Hamilton prides itself on anticipating the future and doing work that makes the biggest difference. We are committed to empowering people to change the world, which means taking on our clients' most complex problems and applying the best talent and technology to solve them. In doing so, we transform missions and organizations and position both our firm and our clients for long-term success.

In fiscal year 2018, we solidified our standing as the company that works at the intersection of technology and mission, a nexus where we can create the most value for clients. As our core U.S. government market improved, particularly in defense and intelligence, we pushed forward with our Vision 2020 growth strategy and achieved record revenue and earnings. Throughout the year, we continued to build our talent base in size and skill, a critical priority as the pace of technological change accelerates and puts new demands on our clients. We also remained focused on innovation so that we always press the boundaries of what is possible—from artificial intelligence to platform cyber to directed energy.

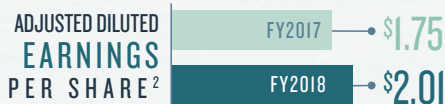
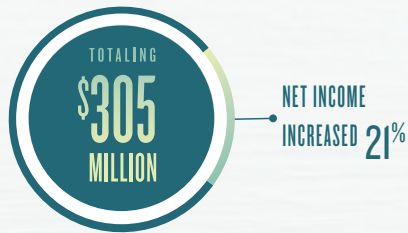
Booz Allen is clearly differentiated in the market because of our long-standing relationships with clients, deep knowledge of their priorities, and ability to integrate advanced capabilities in consulting, digital solutions, analytics, cyber, and engineering. We believe this differentiation, grounded in a culture of collaboration and passionate service, sets us apart. We successfully set a strategic path and have been executing against it since 2013, and we believe this has primed our firm for continued quality growth in the years ahead.

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*We believe we are well positioned to capture market upside as clients across our business embrace new technologies.*

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**HORACIO D. ROZANSKI**  
*president and chief  
executive officer*



## OPERATIONAL AND FINANCIAL STRENGTH

In the year ending March 31, 2018, Booz Allen again delivered outstanding financial results, with record profitability underpinned by a third-consecutive year of industry-leading organic revenue growth<sup>1</sup>:

- + Gross revenue increased 6.3 percent to a record \$6.2 billion
- + Revenue, excluding billable expenses<sup>1</sup>, grew 6.3 percent to \$4.3 billion
- + Net income increased 21 percent to \$305 million
- + Adjusted EBITDA<sup>2</sup> grew 6.9 percent to \$585 million, the highest level since our initial public offering
- + Adjusted net income<sup>2</sup> increased 13.5 percent to \$298 million
- + Adjusted diluted earnings per share<sup>2</sup> (ADEPS) were \$2.01, up from \$1.75 in fiscal 2017
- + We returned \$373 million to shareholders through regular dividends and share repurchases
- + Total backlog at fiscal-year end was \$16.0 billion, up 18 percent after hitting an all-time high of \$16.7 billion at the end of the second quarter
- + Headcount grew by more than 1,300 to 24,639

The people of Booz Allen are delivering high-quality work to clients and winning new business across U.S. defense, intelligence, and civil agencies, as well as the global commercial market. Global commercial remains the smallest but fastest-growing part of our business, with revenue increasing nearly 30 percent in fiscal 2018. In October, we purchased Cincinnati-based Morphick Inc., a leader in cyber detection and response services, to bolster our successful cyber-focused strategy in commercial. Over the course of the year, we also greatly expanded our work for U.S.-allied governments and commercial clients in the Middle East, while continuing to expand our footprint and capabilities in Asia.

## A LOOK AHEAD

As fiscal year 2019 begins, Booz Allen's Board of Directors and Leadership Team are confident about the future. We believe that our firm is at a pivotal point—unified by shared purpose and values, energized by our strategic progress and position in the market, and growing strongly as we expand our offerings and client base.

<sup>1</sup> Industry consists of CACI International, Engility Holdings, Leidos Holdings, ManTech International, and Science Applications International Corp.

<sup>2</sup> These measures are non-GAAP financial measures. For a reconciliation of these measures to GAAP, please see the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Measures" in Part II Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

BUSINESS  
INSIDER

Forbes



We also continue to earn external accolades. *Fortune* named Booz Allen as one of the World's Most Admired Companies and *Forbes* selected us as one of the Top Employers for Veterans and one of the Best Management Consulting Firms for 2017. We also have been honored with industry awards that showcase our employer brand, including One of the 9 Best Management Consulting Firms by *Business Insider*, a Top Company for People with Disabilities by *DiversityInc*, Best for Vets by *Military Times*, a Top Company of 2017 by *LinkedIn*, and have again been named to *Working Mother* magazine's list of 100 Best Companies.

These positive dynamics are in play just as rising federal budgets, demand for technology solutions, accelerating technological change, and a healthy global economy are creating even more opportunity for our firm. We believe we are well positioned to capture market upside as clients across our business embrace new technologies. And our unique business model, based on our partnership culture and single P&L, gives us ample scale, range, and flexibility to anticipate and rapidly react to growing demand in the areas where we have built our most differentiated technical solutions.

As a result, our goal is to drive an increase in ADEPS of 50 percent over the next three years through:

- + Annual revenue growth of 6–9 percent
- + Margin expansion of 10 to 30 basis points over three years
- + And about \$1.4 billion in capital deployment, including dividends, over three years, as market conditions allow

We aim to deliver on these financial objectives while also continuing to invest in innovation and new business lines that we believe could fuel additional growth and profitability over the longer term.

As always, the talent and dedication of the people of Booz Allen are the foundation of our success. Their desire to empower people to change the world animates all we do for clients, our communities, and each other. It is a privilege to represent their transformational work and strong financial performance year after year. We look forward to reaching our aspirations in fiscal 2019 and beyond.

**RALPH W. SHRADER, PH.D.**  
Chairman of the Board

**HORACIO D. ROZANSKI**  
President and Chief  
Executive Officer

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended **March 31, 2018**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. **001-34972**

**Booz Allen Hamilton Holding Corporation**  
(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**8283 Greensboro Drive, McLean, Virginia**  
(Address of principal executive offices)

**26-2634160**

(I.R.S. Employer  
Identification No.)

**22102**  
(Zip Code)

**(703) 902-5000**

Registrant's telephone number, including area code

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Class A Common Stock	New York Stock Exchange

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No   
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No   
Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those sections.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No   
As of September 29, 2017, the market value of the voting and non-voting common equity held by non-affiliates based on the closing price as of that day was \$5,293,214,554.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

	<b>Shares Outstanding as of May 23, 2018</b>
Class A Common Stock	143,367,775
Class B Non-Voting Common Stock	—
Class C Restricted Common Stock	—
Class E Special Voting Common Stock	—

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#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its Annual Meeting of Stockholders scheduled for July 26, 2018 are incorporated by reference into Part III.

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## INTRODUCTORY NOTE

*Unless the context otherwise indicates or requires, as used in this Annual Report on Form 10-K for the fiscal year ended March 31, 2018, references to: (i) “we,” “us,” “our” or our “company” refer to Booz Allen Hamilton Holding Corporation, its consolidated subsidiaries and predecessors; (ii) “Booz Allen Holding” refers to Booz Allen Hamilton Holding Corporation exclusive of its subsidiaries; (iii) “Booz Allen Investor” refers to Booz Allen Hamilton Investor Corporation, a wholly-owned subsidiary of Booz Allen Holding; (iv) “Booz Allen Hamilton” and “Booz Allen” refer to Booz Allen Hamilton Inc., our primary operating company and a wholly-owned subsidiary of Booz Allen Holding; and (v) “fiscal,” when used in reference to any twelve-month period ended March 31, refers to our fiscal years ended March 31. Unless otherwise indicated, information contained in this Annual Report is as of March 31, 2018. We have made rounding adjustments to reach some of the figures included in this Annual Report and, unless otherwise indicated, percentages presented in this Annual Report are approximate.*

### Cautionary Note Regarding Forward-Looking Statements

Certain statements contained or incorporated in this Annual Report include forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “should,” “forecasts,” “expects,” “intends,” “plans,” “anticipates,” “projects,” “outlook,” “believes,” “estimates,” “predicts,” “potential,” “continue,” “preliminary,” or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give you no assurance these expectations will prove to have been correct. These forward-looking statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. These risks and other factors include:

- cost cutting and efficiency initiatives, budget reductions, Congressionally mandated automatic spending cuts, and other efforts to reduce U.S. government spending, including automatic sequestration required by the Budget Control Act of 2011 (as subsequently amended);
- delayed funding of our contracts due to uncertainty relating to and a possible failure of Congressional efforts to approve funding of the U.S. government and to craft a long-term agreement on the U.S. government’s ability to incur indebtedness in excess of its current limits, or changes in the pattern or timing of government funding and spending (including those resulting from or related to cuts associated with sequestration);
- current and continued uncertainty around the timing, extent, nature, and effect of ongoing Congressional and other U.S. government action to address budgetary constraints, including, but not limited to, Congressional efforts to approve funding of the U.S. government and to craft a long-term agreement on the U.S. government’s ability to incur indebtedness in excess of its current limits and the U.S. deficit;
- any issue that compromises our relationships with the U.S. government or damages our professional reputation, including negative publicity concerning government contractors in general or us in particular;
- changes in U.S. government spending, including a continuation of efforts by the U.S. government to decrease spending for management support service contracts, and mission priorities that shift expenditures away from agencies or programs that we support;
- U.S. government shutdowns due to, among other reasons, a failure by elected officials to fund the government;
- the size of our addressable markets and the amount of U.S. government spending on private contractors;
- failure to comply with numerous laws and regulations, including, but not limited to, the Federal Acquisition Regulation (“FAR”), the False Claims Act, the Defense Federal Acquisition Regulation Supplement and FAR Cost Accounting Standards and Cost Principles;
- our ability to compete effectively in the competitive bidding process and delays or losses of contract awards caused by competitors’ protests of major contract awards received by us;
- the loss of General Services Administration Multiple Award schedule contracts, or GSA schedules, or our position as prime contractor on government-wide acquisition contract vehicles, or GWACs;
- changes in the mix of our contracts and our ability to accurately estimate or otherwise recover expenses, time, and resources for our contracts;
- continued efforts to change how the U.S. government reimburses compensation related and other expenses or otherwise limit such reimbursements, including recent rules that expand the scope of existing reimbursement limitations, such as a reduction in allowable annual employee compensation to certain contractors as a result of the Bipartisan Budget Act of 2013, and an increased risk of compensation being deemed unallowable or payments being withheld as a result of U.S. government audit, review or investigation;
- our ability to generate revenue under certain of our contracts;

- our ability to realize the full value of and replenish our backlog and the timing of our receipt of revenue under contracts included in backlog;
- changes in estimates used in recognizing revenue;
- an inability to attract, train, or retain employees with the requisite skills, experience, and security clearances;
- an inability to hire, assimilate, and deploy enough employees to serve our clients under existing contracts;
- an inability to timely and effectively utilize our employees or manage our cost structure;
- failure by us or our employees to obtain and maintain necessary security clearances;
- the loss of members of senior management or failure to develop new leaders;
- misconduct or other improper activities from our employees or subcontractors, including the improper use or release of our clients' sensitive or classified information;
- increased insourcing by various U.S. government agencies due to changes in the definition of "inherently governmental" work, including proposals to limit contractor access to sensitive or classified information and work assignments;
- increased competition from other companies in our industry;
- failure to maintain strong relationships with other contractors; or the failure of contractors with which we have entered into a sub- or prime-contractor relationship to meet their obligations to us or our clients;
- inherent uncertainties and potential adverse developments in legal or regulatory proceedings, including litigation, audits, reviews, and investigations, which may result in materially adverse judgments, settlements, withheld payments, penalties, or other unfavorable outcomes including debarment, as well as disputes over the availability of insurance or indemnification;
- internal system or service failures and security breaches, including, but not limited to, those resulting from external cyber attacks on our network and internal systems;
- risks related to changes to our operating structure, capabilities, or strategy intended to address client needs, grow our business or respond to market developments;
- risks associated with new relationships, clients, capabilities, and service offerings in our U.S. and international businesses;
- failure to comply with special U.S. government laws and regulations relating to our international operations;
- risks related to our indebtedness and credit facilities which contain financial and operating covenants;
- the adoption by the U.S. government of new laws, rules, and regulations, such as those relating to organizational conflicts of interest issues or limits;
- risks related to completed and future acquisitions, including our ability to realize the expected benefits from such acquisitions;
- an inability to anticipate or estimate the tax implications of changes in tax law, including the Tax Cuts and Jobs Act (the "2017 Tax Act"), or utilize existing or future tax benefits, including those related to our stock-based compensation expense, for any reason, including as a result of a change in law, such as the 2017 Tax Act;
- variable purchasing patterns under U.S. government GSA schedules, blanket purchase agreements and indefinite delivery, indefinite quantity, or IDIQ, contracts; and
- other risks and factors listed under "Item 1A. Risk Factors" and elsewhere in this Annual Report.

In light of these risks, uncertainties, and other factors, the forward-looking statements might not prove to be accurate and you should not place undue reliance upon them. All forward-looking statements speak only as of the date made and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

## PART I

### Item 1. *Business*

#### Overview

For more than 100 years, business, government, and military leaders have turned to Booz Allen Hamilton to solve their most complex problems. A values-driven organization with a guiding purpose to empower people to change the world, we remain focused on providing long-term solutions to our clients' emerging and ever-changing challenges. Our people are passionate about their service to our clients and their missions and the communities in which we live and work. This is our heritage, and it is as true today as when the company was founded in 1914.

A collaborative culture is an integral part of our unique operating model, which encourages our people to bring a diversity of ideas and talent to every client engagement. Building on our legacy of passionate client service and guided by our comprehensive Vision 2020 strategy, we blend deep expertise in management consulting with advanced technical capabilities to deliver powerful solutions. By investing in markets, capabilities, and talent and building new business models, including ventures, partnerships, and product offerings, we believe we are creating sustainable quality growth for the company.

Through our dedication to our clients' missions, and a commitment to evolving our business to address their needs, we have longstanding relationships with our clients, some more than 75 years. We support critical missions for a diverse base of federal government clients, including nearly all of the U.S. government's cabinet-level departments, as well as increasingly for top-tier commercial and international clients. We support our federal government clients by helping them tackle their most complex and pressing challenges such as protecting soldiers in combat and supporting their families, advancing cyber capabilities, keeping our national infrastructure secure, enabling and enhancing digital services, transforming the healthcare system, and improving governmental efficiency to achieve better outcomes. We serve commercial clients across industries including financial services, health and life sciences, energy, and transportation to solve the hardest and most consequential challenges, including through our cybersecurity products and services. Our international clients are primarily in the Middle East, and we have a growing presence in Southeast Asia.

#### History and Corporate Structure

We were founded in 1914 by Edwin Booz, one of the pioneers of management consulting. In 1940, we began serving the U.S. government by advising the Secretary of the Navy in preparation for World War II. As the needs of our clients have grown more complex, we have expanded beyond our management consulting foundation to develop deep expertise in the fields of analytics, digital solutions, engineering and cyber.

We are organized and operate as a corporation, but sometimes use the term “partner” to refer to our Chief Executive Officer and our Senior and Executive Vice Presidents. The use of the term “partner” reflects our collaborative culture, and is not meant to imply that we operate our company as, or have any intention to create a legal entity that is, a partnership.

Booz Allen Holding was incorporated in Delaware in May 2008 to serve as the top-level holding company for the consolidated Booz Allen Hamilton U.S. government consulting business. On July 31, 2008, Booz Allen Hamilton completed the separation of its U.S. government consulting business from its legacy commercial and international consulting business, the spin-off of the commercial and international business, and the sale of 100% of its outstanding common stock to Booz Allen Holding, or the Carlyle Acquisition, which was majority owned by The Carlyle Group and certain of its affiliated investment funds, or Carlyle. Our company is a corporation that is the successor to the U.S. government consulting business of Booz Allen Hamilton following the separation. Between 2013 and 2016, we registered the offering and sale of common stock by Carlyle, and on December 6, 2016, Carlyle disposed of its remaining shares of the Company's Class A Common Stock in a registered secondary offering.

#### Our Institution and Operating Model

We operate as a single profit/loss center with a single bonus pool for partners, vice presidents, principals, and senior associates. Our operating model encourages collaboration allowing us to bring a mix of the best talent to every client engagement. Our partnership-style culture provides the operational flexibility necessary to quickly mobilize people and capabilities to react to market changes faster than our competitors. As a result, we can go to market as a whole firm rather than as a collection of individual competing business units or profit centers. Our operating model also encourages and enables continuous investment in the right markets, capabilities, and talent to position the company for further growth by anticipating what government and commercial clients will need next.

Across all markets, we address our clients' complex and evolving needs by deploying multifaceted teams with a combination of deep mission understanding, market-leading functional capabilities, consulting talent, and true technical and engineering expertise. These client-facing teams, which are fundamental to our differentiated value proposition, better position us to create market-relevant growth strategies and plan for and meet current, future, and prospective market needs. They also

help us identify and deliver against diverse client needs in a more agile manner. Our significant win rates during fiscal 2018 on new and re-competed contracts of 63% and 87%, respectively, as compared to 62% and 90%, respectively, in fiscal 2017 demonstrate the strength of this approach.

## Our People

Our ability to deliver lasting value and results to our clients has always been, and continues to be, a product of the strong character, expertise and tremendous passion of our people. Our approximately 24,600 employees work to solve hard problems by making our clients' missions their own, combining decades of consulting and domain expertise with functional expertise in areas such as analytics, digital solutions, engineering, and cyber. Our talented people are supported by a culture of innovation and inclusion.

Our people at a glance:

- 77 partners
- Nearly 28% are veterans, including 17 partners
- Approximately 84% hold bachelor's degrees; approximately 40% hold master's degrees; and approximately 3% hold doctoral degrees
- Approximately 69% hold security clearances

We attract and retain the best people by providing them with opportunities to grow, build skills, and be appreciated for their contributions as they work on our clients' toughest challenges. This value proposition creates a virtuous circle in which our employees know they are making a difference while growing their careers, which furthers their commitment to Booz Allen and makes them ambassadors for future talent. Booz Allen has always recognized the importance of our people and culture, and we continue to build on that strong legacy as we support our employees to meet their full potential.

We also foster the spirit of innovation through events, partnerships, programs, and tools that facilitate collaboration to tackle a common challenge or pitch new products and capabilities. It is the diversity of our employees that fuels this innovation enhancing the way we work by bringing a wealth of experiences and expertise to any challenge. We celebrate difference in all forms, building an environment of inclusion regardless of ethnicity, religion, gender, sexual orientation, age or disability.

The importance we place on our people continues to receive external recognition. For the eighth consecutive year, Booz Allen has received a perfect score on the Corporate Equality Index (CEI), a national benchmarking survey on corporate policies and practices related to LGBTQ workplace equality administered by the Human Rights Campaign Foundation. In addition, for the third consecutive year, Booz Allen received a perfect score on the 2017 Disability Equality Index (DEI), and has been named a DEI "Best Place to Work." Vault.com ranked us as #1 in public sector consulting. *Fortune* named the company as one of the World's Most Admired Companies and *Forbes* selected us as one of the Top Employers for Veterans and one of the best Management Consulting Firms for 2017. We have also been honored with industry awards that showcase our employer brand, including "One of the 9 Best Management Consulting Firms" by *Business Insider*, a "Top Company for People with Disabilities" by *Diversity Inc*, "Best for Vets" by *Military Times*, a "Top Company of 2017" by *LinkedIn*, "Working Mother Top 100", "#7 Best Places to Work in IT" by *Computer World* and the Alliance for Workplace Excellence Award.

Beyond their client work, our people and our Company demonstrate passionate service in their commitment to our country, military, and communities. Our social impact strategy connects people, organizations, and communities with transformational innovation and technological solutions that power human potential and wider social impact in a spirit of passionate service. For example, we support a variety of organizations assisting veterans and military families, including supporting training in cyber and science, technology, engineering, and math (STEM) careers, and providing data analytics and other tech solutions in support of operations. Our partners include USO of Metropolitan Washington-Baltimore, Hiring Our Heroes, Tragedy Assistance Program for Survivors, Blue Star Families and the Elizabeth Dole Foundation.

In the past year, we issued 379 volunteer service grants to 306 nonprofit groups for which employees volunteered more than 40 hours. Employees recorded more than 65,000 total hours of service during the year and donated generously to the American Red Cross National Disaster Relief Fund and other organizations responding to the recent and large-scale natural and man-made disasters across the United States. More broadly, we have taken a leadership role in eliminating the stigma around mental health and building more appreciation and awareness of emotional fitness in the corporate world as a partner to the nonprofit Give an Hour.

*Purpose and Values.* As one of the first organizations in the United States to adopt a formal code of business ethics, we have always believed that doing what's right and holding ourselves and others accountable is the only way to do business. Our people exemplify our purpose to "empower people to change the world" and live our values:

- Ferocious Integrity: Do right; hold ourselves accountable

- Unflinching Courage: Speak truth to power; maintain convictions; bring bold thinking
- Passionate Service: Embrace the mission; build community through generosity; make meaningful connections; listen and act with empathy
- Collective Ingenuity: Find the biggest problem and solve it; be resourceful and creative; seek to make the biggest difference; harness the power of diversity; be devoted to the team
- Champion's Heart: Crave being the best; bring joy to the pursuit; learn from failure; compete with passion

## Service Offerings

We offer five service offerings that drive our capacity to meet market demand. We provide a range of technological capabilities that have had an enduring impact for our clients, our people, and the communities where we live and work.

Our service offerings:

- **Consulting** focuses on the talent and expertise needed to solve client problems and develop mission-oriented solutions for specific domains, business strategies, human capital, and operations through new and innovative approaches. We help clients boost organizational performance, deploy new technologies in smart ways, and change and streamline processes to achieve better outcomes.
- **Analytics** focuses on delivering transformational solutions in the areas of decision analytics (including operations research and cost estimation), automation, and data science (including predictive modeling and machine learning) as well as new or emerging areas such as deep learning and artificial intelligence. We pioneer new approaches to apply analytic technology to clients' problems, draft industry-defining publications, and introduce transformative products such as graphics processing unit (GPU) accelerated deep learning software, to the market.
- **Digital Solutions** combines the power of modern systems development techniques and cloud platforms with the power of machine learning to transform customer and mission experiences. We blend in-depth client mission understanding and digital technical expertise with a consultative approach. We develop, design, and implement powerful solutions built on contemporary methodologies and modern architectures. We accelerate clients to open, cloud native environments, where capability can be securely developed and deployed at scale, and effort allocated towards data management challenges is redirected to analysis and insights.
- **Engineering** delivers engineering services and solutions to define, develop, implement, sustain, and modernize complex physical systems such as the Launch and Test Range System (LTRS) for the U.S. Air Force Space Command or the Flush Air Data Systems (FADS) for NASA. We leverage mature engineering methodologies to solve our clients' most complex problems. We bring a holistic understanding of client needs and technical strategy as well as policy experts to deliver purpose-fit solutions to problems. Our engineering capabilities include external industry standard certifications (e.g., ISO 90001 and AS9100).
- **Cyber** focuses on active prevention, detection, and cost effectiveness. Active prevention includes methods of securing platforms and enterprises against cyber attacks; detection is the instrumentation of networks to provide lead indicators of penetrations; and cost effectiveness includes our integrated engineering capabilities. Our cyber capabilities are rooted in our decades of service to the U.S. federal intelligence community and today afford us the opportunity to maintain technical expertise in network security. With decades of mission intelligence combined with the most advanced tools available, we help clients understand the business value of cyber risk management as well as prepare for future cybersecurity needs with a lens toward efficiency and effectiveness.

## Innovation

With our solutions business, we are developing transformative solutions that build lasting value for our clients. We are advancing and creating the infrastructure and mechanics for new and disruptive business models by enabling a vibrant innovation culture, bringing a solutions mindset to our marketplace and sales force and building the company's presence and brand in the external innovation ecosystem. As a gateway to driving innovation, the solutions business combines market-prioritized needs with the company's capabilities and products. The solutions business enhances future revenue opportunities and accelerates solutions to clients, monetizes the firm's intellectual property, and creates differentiated business models and sales channels to drive greater value for our clients.

In addition, we are an essential partner in regional innovation communities all over the country. Through our innovation ecosystem, we are focused on solution co-creation and technology scouting, and are physically co-locating, co-creating, mentoring, incubating, contributing, and investing with organizations in Washington, D.C.; Boston, Massachusetts; Austin, Texas; San Francisco, California; and from Seattle, Washington to San Diego, California (the corridor of venture capitalists and digital powerhouses), with new hubs in Herndon, Virginia, Laurel, Maryland, and Charleston, South Carolina. We harness next-

generation technologies being created in academic, startup, and big technology firms to imagine and incubate new offerings, solutions, and growth for the company.

In addition to our service offerings, Booz Allen is driving focused innovation in areas expected to create integrated capabilities, drive next generation expertise, and develop business over the long term. These innovation areas include:

- **Machine Intelligence** applies and scales the use of machine learning and artificial intelligence to fundamentally transform how our clients perform their missions and run their organizations in a future where people and increasingly intelligent machines collaborate to solve our hardest problems. We are continuing to develop new capabilities in exciting areas, such as quantum computing and deep learning, to create long-term differentiation and value.
- **Directed Energy** technologies use high-energy lasers or high-powered microwaves to efficiently disrupt or damage targets with non-kinetic, speed-of-light engagement. Through our Directed Energy business, we can help clients as a technology maturation agent, integrator, and solutions provider.

### **Our Long-Term Growth Strategy**

Vision 2020 is a comprehensive strategy to transform Booz Allen and create sustainable quality growth for the company. Fiscal 2018 was the fifth year of implementing the strategy, but its design reaches back to before the government market began to contract in 2011 and 2012. We anticipated the market downturn and set in place a strategy that would allow us to emerge in a strong position vis-à-vis our competitors. Under Vision 2020, we are:

- Moving closer to the center of our clients' core missions
- Increasing the technical content of our work
- Attracting and retaining superior talent in diverse areas of expertise
- Leveraging innovation to deliver complex, differentiated, end-to-end solutions
- Creating a broad network of external partners and alliances
- Expanding into the commercial and international markets

The success of our strategy can be seen in:

- Backlog growth, which achieved record levels during fiscal 2018
- Headcount growth and a corresponding shift in our talent portfolio to more technical expertise in disciplines such as systems development, cyber, and analytics
- Continued strong performance in the global commercial market
- Execution against our capability focused acquisition strategy, most recently through the acquisition of technology firm, Morphick, Inc., which closed in October 2017, to expand Booz Allen's managed security portfolio and strengthen the firm's capability to help clients counter advanced cyber threats.

We have won highly technical, mission-critical work across our federal government business because we bring differentiated offerings that meet our clients' toughest challenges. To propel our success against our Vision 2020 long-term strategy, we have implemented initiatives to drive innovation deeper into our markets, enhancing our ability to collaborate and achieve more for our clients and differentiating Booz Allen in the talent market to enhance our ability to attract and retain the best and the brightest.

These initiatives are ultimately designed to accelerate revenue growth and move Booz Allen further toward our goal of delivering sustainable quality growth.

### **Our Clients**

Booz Allen is committed to solving our clients' toughest challenges, and we work with a diverse base of public and private sector clients across a number of industries, in the U.S. and internationally.

Our clients call us to work on their hardest problems, such as delivering effective healthcare, protecting soldiers in combat and their families and keeping our national infrastructure secure. We are investing in markets, capabilities, and talent and are building new business models through strategic ventures, partnerships, and product offerings.

Our government clients include substantially all of the cabinet-level departments of the U.S. government. We serve commercial clients across industries including financial services, health and life sciences, energy, and transportation to solve their hardest and most consequential challenges, including through our cybersecurity products and services, and have a thriving portfolio of international clients in the Middle East and Southeast Asia.

## ***A Large Addressable Market***

We believe that the U.S. government is the world's largest consumer of management and technology consulting services. The U.S. government's budget for its fiscal year ended September 30, 2017 was close to \$4.0 trillion, excluding authorizations from Overseas Contingency Operations and supplemental funding for the Department of Defense. Of this amount, approximately \$1.2 trillion was for discretionary budget authority, including \$634 billion for the Department of Defense and intelligence community and \$586 billion for civil agencies. Based on data from the Federal Procurement Data System, approximately \$508 billion of the U.S. government's fiscal year 2017 discretionary outlays were non-intelligence agency funding-related products and services procured from private contractors. We estimate that \$124.4 billion of the spending directed towards private contractors in U.S. government fiscal year 2017 was for management, technology, and engineering services, with \$69.6 billion spent by the Department of Defense and \$54.8 billion spent by civil agencies. The agencies of the U.S. intelligence community that we serve represent an additional market. These numbers also exclude a large addressable market for our services and capabilities in the global commercial markets where we have a modest but growing footprint.

During Booz Allen's fiscal 2018:

- We derived 97% of our revenue from contracts where the end client was an agency or department of the U.S. government.
- We delivered services under 4,997 contracts and task orders.
- We derived 91% of our revenue in fiscal 2018 from engagements for which we acted as the prime contractor.
- The single largest entity that we served in fiscal 2018 was the Navy Marine Corps, which represented approximately 13% of our revenue in that period.

## ***Selected Long-Term Client Relationships***

<b>Client (1)</b>	<b>Relationship Length (Years)</b>
U.S. Navy	75+
U.S. Army	65+
Department of Energy	40+
U.S. Air Force	40+
National Security Agency	35+
Department of Homeland Security	35+
Federal Bureau of Investigation	25+
Department of Health and Human Services	20+
National Reconnaissance Office	20+
A U.S. intelligence agency	20+
Internal Revenue Service	20+

(1) Includes predecessor organizations.

## ***Defense and Intelligence Clients***

We count among our many defense and intelligence clients all four branches of the U.S. military, the Office of the Secretary of Defense, the Joint Staff and members of the intelligence community.

We help our military services take on new missions, tackle acquisition and budgeting challenges, and address the medical needs of soldiers in combat. We also help our defense and intelligence clients adopt innovative technologies, bridging the gap they face between rising mission responsibilities and declining mission funding with our heritage and expertise in consulting. In addition, we bring tools, techniques, and expertise to challenges and apply them in innovative ways.

The men and women we hire have served their country and have the experience and determination to help our defense clients keep our nation safe. Our experts in strategy development, acquisition, and operations help commanders and their staffs in the field share mission-critical information and make crucial battlefield decisions.

Revenue generated from defense clients was \$2.83 billion, or approximately 45.9% of our revenue in fiscal 2018 as compared to \$2.70 billion, or approximately 46.6% of our revenue in fiscal 2017. Our key defense clients include the Army, Navy/Marine Corps, Air Force, and Joint Combatant Commands. Revenue generated from defense clients also includes foreign military sales to non-U.S. government clients.

Revenue generated from intelligence clients was \$1.49 billion, or approximately 24.2% of our revenue in fiscal 2018 as compared to \$1.34 billion, or approximately 23.1% of our revenue in fiscal 2017. Our key intelligence clients include U.S. intelligence agencies, such as the National Security Agency, National Geospatial-Intelligence Agency, and National Reconnaissance Office; and military intelligence agencies, such as the Defense Intelligence Agency, Service Intelligence Centers, and Intelligence Surveillance Reconnaissance units.

### ***Civil Clients***

Whether ensuring the safety, security, and well-being of citizens, or boosting national competitiveness, we work with leaders in civil government to support their public service missions. We excel at tackling the most complex challenges from reforming financial regulatory oversight and evolving our healthcare system to improving information sharing among law enforcement organizations and supporting green building initiatives.

Our work spans the full breadth of civil government, including energy and the environment, financial services, health, homeland security, law enforcement, transportation, grants, international development and diplomacy, and benefits and entitlements.

We work with leaders so they make better decisions and foster better user experiences both inside and outside of their organizations.

Revenue generated from civil government was \$1.65 billion, or approximately 26.7% of our revenue in fiscal 2018 as compared to \$1.61 billion, or approximately 27.7% of our revenue in fiscal 2017. Our major civil government clients include the Departments of Homeland Security, Health and Human Services, Veterans Affairs, Treasury and Justice.

### ***Global Commercial Clients***

We work alongside public and private sector leaders of the world's most prestigious organizations to help shape and execute their critical agendas.

Following the 2011 expiration of our non-competition agreement with our spun-off commercial business, we re-entered the Middle East and North Africa (MENA) and Southeast Asia (SEA) markets. We originally established our international offices located in MENA more than six decades ago and our offices in SEA more than three decades ago. Since re-entering these markets, our strategy and technology consultants have empowered our clients in these regions with the knowledge and experience they need to build their own local resources and capabilities.

Revenue generated from global commercial clients was \$197.0 million, or approximately 3.2% of our revenue in fiscal 2018 as compared to \$152.1 million, or approximately 2.6% of our revenue in fiscal 2017. Global commercial clients are comprised of U.S. commercial and international clients. We serve commercial clients in a variety of industries including financial services, health and life sciences, energy and transportation. Our international clients include non-U.S. governments and commercial entities in the MENA region and select Asian markets.

### ***Contracts***

Booz Allen's approach has long been to ensure that we have prime or subcontractor positions on a wide range of contracts that allow clients maximum opportunity to access our services. Our diverse contract base provides stability to our business. This diversity shows that more than 75% of our revenue for fiscal 2018 was derived from 3,956 active task orders under IDIQ contract vehicles. Our top IDIQ contract vehicle represented approximately 6.2% of our revenue in our fiscal 2018. Our largest task order under an IDIQ contract vehicle accounted for approximately 2.7% of our revenue in our fiscal 2018. Our largest definite contract represented approximately 2.2% of our revenue in our fiscal 2018.

The U.S. government procures services through two predominant contracting methods: indefinite contract vehicles and definite contracts. Each of these is described below:

- Indefinite contract vehicles provide for the issuance by the client of orders for services or products under the terms of the contract. Indefinite contracts are often referred to as contract vehicles or ordering contracts. IDIQ contracts may be awarded to one contractor (single award) or several contractors (multiple award). Under a multiple award IDIQ contract, there is no guarantee of work as contract holders must compete for individual work orders. IDIQ contracts will often include pre-established labor categories and rates, and the ordering process is streamlined (usually taking less than a month from recognition of a need to an established order with a contractor). IDIQ contracts often have multiyear terms and unfunded ceiling amounts, thereby enabling but not committing the U.S. government to purchase substantial amounts of products and services from one or more contractors in a streamlined procurement process.
- Definite contracts call for the performance of specified services or the delivery of specified products. The U.S. government procures services and solutions through single award, definite contracts that specify the scope of services that will be delivered and identify the contractor that will provide the specified services. When an agency recognizes a need for services or products, it develops an acquisition plan, which details how it will procure those



services or products. During the acquisition process, the agency may release a request for information to determine if qualified bidders exist, a draft request for a proposal to allow the industry to comment on the scope of work and acquisition strategy, and finally a formal request for a proposal. Following the evaluation of submitted proposals, the agency will award the contract to the winning bidder.

Listed below are our top IDIQ contracts for fiscal 2018 and the number of active task orders under these contracts as of March 31, 2018.

	<b>Fiscal 2018 Revenue</b> (in millions)	<b>% of Total Revenue</b>	<b>Number of Task Orders as of March 31, 2018</b>	<b>Expiration Date <sup>(1)</sup></b>
Alliant	\$ 382.6	6.2%	34	4/30/2019
One Acquisition Solution for Integrated Services	378.6	6.1%	44	9/2/2024
System Engineering and Analysis/Advanced Technology Support	275.4	4.5%	36	12/31/2019
Information Technology Schedule 70	245.0	4.0%	51	3/22/2019
Defense Systems Technical Area Tasks	242.3	3.9%	47	6/22/2019
VA TAC Transformation Twenty One Total Technology	173.7	2.8%	25	6/30/2016
Professional Services Schedule	163.3	2.6%	127	9/30/2035
Mission Oriented Business Integrated Services	120.6	2.0%	51	9/30/2017
Chief Information officer - Solutions & Partners 3	117.5	1.9%	25	5/31/2022
Booz Allen Engineering Services - Alliant	116.8	1.9%	2	4/30/2019

(1) Expiration date applies to the IDIQ vehicle. Task orders awarded under the IDIQ can run past the expiration of the IDIQ itself.

Under their Category Management initiative, the General Services Administration (“GSA”) has undertaken an effort to improve its professional service schedule offerings. As a result of this initiative, GSA consolidated multiple contract vehicles under the schedule program. The result for Booz Allen has been the consolidation of the scope of six schedules into one professional services schedule contract. The GSA Schedule contracts to be consolidated under the new professional services schedule are: Advertising and Integrated Marketing Solutions (AIMS), Environmental Services (ES), Financial and Business Services (FABS), Logistics Worldwide (LOGWORLD), Mission Oriented Business Integrated Services (MOBIS), and Professional Engineering Services (PES).

Booz Allen’s migration request was accepted in October of 2015 and, as a result, our individual schedules included in the GSA’s consolidation will remain in place through the end of the current option period of each individual contract to prevent the interruption of services. The revenue generated under these individual schedules will begin to decrease during this transition period. We anticipate that the decrease in revenue on the individual schedules will be offset by growth under the new professional service schedule. We anticipate this transition will have negligible impact on future revenues.

Listed below for each specified revenue band is the number of, revenue derived from, and average duration of our task orders as of March 31, 2018. The table includes revenue earned during fiscal 2018 under all task orders that were active during fiscal 2018 under these IDIQ contracts and the number of active task orders on which this revenue was earned. Average duration reflected in the table below is calculated based on the inception date of the task order, which may be prior to the beginning of fiscal 2018, and the completion date which may have been prior or subsequent to March 31, 2018. As a result, the actual average remaining duration for task orders included in this table may be less than the average duration shown in the table, and task orders included in the table may have been complete on March 31, 2018.

Segmentation of Task Order by Revenue Fiscal 2018	Number of Task Orders Active During Fiscal 2018	Fiscal 2018 Revenue (in millions)	% of Total Revenue	Average Duration (Years)
Less than \$1 million	3,143	\$ 538.3	9%	1.3
Between \$1 million and \$3 million	504	880.1	14%	2.0
Between \$3 million and \$5 million	113	439.8	7%	2.3
Between \$5 million and \$10 million	105	765.4	12%	2.5
Greater than \$10 million	91	2,035.6	33%	2.8
Total	3,956	4,659.2	75%	1.5

Listed below are our top definite contracts for fiscal 2018 and revenue recognized under these contracts. Classified contracts that cannot be named are noted generically in the table:

	Fiscal 2018 Revenue (in millions)	% of Total Revenue	Expiration Date
Classified Contract	\$ 132.9	2.2%	9/30/2021
Classified Contract	81.0	1.3%	3/7/2023
Classified Contract	51.4	0.8%	10/31/2018
Classified Contract	50.7	0.8%	6/30/2018
InnoVision Future Solutions Program	48.5	0.8%	8/31/2018
Classified Contract	35.6	0.6%	12/31/2020
Classified Contract	35.0	0.6%	9/30/2019
DTRA CTR Advisory and Assistance Services	33.4	0.5%	5/26/2021
Classified Contract	32.4	0.5%	9/30/2019
Classified Contract	27.4	0.4%	4/30/2018

## Backlog

We define backlog to include the following three components:

- *Funded Backlog.* Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- *Unfunded Backlog.* Unfunded backlog represents the revenue value of orders (including optional orders) for services under existing contracts for which funding has not been appropriated or otherwise authorized.
- *Priced Options.* Priced contract options represent 100% of the revenue value of all future contract option periods under existing contracts that may be exercised at our clients' option and for which funding has not been appropriated or otherwise authorized.

Backlog does not include any task orders under IDIQ contracts except to the extent that task orders have been awarded to us under those contracts.

The following table summarizes the value of our contract backlog as of the respective dates presented:

	As of March 31,	
	2018	2017
	(In millions)	
Funded	\$ 2,685	\$ 2,815
Unfunded	4,161	3,098
Priced options	9,174	7,679
Total backlog	\$ 16,020	\$ 13,592

We may never realize all of the revenue that is included in our total backlog, and there is a higher degree of risk in this regard with respect to unfunded backlog and priced options. See "Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations — Factors and Trends Affecting Our Results of Operations — Sources of Revenue— Contract Backlog” for additional disclosure regarding our backlog. See also “Item 1A. Risk Factors—Risks Related to Our Business—We may not realize the full value of our backlog, which may result in lower than expected revenue.”

## **Competition**

The government services market is highly fragmented and competition within the government professional services industry has intensified due to market pressure. In addition to professional service companies like ours that focus principally on the provision of services to the U.S. government, other companies active in our markets include large defense contractors; diversified consulting, technology, and outsourcing service providers; and small businesses.

Changing government policies and market dynamics are impacting the competitive landscape. In the past, the government's focus on organizational conflicts of interest have driven divestitures, which have changed the competitive landscape. More recently, there has been increasing pressure from government clients to utilize small businesses, due in large part to a push by both past and present administrations to bolster the economy by helping small business owners. Finally, due to the foregoing factors and the drive in our markets to quickly build competencies in growth areas and achieve economies of scale, we believe that consolidation activity among market participants will continue.

In the course of doing business, we compete and collaborate with companies of all types and sizes. We strive to maintain positive and productive relationships with these organizations. Some of them hire us as a subcontractor, and we hire some of them to work with us as our subcontractors. Our major competitors include: (1) contractors focused principally on the provision of services to the U.S. government, (2) large defense contractors that provide both products and services to the U.S. government, and (3) diversified service providers. We compete based on our technical expertise and client knowledge, our ability to successfully recruit appropriately skilled and experienced talent, our ability to deliver cost-effective multifaceted services in a timely manner, our reputation and relationship with our clients, our past performance, security clearances, and the size and scale of our company. In addition, to maintain our competitive position, we routinely review our operating structure, capabilities, and strategy to determine whether we are effectively meeting the needs of existing clients, effectively responding to developments in our markets, and successfully building a platform intended to provide the foundation for the future growth of our business.

## **Patents and Proprietary Information**

Our management and technology consulting services business utilizes a variety of proprietary rights in delivering products and services to our clients. We claim a proprietary interest in certain of our service offerings, products, software tools, methodologies, and know-how and also have certain licenses to third-party intellectual property that may be significant to our business. While we have several patents issued in the United States and patents pending both in the United States and in certain foreign countries, we do not consider our overall business to be materially dependent on the protection of such patents. In addition, we have a number of trade secrets that contribute to our success and competitive position, and we endeavor to protect this proprietary information. While protecting trade secrets and proprietary information is important, we are not materially dependent on any specific trade secret or group of trade secrets.

We rely on a combination of nondisclosure agreements and other contractual arrangements, as well as copyright, trademark, patent, and trade secret laws to protect our proprietary information. We also enter into proprietary information and intellectual property agreements with employees, which require them to disclose any inventions created during employment, to convey such rights to inventions to us, and to restrict any disclosure of proprietary information. We have a variety of proprietary marks registered in the United States and certain foreign countries, including "Booz Allen Hamilton." Generally, registered trademarks have perpetual life, provided that they are renewed on a timely basis and continue to be used properly as trademarks. We have registered trademarks related to our name and logo in the United States, with the earliest renewal in March 2020, while the earliest renewal for our trademarks outside of the United States is October 2019.

For our work under U.S. government funded contracts and subcontracts, the U.S. government obtains certain rights to data, software, and related information developed under such contracts or subcontracts. These rights generally allow the U.S. government to disclose such data, software, and related information to third parties, which may include our competitors in some instances. In the case of our work as a subcontractor, our prime contractor may also have certain rights to data, information, and products we develop under the subcontract.

Booz Allen Hamilton and other trademarks or service marks of Booz Allen Hamilton Inc. appearing in this Annual Report are the trademarks or registered trademarks of Booz Allen Hamilton Inc. Trade names, trademarks, and service marks of other companies appearing in this Annual Report are the property of their respective owners.

## Regulation

As a contractor to the U.S. government, as well as state and local governments, we are heavily regulated in most fields in which we operate. We deal with numerous U.S. government agencies and entities, and, when working with these and other entities, we must comply with and are affected by unique laws and regulations relating to the formation, administration, and performance of public government contracts. Some significant laws and regulations that affect us include:

- the Federal Acquisition Regulation (the "FAR"), and agency regulations supplemental to the FAR, which regulate the formation, administration, and performance of U.S. government contracts. For example, FAR 52.203-13 requires contractors to establish a Code of Business Ethics and Conduct, implement a comprehensive internal control system, and report to the government when the contractor has credible evidence that a principal, employee, agent, or subcontractor, in connection with a government contract, has violated certain federal criminal laws, violated the civil False Claims Act, or has received a significant overpayment;
- the False Claims Act, which imposes civil and criminal liability for violations, including substantial monetary penalties, for, among other things, presenting false or fraudulent claims for payments or approval;
- the False Statements Act, which imposes civil and criminal liability for making false statements to the U.S. government;
- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with the negotiation of a contract, modification, or task order;
- the Procurement Integrity Act, which regulates access to competitor bid and proposal information and certain internal government procurement sensitive information, and our ability to provide compensation to certain former government procurement officials;
- laws and regulations restricting the ability of a contractor to provide gifts or gratuities to employees of the U.S. government;
- post-government employment laws and regulations, which restrict the ability of a contractor to recruit and hire current employees of the U.S. government and deploy former employees of the U.S. government;
- laws, regulations, and executive orders restricting the handling, use and dissemination of information classified for national security purposes or determined to be "controlled unclassified information" or "for official use only" and the export of certain products, services, and technical data, including requirements regarding any applicable licensing of our employees involved in such work;
- laws, regulations, and executive orders, including the Anti-Kickback Act, regulating the handling, use, and dissemination of personally identifiable information in the course of performing a U.S. government contract;
- international trade compliance laws, regulations and executive orders that prohibit business with certain sanctioned entities and require authorization for certain exports or imports in order to protect national security and global stability;
- laws, regulations, and executive orders governing organizational conflicts of interest that may restrict our ability to compete for certain U.S. government contracts because of the work that we currently perform for the U.S. government or may require that we take measures such as firewalling off certain employees or restricting their future work activities due to the current work that they perform under a U.S. government contract;
- laws, regulations and executive orders that impose requirements on us to ensure compliance with requirements and protect the government from risks related to our supply chain;
- laws, regulations and mandatory contract provisions providing protections to employees or subcontractors seeking to report alleged fraud, waste, and abuse related to a government contract;
- the Contractor Business Systems rule, which authorizes Department of Defense agencies to withhold a portion of our payments if we are determined to have a significant deficiency in our accounting, cost estimating, purchasing, earned value management, material management and accounting, and/or property management system; and
- the Cost Accounting Standards and Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. government contracts and require consistency of accounting practices over time.

Given the magnitude of our revenue derived from contracts with the Department of Defense, the Defense Contract Audit Agency, or DCAA, is our cognizant government audit agency. The DCAA audits the adequacy of our internal control systems and policies including, among other areas, compensation. The Defense Contract Management Agency, or DCMA, our cognizant government contract management agency, may determine that a portion of our employee compensation is unallowable based on

the findings and recommendations in the DCAA's audits. In addition, the DCMA directly reviews the adequacy of certain other business systems, such as our purchasing system. See "Item 1A. Risk Factors — Risk Related to Our Industry — Our contracts, performance, and administrative processes and systems are subject to audits, reviews, investigations, and cost adjustments by the U.S. government, which could reduce our revenue, disrupt our business, or otherwise materially adversely affect our results of operations." We are also subject to audit by Inspectors General of other U.S. government agencies.

The U.S. government may revise its procurement practices or adopt new contract rules and regulations at any time. In order to help ensure compliance with these laws and regulations, all of our employees are required to attend ethics training at least annually, as well as other compliance training relevant to their position. Internationally, we are subject to special U.S. government laws and regulations (such as the Foreign Corrupt Practices Act), local government regulations and procurement policies and practices, including regulations relating to import-export control, investments, exchange controls, and repatriation of earnings, as well as varying currency, political, and economic risks.

U.S. government contracts are, by their terms, subject to termination by the U.S. government either for its convenience or default by the contractor. In addition, U.S. government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a September 30 fiscal year basis, even though contract performance may take many years. As is common in the industry, our company is subject to business risks, including changes in governmental appropriations, national defense policies, service modernization plans, and availability of funds. Any of these factors could materially adversely affect our company's business with the U.S. government in the future.

The U.S. government has a broad range of actions that it can instigate in order to enforce its procurement law and policies. These include proposing a contractor, certain of its operations or individual employees for debarment or suspending or debaring a contractor, certain of its operations or individual employees from future government business. In addition to criminal, civil and administrative actions by the U.S. government, under the False Claims Act, an individual alleging fraud related to payments under a U.S. government contract or program may file a qui tam lawsuit on behalf of the government against us; if successful in obtaining a judgment or settlement, the individual filing the suit may receive up to 30% of the amount recovered by the government.

See "Item 1A. Risk Factors—Risks Related to Our Business—We are required to comply with numerous laws and regulations, some of which are highly complex, and our failure to comply could result in fines or civil or criminal penalties or suspension or debarment by the U.S. government that could result in our inability to continue to work on or receive U.S. government contracts, which could materially and adversely affect our results of operations."

#### **Available Information**

We file annual, quarterly, and current reports and other information with the Securities and Exchange Commission, or SEC. You may read and copy any documents that we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 to obtain further information about the public reference room. In addition, the SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC, including us. You may also access, free of charge, our reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K and any amendments to those forms) through the "Investors" portion of our website ([www.boozallen.com](http://www.boozallen.com)). Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. Our website is included in this Annual Report as an inactive textual reference only. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

#### **Item 1A. Risk Factors**

*You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Annual Report, including our consolidated financial statements and related notes. The risks described below are not the only ones facing us. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition, and results of operations. This Annual Report also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described below.*

#### **Risks Related to Our Business**

***We depend on contracts with U.S. government agencies for substantially all of our revenue. If our relationships with such agencies are harmed, our future revenue and operating profits would decline.***

The U.S. government is our primary client, with revenue from contracts and task orders, either as a prime or a subcontractor, with U.S. government agencies accounting for 97% of our revenue for fiscal 2018. Our belief is that the

successful future growth of our business will continue to depend primarily on our ability to be awarded work under U.S. government contracts, as we expect this will be the primary source of substantially all of our revenue in the foreseeable future. For this reason, any issue that compromises our relationship with the U.S. government generally or any U.S. government agency that we serve would cause our revenue to decline. Among the key factors in maintaining our relationship with U.S. government agencies are our performance on contracts and task orders, the strength of our professional reputation, compliance with applicable laws and regulations, and the strength of our relationships with client personnel. In addition, the mishandling or the perception of mishandling of sensitive information, such as our failure to maintain the confidentiality of the existence of our business relationships with certain of our clients, including as a result of misconduct or other improper activities by our employees or subcontractors, or a failure to maintain adequate protection against security breaches, including those resulting from cyber attacks, could harm our relationship with U.S. government agencies. See "—Our employees or subcontractors may engage in misconduct or other improper activities, which could harm our ability to conduct business with U.S. government." Our relationship with the U.S. government could also be damaged as a result of an agency's dissatisfaction with work performed by us, a subcontractor, or other third parties who provide services or products for a specific project for any reason, including due to perceived or actual deficiencies in the performance or quality of our work, and we may incur additional costs to address any such situation and the profitability of that work might be impaired. Further, negative publicity concerning government contractors in general or us in particular may harm our reputation with federal government contractors. To the extent our reputation or relationships with U.S. government agencies is impaired, our revenue and operating profits could materially decline.

***U.S. government spending and mission priorities could change in a manner that adversely affects our future revenue and limits our growth prospects.***

Our business depends upon continued U.S. government expenditures on defense, intelligence, and civil programs for which we provide support. These expenditures have not remained constant over time, have been reduced in certain periods and, recently, have been affected by the U.S. government's efforts to improve efficiency and reduce costs affecting federal government programs generally. Our business, prospects, financial condition, or operating results could be materially harmed, among other causes, by the following:

- budgetary constraints, including Congressionally mandated automatic spending cuts, affecting U.S. government spending generally, or specific agencies in particular, and changes in available funding;
- a shift in expenditures away from agencies or programs that we support;
- reduced U.S. government outsourcing of functions that we are currently contracted to provide, including as a result of increased insourcing by various U.S. government agencies due to changes in the definition of "inherently governmental" work, including proposals to limit contractor access to sensitive or classified information and work assignments;
- further efforts to improve efficiency and reduce costs affecting federal government programs;
- changes or delays in U.S. government programs that we support or related requirements;
- a continuation of recent efforts by the U.S. government to decrease spending for management support service contracts;
- U.S. government shutdowns due to, among other reasons, a failure by elected officials to fund the government (such as that which occurred during government fiscal year 2014 and, to a lesser extent, government fiscal year 2018) or weather-related closures in the Washington, D.C. area and other potential delays in the appropriations process;
- U.S. government agencies awarding contracts on a technically acceptable/lowest cost basis in order to reduce expenditures;
- delays in the payment of our invoices by government payment offices;
- an inability by the U.S. government to fund its operations as a result of a failure to increase the federal government's debt ceiling, a credit downgrade of U.S. government obligations or for any other reason; and
- changes in the political climate and general economic conditions, including a slowdown of the economy or unstable economic conditions and responses to conditions, such as emergency spending, that reduce funds available for other government priorities.

In addition, any disruption in the functioning of U.S. government agencies, including as a result of U.S. government closures and shutdowns, terrorism, war, natural disasters, destruction of U.S. government facilities, and other potential calamities could have a negative impact on our operations and cause us to lose revenue or incur additional costs due to, among other things, our inability to deploy our staff to client locations or facilities as a result of such disruptions.

The U.S. government budget deficits, the national debt, and the prevailing economic condition, and actions taken to address them, could continue to negatively affect the U.S. government expenditures on defense, intelligence, and civil programs for which we provide support. The Department of Defense is one of our significant clients and cost cutting, including through consolidation and elimination of duplicative organizations and insourcing, has become a major initiative for the Department of Defense. In particular, the Budget Control Act of 2011 (as subsequently amended) provides for automatic spending cuts (referred to as sequestration) totaling approximately \$1.2 trillion between 2013 and 2021, including an estimated \$500 billion in federal defense spending cuts over this time period. Most recently, the Bipartisan Budget Act of 2018 amended the discretionary spending limits established by the Budget Control Act of 2011, as amended, for the government fiscal 2018 and 2019 budgets across the federal government and increased the prior discretionary spending cap in both defense and non-defense. Pursuant to the Consolidated Appropriations Act, 2018, the new Department of Defense spending limit is approximately \$660 billion for government fiscal 2018, including an allocation of \$65 billion in overseas contingency operations funding. While recent budget actions reflect a more measured and strategic approach to addressing the U.S. government's fiscal challenges, there remains uncertainty as to how exactly budget cuts, including sequestration, will impact us, and we are therefore unable to predict the extent of the impact of such cuts on our business and results of operations. However, a reduction in the amount of or reductions, delays, or cancellations of funding for, services that we are contracted to provide to the Department of Defense as a result of any of these related initiatives, legislation or otherwise could have a material adverse effect on our business and results of operations. In addition, in response to an Office of Management and Budget mandate, government agencies have reduced management support services spending in recent years. If federal awards for management support services continue to decline, our revenue and operating profits may materially decline and further efforts by the Office of Management and Budget to decrease federal awards for management support services could have a material and adverse effect on our business and results of operations.

These or other factors could cause our defense, intelligence, or civil clients to decrease the number of new contracts awarded generally and fail to award us new contracts, reduce their purchases under our existing contracts, exercise their right to terminate our contracts, or not exercise options to renew our contracts, any of which could cause a material decline in our revenue.

***We are required to comply with numerous laws and regulations, some of which are highly complex, and our failure to comply could result in fines or civil or criminal penalties or suspension or debarment by the U.S. government that could result in our inability to continue to work on or receive U.S. government contracts, which could materially and adversely affect our results of operations.***

As a U.S. government contractor, we must comply with laws and regulations relating to the formation, administration, and performance of U.S. government contracts, which affect how we do business with our clients. Such laws and regulations may potentially impose added costs on our business and our failure to comply with them may lead to civil or criminal penalties, termination of our U.S. government contracts, and/or suspension or debarment from contracting with federal agencies. Some significant laws and regulations that affect us include:

- the FAR, and agency regulations supplemental to the FAR, which regulate the formation, administration, and performance of U.S. government contracts. For example, FAR 52.203-13 requires contractors to establish a Code of Business Ethics and Conduct, implement a comprehensive internal control system, and report to the government when the contractor has credible evidence that a principal, employee, agent, or subcontractor, in connection with a government contract, has violated certain federal criminal laws, violated the civil False Claims Act, or has received a significant overpayment;
- the False Claims Act, which imposes civil and criminal liability for violations, including substantial monetary penalties, for, among other things, presenting false or fraudulent claims for payments or approval;
- the False Statements Act, which imposes civil and criminal liability for making false statements to the U.S. government;
- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with the negotiation of a contract, modification, or task order;
- the Procurement Integrity Act, which regulates access to competitor bid and proposal information and certain internal government procurement sensitive information, and our ability to provide compensation to certain former government procurement officials;
- laws and regulations restricting the ability of a contractor to provide gifts or gratuities to employees of the U.S. government;
- post-government employment laws and regulations, which restrict the ability of a contractor to recruit and hire current employees of the U.S. government and deploy former employees of the U.S. government;

- laws, regulations, and executive orders restricting the handling, use and dissemination of information classified for national security purposes or determined to be “controlled unclassified information” or “for official use only” and the export of certain products, services, and technical data, including requirements regarding any applicable licensing of our employees involved in such work;
- laws, regulations, and executive orders, including the Anti-Kickback Act, regulating the handling, use, and dissemination of personally identifiable information in the course of performing a U.S. government contract;
- international trade compliance laws, regulations and executive orders that prohibit business with certain sanctioned entities and require authorization for certain exports or imports in order to protect national security and global stability;
- laws, regulations, and executive orders governing organizational conflicts of interest that may restrict our ability to compete for certain U.S. government contracts because of the work that we currently perform for the U.S. government or may require that we take measures such as firewalling off certain employees or restricting their future work activities due to the current work that they perform under a U.S. government contract;
- laws, regulations and executive orders that impose requirements on us to ensure compliance with requirements and protect the government from risks related to our supply chain;
- laws, regulations and mandatory contract provisions providing protections to employees or subcontractors seeking to report alleged fraud, waste, and abuse related to a government contract;
- the Contractor Business Systems rule, which authorizes Department of Defense agencies to withhold a portion of our payments if we are determined to have a significant deficiency in our accounting, cost estimating, purchasing, earned value management, material management and accounting, and/or property management system; and
- the FAR Cost Accounting Standards and Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. government contracts and require consistency of accounting practices over time.

In addition, the U.S. government adopts new laws, rules, and regulations from time to time that could have a material impact on our results of operations. Adverse developments in legal or regulatory proceedings on matters relating to, among other things, cost accounting practices and compliance, contract interpretations and statute of limitations, could also result in materially adverse judgments, settlements, withheld payments, penalties, or other unfavorable outcomes.

Our performance under our U.S. government contracts and our compliance with the terms of those contracts and applicable laws and regulations are subject to periodic audit, review, and investigation by various agencies of the U.S. government and the current environment has led to increased regulatory scrutiny and sanctions for non-compliance by such agencies generally. In addition, from time to time we report potential or actual violations of applicable laws and regulations to the relevant governmental authority. Any such report of a potential or actual violation of applicable laws or regulations could lead to an audit, review, or investigation by the relevant agencies of the U.S. government. If such an audit, review, or investigation uncovers a violation of a law or regulation, or improper or illegal activities relating to our U.S. government contracts, we may be subject to civil or criminal penalties or administrative sanctions, including the termination of contracts, forfeiture of profits, the triggering of price reduction clauses, withholding of payments, suspension of payments, fines and suspension, or debarment from contracting with U.S. government agencies. Such penalties and sanctions are not uncommon in the industry and there is inherent uncertainty as to the outcome of any particular audit, review, or investigation. If we incur a material penalty or administrative sanction or otherwise suffer harm to our reputation, our profitability, cash position, and future prospects could be materially and adversely affected.

Further, if the U.S. government were to initiate suspension or debarment proceedings against us or if we are indicted for or convicted of illegal activities relating to our U.S. government contracts following an audit, review, or investigation, we may lose our ability to be awarded contracts in the future or receive renewals of existing contracts for a period of time which could materially and adversely affect our results of operations or financial condition. We could also suffer harm to our reputation if allegations of impropriety were made against us, which would impair our ability to win awards of contracts in the future or receive renewals of existing contracts. See "Item 1. Business — Regulation."

***We derive a majority of our revenue from contracts awarded through a competitive bidding process, and our revenue and profitability may be adversely affected if we are unable to compete effectively in the process or if there are delays caused by our competitors protesting major contract awards received by us.***

We derive a majority of our revenue from U.S. government contracts awarded through competitive bidding processes. We do not expect this to change for the foreseeable future. Our failure to compete effectively in this procurement environment would have a material adverse effect on our revenue and profitability.



The competitive bidding process involves risk and significant costs to businesses operating in this environment, including:

- the necessity to expend resources, make financial commitments (such as procuring leased premises) and bid on engagements in advance of the completion of their design, which may result in unforeseen difficulties in execution, cost overruns and, in the case of an unsuccessful competition, the loss of committed costs;
- the substantial cost and managerial time and effort spent to prepare bids and proposals for contracts that may not be awarded to us;
- the ability to accurately estimate the resources and costs that will be required to service any contract we are awarded;
- the expense and delay that may arise if our competitors protest or challenge contract awards made to us pursuant to competitive bidding, and the risk that any such protest or challenge could result in the resubmission of bids on modified specifications, or in termination, reduction, or modification of the awarded contract; and
- any opportunity cost of not bidding and winning other contracts we might have otherwise pursued.

In circumstances where contracts are held by other companies and are scheduled to expire, we still may not be provided the opportunity to bid on those contracts if the U.S. government determines to extend the existing contract. If we are unable to win particular contracts that are awarded through the competitive bidding process, we may not be able to operate in the market for services that are provided under those contracts for the duration of those contracts to the extent that there is no additional demand for such services. An inability to consistently win new contract awards over any extended period would have a material adverse effect on our business and results of operations.

The current competitive environment has resulted in an increase in the number of bid protests from unsuccessful bidders on new program awards. It can take many months for the relevant U.S. government agency to resolve protests by one or more of our competitors of contract awards we receive. Bid protests may result in significant expense to us, contract modification or loss of an awarded contract as a result of the award being overturned. Even where we do not lose the awarded contract, the resulting delay in the startup and funding of the work under these contracts may cause our actual results to differ materially and adversely from those anticipated.

***A significant majority of our revenue is derived from task orders under indefinite delivery/indefinite quantity, or IDIQ, contract vehicles where we perform in either a prime or subcontract position.***

We believe that one of the key elements of our success is our position as the holder of 3,956 active task orders under IDIQ contract vehicles as of March 31, 2018. Our ability to maintain our existing business and win new business depends on our ability to maintain our prime and subcontractor positions on these contracts. The loss, without replacement, of certain of these contract vehicles could have a material adverse effect on our ability to win new business and our operating results. In addition, if the U.S. government elects to use a contract vehicle that we do not hold, we will not be able to compete for work under that contract vehicle as a prime contractor.

***We may earn less revenue than projected, or no revenue, under certain of our contracts.***

Many of our contracts with our clients are IDIQ contracts. IDIQ contracts provide for the issuance by the client of orders for services or products under the contract, and often contain multi-year terms and unfunded ceiling amounts, which allow but do not commit the U.S. government to purchase products and services from contractors. Our ability to generate revenue under each of these types of contracts depends upon our ability to be awarded task orders for specific services by the client. IDIQ contracts may be awarded to one contractor (single award) or several contractors (multiple award). Multiple contractors must compete under multiple award IDIQ contracts for task orders to provide particular services, and contractors earn revenue only to the extent that they successfully compete for these task orders. A failure to be awarded task orders under such contracts would have a material adverse effect on our results of operations and financial condition.

***Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to accurately estimate or otherwise recover the expenses, time, and resources for our contracts.***

We enter into three general types of U.S. government contracts for our services: cost-reimbursable, time-and-materials, and fixed-price. For fiscal 2018, we derived 51% of our revenue from cost-reimbursable contracts, 25% from time-and-materials contracts and 24% from fixed-price contracts.

Each of these types of contracts, to varying degrees, involves the risk that we could underestimate our cost of fulfilling the contract, which may reduce the profit we earn or lead to a financial loss on the contract and adversely affect our operating results.

Under cost-reimbursable contracts, we are reimbursed for allowable costs up to a ceiling and paid a fee, which may be fixed or performance-based. If our actual costs exceed the contract ceiling or are not allowable under the terms of the contract

or applicable regulations, we may not be able to recover those costs. In particular, there is increasing focus by the U.S. government on the extent to which government contractors, including us, are able to receive reimbursement for employee compensation, including the adoption of interim rules by federal agencies implementing a section of the Bipartisan Budget Act of 2013 that substantially decreased the level of allowable compensation cost for executive-level employees and further applied the newly reduced limitation to all employees. In addition, there is an increased risk of compensation being deemed unallowable or payments being withheld as a result of U.S. government audit, review or investigation.

Under time-and-materials contracts, we are reimbursed for labor at negotiated hourly billing rates and for certain allowable expenses. We assume financial risk on time-and-materials contracts because our costs of performance may exceed these negotiated hourly rates.

Under fixed-price contracts, we perform specific tasks for a predetermined price. Compared to time-and-materials and cost-reimbursable contracts, fixed-price contracts generally offer higher margin opportunities because we receive the benefits of any cost savings, but involve greater financial risk because we bear the impact of any cost overruns. The U.S. government has generally indicated that it intends to increase its use of fixed price contract procurements. Because we assume the risk for cost overruns and contingent losses on fixed-price contracts, an increase in the percentage of fixed-price contracts in our contract mix would increase our risk of suffering losses.

Additionally, our profits could be adversely affected if our costs under any of these contracts exceed the assumptions we used in bidding for the contract. For example, we may miscalculate the costs, resources, or time needed to complete projects or meet contractual milestones as a result of delays on a particular project, including delays in designs, engineering information, or materials provided by the customer or a third party, delays or difficulties in equipment and material delivery, schedule changes, and other factors, some of which are beyond our control. We have recorded provisions in our consolidated financial statements for losses on our contracts, as required under accounting principles generally accepted in the United States, or GAAP, but our contract loss provisions may not be adequate to cover all actual losses that we may incur in the future.

***Our professional reputation is critical to our business, and any harm to our reputation could decrease the amount of business the U.S. government does with us, which could have a material adverse effect on our future revenue and growth prospects.***

We depend on our contracts with U.S. government agencies for substantially all of our revenue and if our reputation or relationships with these agencies were harmed, our future revenue and growth prospects would be materially and adversely affected. Our reputation and relationship with the U.S. government is a key factor in maintaining and growing revenue under contracts with the U.S. government. Negative press reports regarding poor contract performance, employee misconduct, information security breaches, or other aspects of our business, or regarding government contractors generally, could harm our reputation. In addition, to the extent our performance under a contract does not meet a U.S. government agency's expectations, the client might seek to terminate the contract prior to its scheduled expiration date, provide a negative assessment of our performance to government-maintained contractor past-performance data repositories, fail to award us additional business under existing contracts or otherwise, and direct future business to our competitors. If our reputation with these agencies is negatively affected, or if we are suspended or debarred from contracting with government agencies for any reason, such actions would decrease the amount of business that the U.S. government does with us, which would have a material adverse effect on our future revenue and growth prospects.

***We use estimates in recognizing revenue and if we make changes to estimates used in recognizing revenue, our profitability may be adversely affected.***

Revenue from our fixed-price contracts is primarily recognized using the percentage-of-completion method with progress toward completion of a particular contract based on actual costs incurred relative to total estimated costs to be incurred over the life of the contract. Revenue from our cost-reimbursable-plus-award-fee contracts are based on our estimation of award fees over the life of the contract. Estimating costs at completion and award fees on our long-term contracts is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained, and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimate is recognized as events become known.

In the event updated estimates indicate that we will experience a loss on the contract, we recognize the estimated loss at the time it is determined. Additional information may subsequently indicate that the loss is more or less than initially recognized, which requires further adjustments in our consolidated financial statements. Changes in the underlying assumptions, circumstances, or estimates could result in adjustments that could have a material adverse effect on our future results of operations.

***We may not realize the full value of our backlog, which may result in lower than expected revenue.***

As of March 31, 2018, our total backlog was \$16.0 billion, of which \$2.7 billion was funded. We define backlog to include the following three components:

- *Funded Backlog.* Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized, less revenue previously recognized on these contracts.
- *Unfunded Backlog.* Unfunded backlog represents the revenue value of orders (including optional orders) for services under existing contracts for which funding has not been appropriated or otherwise authorized.
- *Priced Options.* Priced contract options represent 100% of the revenue value of all future contract option periods under existing contracts that may be exercised at our clients' option and for which funding has not been appropriated or otherwise authorized.

Backlog does not include any task orders under IDIQ contracts, except to the extent that task orders have been awarded to us under those contracts.

We historically have not realized all of the revenue included in our total backlog, and we may not realize all of the revenue included in our total backlog in the future. There is a somewhat higher degree of risk in this regard with respect to unfunded backlog and priced options. In addition, there can be no assurance that our backlog will result in actual revenue in any particular period. This is because the actual receipt, timing, and amount of revenue under contracts included in backlog are subject to various contingencies, including congressional appropriations, many of which are beyond our control. In particular, delays in the completion of the U.S. government's budgeting process and the use of continuing resolutions could adversely affect our ability to timely recognize revenue under our contracts included in backlog. Furthermore, the actual receipt of revenue from contracts included in backlog may never occur or may be delayed because: a program schedule could change or the program could be canceled; a contract's funding or scope could be reduced, modified, delayed, or terminated early, including as a result of a lack of appropriated funds or as a result of cost cutting initiatives and other efforts to reduce U.S. government spending and/or the automatic federal defense spending cuts required by sequestration; in the case of funded backlog, the period of performance for the contract has expired; in the case of unfunded backlog, funding may not be available; or, in the case of priced options, our clients may not exercise their options. In addition, consulting staff headcount growth is the primary means by which we are able to recognize revenue growth. Any inability to hire additional appropriately qualified personnel or failure to timely and effectively deploy such additional personnel against funded backlog could negatively affect our ability to grow our revenue. We may also not recognize revenue on funded backlog due to, among other reasons, the tardy submissions of invoices by our subcontractors and the expiration of the relevant appropriated funding in accordance with a predetermined expiration date such as the end of the U.S. government's fiscal year. The amount of our funded backlog is also subject to change, due to, among other factors: changes in congressional appropriations that reflect changes in U.S. government policies or priorities resulting from various military, political, economic or international developments; changes in the use of U.S. government contracting vehicles, and the provisions therein used to procure our services; and adjustments to the scope of services under, or cancellation of contracts, by the U.S. government at any time. Furthermore, even if our backlog results in revenue, the contracts may not be profitable.

***We may fail to attract, train and retain skilled and qualified employees, which may impair our ability to generate revenue, effectively serve our clients, and execute our growth strategy.***

Our business depends in large part upon our ability to attract and retain sufficient numbers of highly qualified individuals who may have advanced degrees in areas such as information technology as well as appropriate security clearances. We compete for such qualified personnel with other U.S. government contractors, the U.S. government, and private industry, and such competition is intense. Personnel with the requisite skills, qualifications, or security clearance may be in short supply or generally unavailable. In addition, our ability to recruit, hire, and internally deploy former employees of the U.S. government is subject to complex laws and regulations, which may serve as an impediment to our ability to attract such former employees, and failure to comply with these laws and regulations may expose us and our employees to civil or criminal penalties. If we are unable to recruit and retain a sufficient number of qualified employees, or fail to deploy such employees or obtain their appropriate security clearances in a timely manner, our ability to maintain and grow our business and to effectively serve our clients could be limited and our future revenue and results of operations could be materially and adversely affected. Furthermore, to the extent that we are unable to make necessary permanent hires to appropriately serve our clients, we could be required to engage larger numbers of contracted personnel, which could reduce our profit margins.

If we are able to attract sufficient numbers of qualified new hires, training and retention costs may place significant demands on our resources. In addition, to the extent that we experience attrition in our employee ranks, we may realize only a limited or no return on such invested resources, and we would have to expend additional resources to hire and train replacement employees. The loss of services of key personnel could also impair our ability to perform required services under some of our contracts and to retain such contracts, as well as our ability to win new business.

***We may fail to obtain and maintain necessary security clearances which may adversely affect our ability to perform on certain contracts.***

Many U.S. government programs require contractor employees and facilities to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing clients could terminate their contracts with us or decide not to renew them. To the extent we are not able to obtain and maintain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, or effectively rebid on expiring contracts, as well as lose existing contracts, which may adversely affect our operating results and inhibit the execution of our growth strategy.

***Our profitability could suffer if we are not able to timely and effectively utilize our employees or manage our cost structure.***

The cost of providing our services, including the degree to which our employees are utilized, affects our profitability. The degree to which we are able to utilize our employees in a timely manner or at all is affected by a number of factors, including:

- our ability to transition employees from completed projects to new assignments and to hire, assimilate, and deploy new employees;
- our ability to forecast demand for our services and to maintain and deploy headcount that is aligned with demand, including employees with the right mix of skills and experience to support our projects;
- our employees' inability to obtain or retain necessary security clearances;
- our ability to manage attrition; and
- our need to devote time and resources to training, business development, and other non-chargeable activities.

If our employees are under-utilized, our profit margin and profitability could suffer. Additionally, if our employees are over-utilized, it could have a material adverse effect on employee engagement and attrition, which would in turn have a material adverse impact on our business.

Our profitability is also affected by the extent to which we are able to effectively manage our overall cost structure for operating expenses, such as wages and benefits, overhead and capital and other investment-related expenditures. If we are unable to effectively manage our costs and expense and achieve efficiencies, our competitiveness and profitability may be adversely affected.

***We may lose one or more members of our senior management team or fail to develop new leaders, which could cause the disruption of the management of our business.***

We believe that the future success of our business and our ability to operate profitably depends on the continued contributions of the members of our senior management and the continued development of new members of senior management. We rely on our senior management to generate business and execute programs successfully. In addition, the relationships and reputation that many members of our senior management team have established and maintain with our clients are important to our business and our ability to identify new business opportunities. We have employment agreements with only our four most senior executives. The loss of any member of our senior management or our failure to continue to develop new members could impair our ability to identify and secure new contracts, to maintain good client relations, and to otherwise manage our business.

***Our employees or subcontractors may engage in misconduct or other improper activities, which could harm our ability to conduct business with the U.S. government.***

We are exposed to the risk that employee or subcontractor fraud or other misconduct could occur. Misconduct by employees or subcontractors could include intentional or unintentional failures to comply with U.S. government procurement regulations, engaging in other unauthorized activities, or falsifying time records. Employee or subcontractor misconduct could also involve the improper use of our clients' sensitive or classified information, or the inadvertent or intentional disclosure of our or our clients' sensitive information in violation of our contractual, statutory, or regulatory obligations. It is not always possible to deter employee or subcontractor misconduct, and the precautions we take to prevent and detect this activity may not be effective in controlling unknown or unmanaged risks or losses, which could materially harm our business. As a result of such misconduct, our employees could lose their security clearance and we could face fines and civil or criminal penalties, loss of facility clearance accreditation, and suspension, proposed debarment or debarment from bidding for or performing under contracts with the U.S. government, as well as reputational harm, which would materially and adversely affect our results of operations and financial condition.

***We face intense competition from many competitors, which could cause us to lose business, lower prices and suffer employee departures.***

Our business operates in a highly competitive industry, and we generally compete with a wide variety of U.S. government contractors, including large defense contractors, diversified service providers, and small businesses. We also face competition from entrants into our markets including companies divested by large prime contractors in response to increasing scrutiny of organizational conflicts of interest issues. There is also a significant industry trend towards consolidation, which may result in the emergence of companies that are better able to compete against us. Some of these companies possess greater financial resources and larger technical staffs, and others have smaller and more specialized staffs. These competitors could, among other things:

- divert sales from us by winning very large-scale government contracts, a risk that is enhanced by the recent trend in government procurement practices to bundle services into larger contracts;
- force us to charge lower prices in order to win or maintain contracts;
- seek to hire our employees; or
- adversely affect our relationships with current clients, including our ability to continue to win competitively awarded engagements where we are the incumbent.

If we lose business to our competitors or are forced to lower our prices or suffer employee departures, our revenue and our operating profits could decline. In addition, we may face competition from our subcontractors who, from time to time, seek to obtain prime contractor status on contracts for which they currently serve as a subcontractor to us. If one or more of our current subcontractors are awarded prime contractor status on such contracts in the future, it could divert sales from us and could force us to charge lower prices, which could have a material adverse effect on our revenue and profitability.

***Our failure to maintain strong relationships with other contractors, or the failure of contractors with which we have entered into a sub- or prime contractor relationship to meet their obligations to us or our clients, could have a material adverse effect on our business and results of operations.***

Maintaining strong relationships with other U.S. government contractors, who may also be our competitors, is important to our business and our failure to do so could have a material adverse effect on our business, prospects, financial condition, and operating results. To the extent that we fail to maintain good relations with our subcontractors or other prime contractors due to either perceived or actual performance failures or other conduct, they may refuse to hire us as a subcontractor in the future or to work with us as our subcontractor. In addition, other contractors may choose not to use us as a subcontractor or choose not to perform work for us as a subcontractor for any number of additional reasons, including because they choose to establish relationships with our competitors or because they choose to directly offer services that compete with our business.

As a prime contractor, we often rely on other companies to perform some of the work under a contract, and we expect to continue to depend on relationships with other contractors for portions of our delivery of services and revenue in the foreseeable future. If our subcontractors fail to perform their contractual obligations, our operating results and future growth prospects could be impaired. There is a risk that we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, client concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract, or our hiring of a subcontractor's personnel. In addition, if any of our subcontractors fail to deliver the agreed-upon supplies or perform the agreed-upon services on a timely basis, our ability to fulfill our obligations as a prime contractor may be jeopardized. Material losses could arise in future periods and subcontractor performance deficiencies could result in a client terminating a contract for default. A termination for default could expose us to liability and have an adverse effect on our ability to compete for future contracts and orders.

We estimate that revenue derived from contracts under which we acted as a subcontractor to other companies represented 9% of our revenue for fiscal 2018. As a subcontractor, we often lack control over fulfillment of a contract, and poor performance on the contract could tarnish our reputation, even when we perform as required, and could cause other contractors to choose not to hire us as a subcontractor in the future. If the U.S. government terminates or reduces other prime contractors' programs or does not award them new contracts, subcontracting opportunities available to us could decrease, which would have a material adverse effect on our financial condition and results of operations. In addition, as a subcontractor, we may be unable to collect payments owed to us by the prime contractor, even if we have performed our obligations under the contract, as a result of, among other things, the prime contractor's inability to fulfill the contract. Due to certain common provisions in subcontracts in certain countries, we could also experience delays in receiving payment if the prime contractor experiences payment delays, which could have an adverse effect on our financial condition and results of operations.

***Adverse judgments or settlements in legal disputes could result in materially adverse monetary damages or injunctive relief and damage our reputation.***

We are subject to, and may become a party to, a variety of litigation or other claims and suits that arise from time to time in the ordinary course of our business. For example, our performance under U.S. government contracts and compliance with the terms of those contracts and applicable laws and regulations are subject to continuous audit, review, and investigation by the U.S. government which may include such investigative techniques as subpoenas or civil investigative demands. As more fully described under "Item 3. Legal Proceedings", the U.S. Department of Justice (the "DOJ") is conducting a civil and criminal investigation of the Company, and the Company has also been in contact with other regulatory agencies and bodies, including the Securities and Exchange Commission, which notified the Company that it is conducting an investigation that the Company believes relates to matters that are also the subject of the DOJ's investigation. The Company may receive additional regulatory or governmental inquiries related to the matters that are the subject of the DOJ's investigation. In accordance with the Company's practice, the Company is cooperating with all relevant government parties. The total cost associated with these matters will depend on many factors, including the duration of these matters and any related finding. Given the nature of our business, these audits, reviews, and investigations may focus, among other areas, on various aspects of procurement integrity, labor time reporting, sensitive and/or classified information access and control, executive compensation, and post government employment restrictions. In addition, from time to time, we are also involved in legal proceedings and investigations arising in the ordinary course of business, including those relating to employment matters, relationships with clients and contractors, intellectual property disputes, and other business matters. Any such claims or investigations may be time-consuming, costly, divert management resources, or otherwise have a material adverse effect on our result of operations.

Additionally, over time, we have had disputes with current and former employees involving alleged violations of civil rights, wage and hour, and worker's compensation laws. Further, as more fully described under "Item 3. Legal Proceedings," six former officers and stockholders who had departed the company prior to the Carlyle Acquisition have filed a total of nine suits in various jurisdictions against us and certain of our current and former directors and officers. Each of the suits arises out of the acquisition and alleges that the former stockholders are entitled to certain payments that they would have received if they had held their stock at the time of the Carlyle Acquisition. Three of these suits have been dismissed with all appeals exhausted. Two suits were settled on April 16, 2015. One of the remaining suits had its Petition for Writ of Certiorari to the United States Supreme Court denied and the other three were consolidated and ultimately dismissed. The United States Court of Appeals for the Second Circuit affirmed dismissal of the suit on July 13, 2017, except for one plaintiff's securities fraud claim, which was remanded to give the plaintiff leave to file another amended complaint. On April 6, 2018, the plaintiff filed an amended complaint, alleging that the Company and certain former officers and directors violated Sections 10(b), 20(a) and 14(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On April 25, 2018, the court entered an order postponing the deadline within which the defendants must answer or move to dismiss the amended complaint.

The results of litigation and other legal proceedings, including the other claims described under "Item 3. Legal Proceedings," are inherently uncertain and adverse judgments or settlements in some or all of these legal disputes may result in materially adverse monetary damages or injunctive relief against us. Any claims or litigation, even if fully indemnified or insured, could damage our reputation and make it more difficult to compete effectively or obtain adequate insurance in the future. The litigation and other legal proceedings described under "Item 3. Legal Proceedings" are subject to future developments and management's view of these matters may change in the future.

***We face certain significant risk exposures and potential liabilities that may not be adequately covered by indemnity or insurance.***

A significant portion of our business relates to designing, developing, and manufacturing advanced defense and technology systems and products, including cybersecurity products and services. New technologies may be untested or unproven. We maintain insurance policies that mitigate against risk and potential liabilities related to our operations. This insurance is maintained in amounts that we believe are reasonable. However, our insurance coverage may not be adequate to cover those claims or liabilities, and we may be forced to bear significant costs from an accident or incident. The amount of the insurance coverage we maintain or indemnification to which we may be contractually or otherwise entitled may not be adequate to cover all claims or liabilities. Accordingly, we may be forced to bear substantial costs resulting from risks and uncertainties of our business which would negatively impact our results of operations, financial condition or liquidity.

***Systems that we develop, integrate, maintain, or otherwise support could experience security breaches which may damage our reputation with our clients and hinder future contract win rates.***

We develop, integrate, maintain, or otherwise support systems and provide services that include managing and protecting information involved in intelligence, national security, and other sensitive or classified government functions. Our systems also store and process sensitive information for commercial clients. The cyber and security threats that our clients face have grown more frequent and sophisticated. A security breach in one of these systems could cause serious harm to our business, damage our reputation, and prevent us from being eligible for further work on sensitive systems for U.S. government or commercial

clients. Work for non-U.S. government and commercial clients involving the protection of information systems or that store clients' information could also be harmed due to associated security breaches. Damage to our reputation or limitations on our eligibility for additional work or any liability resulting from a security breach in one of the systems we develop, install, maintain, or otherwise support could have a material adverse effect on our results of operations.

***Certain services we provide and technologies we develop are designed to detect and monitor threats to our clients and may require our staff to travel to locations where their physical safety may be at risk.***

We help our clients detect, monitor and mitigate threats to their people, information and facilities. These threats may originate from nation states, terrorist or criminal actors, activist hackers or others who seek to harm our clients. Successful attacks on our clients may cause reputational harm to us and our clients, as well as liability to our clients or third parties. In addition, if we are associated with our clients in this regard, our staff, information and facilities may be targeted by a similar group of threat actors and may be at risk for loss, or physical or reputational harm.

***Internal system or service failures, or those of our vendors, including as a result of cyber or other security threats, could disrupt our business and impair our ability to effectively provide our services to our clients, which could damage our reputation and have a material adverse effect on our business and results of operations.***

We create, implement, and maintain information technology and engineering systems and also use vendors to provide services that are often critical to our clients' operations, some of which involve sensitive information and may be conducted in war zones or other hazardous environments, or include information whose confidentiality is protected by law. As a result, we are subject to systems or service failures, not only resulting from our own failures or the failures of third-party service providers, natural disasters, power shortages, or terrorist attacks, but also from continuous exposure to cyber and other security threats, including computer viruses and malware, attacks by computer hackers or physical break-ins. There has been an increase in the frequency and sophistication of the cyber and security threats we face, with attacks ranging from those common to businesses generally to those that are more advanced and persistent, which may target us because, as a cybersecurity services contractor, we hold classified, controlled unclassified and other sensitive information. As a result, we and our vendors face a heightened risk of a security breach or disruption resulting from an attack by computer hackers, foreign governments, and cyber terrorists. While we put in place policies, controls, and technologies to help detect and protect against such attacks, we cannot guarantee that future incidents will not occur, and if an incident does occur, we may not be able to successfully mitigate the impact. We have been the target of these types of attacks in the past and future attacks are likely to occur. If successful, these types of attacks on our network or other systems or service failures could have a material adverse effect on our business and results of operations, due to, among other things, the loss of client or proprietary data, interruptions or delays in our clients' businesses, and damage to our reputation. In addition, the failure or disruption of our systems, communications, vendors, or utilities could cause us to interrupt or suspend our operations, which could have a material adverse effect on our business and results of operations. In addition, if our employees inadvertently do not adhere to appropriate information security protocols, our protocols are inadequate, or our employees intentionally avoid these protocols, our or our clients' sensitive information may be released thereby causing significant negative impacts to our reputation and exposing us or our clients to liability.

If our or our vendors' systems, services, or other applications have significant defects or errors, are successfully attacked by cyber and other security threats, suffer delivery delays, or otherwise fail to meet our clients' expectations, we may:

- lose revenue due to adverse client reaction;
- be required to provide additional services to a client at no charge;
- incur additional costs related to remediation, monitoring and increasing our cybersecurity;
- lose revenue due to the deployment of internal staff for remediation efforts instead of client assignments;
- receive negative publicity, which could damage our reputation and adversely affect our ability to attract or retain clients;
- be unable to successfully market services that are reliant on the creation and maintaining of secure information technology systems to U.S. government, international, and commercial clients;
- suffer claims by clients or impacted third parties for substantial damages, particularly as a result of any successful network or systems breach and exfiltration of client and/or third party information; or
- incur significant costs, including fines from government regulators related to complying with applicable federal or state law, including laws pertaining to the security and protection of personal information.

In addition to any costs resulting from contract performance or required corrective action, these failures may result in increased costs or loss of revenue if they result in clients postponing subsequently scheduled work or canceling or failing to renew contracts.

The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Additionally, some cyber technologies and techniques that we utilize or develop may raise potential liabilities related to legal compliance intellectual property and civil liberties, including privacy concerns, which may not be fully insured or indemnified. We may not be able to obtain and maintain insurance coverage on reasonable terms or in sufficient amounts to cover one or more large claims, or the insurer may disclaim coverage as to some types of future claims. The successful assertion of any large claim against us could seriously harm our business. Even if not successful, these claims could result in significant legal and other costs, may be a distraction to our management, and may harm our client relationships. In certain new business areas, we may not be able to obtain sufficient insurance and may decide not to accept or solicit business in these areas.

As a contractor supporting defense and national security clients, we are also subject to regulatory compliance requirements under the Defense Federal Acquisition Regulation Supplement and other federal regulations requiring that our networks and IT systems comply with the security and privacy controls in National Institute of Standards and Technology Special Publications. To the extent that we do not comply with the applicable security and control requirements, unauthorized access or disclosure of sensitive information could potentially result in a contract termination that has a material adverse effect on our business and financial results and reputational harm.

***Failure to adequately protect, maintain, or enforce our rights in our intellectual property may adversely limit our competitive position.***

We rely upon a combination of nondisclosure agreements and other contractual arrangements, as well as copyright, trademark, patent, and trade secret laws to protect our proprietary information. We also enter into proprietary information and intellectual property agreements with employees, which require them to disclose any inventions created during employment, to convey such rights to inventions to us, and to restrict any disclosure of proprietary information. Trade secrets are generally difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information and/or the infringement of our patents and copyrights. Further, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to adequately protect, maintain, or enforce our intellectual property rights may adversely limit our competitive position.

***Assertions by third parties of infringement, misappropriation or other violations by us of their intellectual property rights could result in significant costs and substantially harm our business and operating results.***

In recent years, there has been significant litigation involving intellectual property rights in technology industries. We may face from time to time, allegations that we or a supplier or customer have violated the rights of third parties, including patent, trademark, and other intellectual property rights. If, with respect to any claim against us for violation of third-party intellectual property rights, we are unable to prevail in the litigation or retain or obtain sufficient rights or develop non-infringing intellectual property or otherwise alter our business practices on a timely or cost-efficient basis, our business and competitive position may be adversely affected.

Any infringement, misappropriation or related claims, whether or not meritorious, are time consuming, divert technical and management personnel, and are costly to resolve. As a result of any such dispute, we may have to develop non-infringing technology, pay damages, enter into royalty or licensing agreements, cease utilizing certain products or services, or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us.



***Our focus on new growth areas for our business entails risks, including those associated with new relationships, clients, talent needs, capabilities, service offerings, and maintaining our collaborative culture and core values.***

We are focused on growing our presence in our addressable markets by: expanding our relationships with existing clients, developing new clients by leveraging our core competencies, further developing our existing capabilities and service offerings, creating new capabilities and service offerings to address our clients' emerging needs, and undertaking business development efforts focused on identifying near-term developments and long-term trends that may pose significant challenges for our clients. These efforts entail inherent risks associated with innovation and competition from other participants in those areas, potential failure to help our clients respond to the challenges they face, our ability to comply with uncertain evolving legal standards applicable to certain of our service offerings, including those in the cybersecurity area, and, with respect to potential international growth, risks associated with operating in foreign jurisdictions, such as compliance with applicable foreign and U.S. laws and regulations that may impose different and, occasionally, conflicting or contradictory requirements, and the economic, legal, and political conditions in the foreign jurisdictions in which we operate. As we attempt to develop new relationships, clients, capabilities, and service offerings, these efforts could harm our results of operations due to, among other things, a diversion of our focus and resources and actual costs, opportunity costs of pursuing these opportunities in lieu of others and a failure to reach a profitable return on our investments in new technologies, capabilities, and businesses, including expenses on research and development investments, and these efforts could ultimately be unsuccessful. Additionally, the possibility exists that our competitors might develop new capabilities or service offerings that might cause our existing capabilities and service offerings to become obsolete. If we fail in our new capabilities development efforts or our capabilities or services fail to achieve market acceptance more rapidly than our competitors, our ability to procure new contracts could be negatively impacted, which would negatively impact our results of operations and financial condition.

In addition, our ability to grow our business by leveraging our operating model to efficiently and effectively deploy our people across our client base is largely dependent on our ability to maintain our collaborative culture. To the extent that we are unable to maintain our culture for any reason, including our effort to focus on new growth areas or acquire new businesses with different corporate cultures, we may be unable to grow our business. Any such failure could have a material adverse effect on our business and results of operations.

In addition, with the growth of our U.S. and international operations, we are now providing client services and undertaking business development efforts in numerous and disparate geographic locations both domestically and internationally. Our ability to effectively serve our clients is dependent upon our ability to successfully leverage our operating model across all of these and any future locations, maintain effective management controls over all of our locations to ensure, among other things, compliance with applicable laws, rules and regulations, and instill our core values in all of our personnel at each of these and any future locations. Any inability to ensure any of the foregoing could have a material adverse effect on our business and results of operations.

***We are subject to risks associated with operating internationally.***

Our business operations are subject to a variety of risks associated with conducting business internationally, including:

- Changes in or interpretations of laws or policies that may adversely affect the performance of our services;
- Political instability in foreign countries;
- Imposition of inconsistent or contradictory laws or regulations;
- Reliance on the U.S. or other governments to authorize us to export products, technology, and services to clients and other business partners;
- Conducting business in places where laws, business practices, and customs are unfamiliar or unknown; and
- Imposition of limitations on or increase of withholding and other taxes on payments by foreign subsidiaries or joint ventures.

In addition, we are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by business entities for the purpose of obtaining or retaining business. We have operations and deal with governmental clients in countries known to experience corruption, including certain emerging countries in the Middle East and Southeast Asia. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants or contractors that could be in violation of various laws including the FCPA and other anti-corruption laws, even though these parties are not always subject to our control. Our international operations also involve activities involving the transmittal of information, which may include personal data, that may expose us to data privacy laws in the jurisdictions in which we operate. If our data protection practices become subject to new or different restrictions, and to the extent such practices are not compliant with the laws of the countries in which we process data, we could face increased compliance expenses and face penalties for violating such laws or be excluded from those markets altogether, in which case our operations could be adversely affected. We are also

subject to import-export control regulations restricting the use and dissemination of information classified for national security purposes and the export of certain products, services, and technical data, including requirements regarding any applicable licensing of our employees involved in such work.

If we were to fail to comply with the FCPA, other anti-corruption laws, applicable import-export control regulations, data privacy laws, or other applicable rules and regulations, we could be subject to substantial civil and criminal penalties, including fines for our company and incarceration for responsible employees and managers, suspension or debarment, and the possible loss of export or import privileges which could have a material adverse effect on our business and results of operations.

***Changes to our operating structure, capabilities or strategy intended to address our clients' needs, respond to developments in our markets and grow our business may not be successful.***

We routinely review our operating structure, capabilities and strategy to determine whether we are effectively meeting the needs of existing clients, effectively responding to developments in our markets and successfully building platforms intended to provide the foundation for the future growth of our business. The outcome of any such review is difficult to predict and the extent of changes to our business following such a review, if any, are dependent in part upon the nature and extent of the review.

The implementation of changes to our operating structure, capabilities, strategy or any other aspect of our business following an internal review, may materially alter various aspects of our business or our business model as an entirety and there can be no assurance that any such changes will be successful or that they will not ultimately have a negative effect on our business and results of operations.

***Many of our contracts with the U.S. government are classified or subject to other security restrictions, which may limit investor insight into portions of our business.***

We derive a substantial portion of our revenue from contracts with the U.S. government that are classified or subject to security restrictions that preclude the dissemination of certain information. In addition, a significant number of our employees have security clearances which preclude them from providing information regarding certain of our clients and services provided to such clients to other of our employees without security clearances and investors. Because we are limited in our ability to provide information about these contracts and services, the various risks associated with these contracts or services or any dispute or claims relating to such contracts or services, you may not have important information concerning our business, which will limit your insight into a substantial portion of our business and therefore may be less able to fully evaluate the risks related to that portion of our business.

***If we cannot collect our receivables or if payment is delayed, our business may be adversely affected by our inability to generate cash flow, provide working capital, or continue our business operations.***

We depend on the timely collection of our receivables to generate cash flow, provide working capital, and continue our business operations. If the U.S. government or any prime contractor for whom we are a subcontractor fails to pay or delays the payment of invoices for any reason, our business and financial condition may be materially and adversely affected. The U.S. government may delay or fail to pay invoices for a number of reasons, including lack of appropriated funds, lack of an approved budget, or as a result of audit findings by government regulatory agencies. Some prime contractors for whom we are a subcontractor have significantly fewer financial resources than we do, which may increase the risk that we may not be paid in full or that payment may be delayed.

***Recent efforts by the U.S. government to revise its organizational conflict of interest rules could limit our ability to successfully compete for new contracts or task orders, which would adversely affect our results of operations.***

Recent efforts by the U.S. government to reform its procurement practices have focused, among other areas, on the separation of certain types of work to facilitate objectivity and avoid or mitigate organizational conflicts of interest and the strengthening of regulations governing organizational conflicts of interest. Organizational conflicts of interest may arise from circumstances in which a contractor has:

- impaired objectivity during performance;
- unfair access to non-public information; or
- the ability to set the “ground rules” for another procurement for which the contractor competes.

A focus on organizational conflicts of interest issues has resulted in legislation and a proposed regulation aimed at increasing organizational conflicts of interest requirements, including, among other things, separating sellers of products and providers of advisory services in major defense acquisition programs. In addition, the U.S. government is working to adopt a FAR rule to address organizational conflicts of interest issues that will apply to all government contractors, including us, in Department of Defense and other procurements. A future FAR rule may also increase the restrictions in current organizational conflicts of interest regulations and rules. To the extent that proposed and future organizational conflicts of interest laws,

regulations, and rules, limit our ability to successfully compete for new contracts or task orders with the U.S. government, either because of organizational conflicts of interest issues arising from our business, or because companies with which we are affiliated, or with which we otherwise conduct business, create organizational conflicts of interest issues for us, our results of operations could be materially and adversely affected.

***We may consummate acquisitions, investments, joint ventures and divestitures, which involve numerous risks and uncertainties.***

As part of our operating strategy, we selectively pursue acquisitions, investments, partnerships and joint ventures. For example, in January 2017, we acquired eGov Holdings, Inc. (d/b/a Aquilent) and in October 2017, we acquired Morphick, Inc. These transactions pose many risks, including:

- we may not be able to identify suitable acquisition and investment candidates at prices we consider attractive;
- we may not be able to compete successfully for identified acquisition and investment candidates, complete acquisitions and investments, or accurately estimate the financial effect of acquisitions and investments on our business;
- future acquisitions and investments may require us to issue common stock or spend significant cash, resulting in dilution of ownership or additional debt leverage;
- we may have difficulty retaining an acquired company's key employees or clients;
- we may have difficulty integrating acquired businesses and investments, resulting in unforeseen difficulties, such as incompatible accounting, information management, or other control systems, and greater expenses than expected;
- acquisitions and investments may disrupt our business or distract our management from other responsibilities;
- as a result of an acquisition or investment, we may incur additional debt and we may need to record write-downs from future impairments of intangible assets, each of which could reduce our future reported earnings; we may have difficulty integrating personnel from the acquired company with our people and our core values; and
- we may not be able to effectively influence the operations of our joint ventures or partnerships, or we may be exposed to certain liabilities if our partners do not fulfill their obligations.

In connection with any acquisition or investment that we make, there may be liabilities that we fail to discover or that we inadequately assess, and we may fail to discover any failure of a target company to have fulfilled its contractual obligations to the U.S. government or other clients. Acquired entities and investments may not operate profitably or result in improved operating performance. Additionally, we may not realize anticipated synergies, business growth opportunities, cost savings, and other benefits, which could have a material adverse effect on our business and results of operations.

In addition, we may divest businesses, including businesses that are no longer a part of our ongoing strategic plan. These divestitures similarly require significant investment of time and resources, may disrupt our business, distract management from other responsibilities and may result in losses on disposal or continued financial involvement in the divested business, including through indemnification, guarantee or other financial arrangements, for a period of time, following the transaction, which could adversely affect our financial results. In addition, we may be unable to complete strategic divestitures on satisfactory terms and conditions, including non-competition arrangements, or within expected time frames.

***Goodwill represents a significant asset on our balance sheet, and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that would reduce our operating income.***

As of March 31, 2018, the value of our goodwill was \$1.6 billion. The amount of our recorded goodwill may substantially increase in the future as a result of any acquisitions that we make. We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. Impairment analysis is based on several factors requiring judgment and the use of estimates, which are inherently uncertain and based on assumptions that may prove to be inaccurate. Additionally, material changes in our financial outlook, as well as events outside of our control, such as deteriorating market conditions for companies in our industry, may indicate a potential impairment. When there is an impairment, we are required to write down the recorded amount of goodwill, which is reflected as a charge against operating income. Such non-cash impairment charges could have a material adverse effect on our results of operations in the period in which they are recognized.

***Changes in tax law, including the 2017 Tax Act, could adversely impact our results of operations.***

We may incur additional tax liabilities in the future as a result of changes in tax laws and regulations or as a result of the implementation of existing tax laws. In particular, we are continuing to analyze certain provisions of the 2017 Tax Act which was enacted on December 22, 2017. While the new law decreased the U.S. federal corporate tax rate to 21 percent, we do not yet know what all of the consequences of the 2017 Tax Act will be, which may result in volatility and/or an increase to our

effective tax rate. We have recorded in our consolidated financial statements provisional amounts based on current estimates of the effects of the 2017 Tax Act in accordance with our current understanding of the 2017 Tax Act and currently available guidance. We will continue to assess the effect of the 2017 Tax Act on our business as it relates to acceleration of depreciation, limitation on the deductibility of certain executive compensation, taxes on low taxed intangible foreign income as well as deduction for foreign derived intangible income. The final amounts may be significantly affected by regulations and interpretive guidance expected to be issued by the tax authorities, clarifications of the accounting treatment of various items, our additional analysis, and our refinement of our estimates of the effects of the 2017 Tax Act, and therefore, such final amounts may be materially different than our current provisional amounts, which could materially affect our tax obligations and effective tax rate. In addition, other countries may consider tax law changes in reaction to the 2017 Tax Act. Any changes in other taxing jurisdictions' administrative interpretations, decisions, policies and positions could also impact our tax liabilities. For additional information regarding the 2017 Tax Act and the provisional tax amounts recorded in our consolidated financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Estimates and Policies". For a description of our related accounting policies, refer to Note 2 and Note 13 to our accompanying consolidated financial statements.

## **Risks Related to Our Industry**

***Our U.S. government contracts may be terminated by the government at any time and may contain other provisions permitting the government to discontinue contract performance, and if lost contracts are not replaced, our operating results may differ materially and adversely from those anticipated.***

U.S. government contracts contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. These rights and remedies allow government clients, among other things, to:

- terminate existing contracts, with short notice, for convenience as well as for default;
- reduce orders under or otherwise modify contracts;
- for contracts subject to the Truth in Negotiations Act, reduce the contract price or cost where it was increased because a contractor or subcontractor furnished cost or pricing data during negotiations that was not complete, accurate, and current;
- for some contracts, (i) demand a refund, make a forward price adjustment, or terminate a contract for default if a contractor provided inaccurate or incomplete data during the contract negotiation process and (ii) reduce the contract price under certain triggering circumstances, including the revision of price lists or other documents upon which the contract award was predicated;
- terminate our facility security clearances and thereby prevent us from receiving classified contracts;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- decline to exercise an option to renew a multi-year contract or issue task orders in connection with IDIQ contracts;
- claim rights in solutions, systems, and technology produced by us, appropriate such work-product for their continued use without continuing to contract for our services and disclose such work-product to third parties, including other U.S. government agencies and our competitors, which could harm our competitive position;
- prohibit future procurement awards with a particular agency due to a finding of organizational conflicts of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors, or the existence of conflicting roles that might bias a contractor's judgment;
- subject the award of contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest and may also result in a requirement to resubmit offers for the contract or in the termination, reduction, or modification of the awarded contract;
- suspend or debar us from doing business with the U.S. government; and
- control or prohibit the export of our services.

Recent and potential future budget cuts, the impact of sequestration and recent efforts by the Office of Management and Budget to decrease federal awards for management support services, may cause agencies with which we currently have contracts to terminate, reduce the number of task orders under or fail to renew such contracts. If a U.S. government client were to unexpectedly terminate, cancel, or decline to exercise an option to renew with respect to one or more of our significant contracts, or suspend or debar us from doing business with the U.S. government, our revenue and operating results would be materially harmed.

***The U.S. government may revise its procurement, contract or other practices in a manner adverse to us.***

The U.S. government may:

- revise its procurement practices or adopt new contract laws, rules, and regulations, such as cost accounting standards, organizational conflicts of interest, and other rules governing inherently governmental functions at any time;
- reduce, delay, or cancel procurement programs resulting from U.S. government efforts to improve procurement practices and efficiency;
- limit the creation of new government-wide or agency-specific multiple award contracts;
- face restrictions or pressure from government employees and their unions regarding the amount of services the U.S. government may obtain from private contractors;
- award contracts on a technically acceptable/lowest cost basis in order to reduce expenditures, and we may not be the lowest cost provider of services;
- adopt new socio-economic requirements, including setting aside procurement opportunities to small, disadvantaged businesses;
- change the basis upon which it reimburses our compensation and other expenses or otherwise limit such reimbursements; and
- at its option, terminate or decline to renew our contracts.

In addition, any new contracting methods could be costly or administratively difficult for us to implement and could adversely affect our future revenue and profit margin. In addition, changes to the procurement system could cause delays in the procurement decision-making process. Any such changes to the U.S. government's procurement practices or the adoption of new contracting rules or practices could impair our ability to obtain new or re-compete contracts and any such changes or increased associated costs could materially and adversely affect our results of operations.

As part of its cost-cutting initiative, the Department of Defense has issued guidance regarding changes to the procurement process that is intended to control cost growth throughout the acquisition cycle by developing a competitive strategy for each program. Because this initiative may significantly change the way the U.S. government solicits, negotiates, and manages its contracts, it could result in an increase in competitive pressure and decreased profitability on contracts and have a material adverse effect on our results of operations.

***The U.S. government may prefer minority-owned, small and small disadvantaged businesses; therefore, we may have fewer opportunities to bid for.***

As a result of the Small Business Administration set-aside program, the U.S. government may decide to restrict certain procurements only to bidders that qualify as minority-owned, small, or small disadvantaged businesses. As a result, we would not be eligible to perform as a prime contractor on those programs and would be restricted to a maximum of 49% of the work as a subcontractor on those programs. An increase in the amount of procurements under the Small Business Administration set-aside program may impact our ability to bid on new procurements as a prime contractor or restrict our ability to re-compete on incumbent work that is placed in the set-aside program.

***Our contracts, performance, and administrative processes and systems are subject to audits, reviews, investigations, and cost adjustments by the U.S. government, which could reduce our revenue, disrupt our business, or otherwise materially adversely affect our results of operation.***

U.S. government agencies routinely audit, review, and investigate government contracts and government contractors' administrative processes and systems. These agencies review our performance on contracts, pricing practices, cost structure, and compliance with applicable laws, regulations and standards, including applicable government cost accounting standards. These agencies also review our compliance with government regulations and policies, and the DCAA audits, among other areas, the adequacy of our internal control systems and policies, including our purchasing, property, estimating, earned value and accounting systems. These internal control systems could focus on significant elements of costs, such as executive compensation. Determination of a significant internal control deficiency by a government agency could result in increased payment withholding that might materially increase our accounts receivable days sales outstanding and adversely affect our cash flow. In particular, over time the DCMA has increased and may continue to increase the proportion of executive compensation that it deems unallowable and the size of the executive population whose compensation is disallowed, which will continue to materially and adversely affect our results of operations or financial condition including the requirement to carry an increased level of reserves. Recent legislation and regulations implementing new limitations on the amount of allowable executive compensation costs contribute to increased regulatory scrutiny of the allowability of employee compensation costs, which can lead to greater amounts of employee compensation cost being disallowed. We recognize as revenue, net of reserves,

executive compensation that we determine, based on management's estimates, to be allowable; management's estimates in this regard are based on a number of factors that may change over time, including executive compensation survey data, our and other government contractors' experiences with the DCAA audit practices in our industry and relevant decisions of courts and boards of contract appeals. Any costs found to be unallowable under a contract will not be reimbursed, and any such costs already reimbursed must be refunded. Further, the amount of any such refund may exceed reserves established by management based on estimates and assumptions that are inherently uncertain. Moreover, if any of the administrative processes and business systems, some of which are currently certified as effective, are found not to comply with government imposed requirements, we may be subjected to increased government scrutiny and approval that could delay or otherwise adversely affect our ability to compete for or perform contracts or to be paid timely. Unfavorable U.S. government audit, review, or investigation results could subject us to civil or criminal penalties or administrative sanctions, and could harm our reputation and relationships with our clients and impair our ability to be awarded new contracts, which could affect our future sales and profitability by preventing us, by operation of law or in practice, from receiving new government contracts for some period of time. In addition, if our invoicing system were found to be inadequate following an audit by the DCAA, our ability to directly invoice U.S. government payment offices could be eliminated. As a result, we would be required to submit each invoice to the DCAA for approval prior to payment, which could materially increase our accounts receivable days sales outstanding and adversely affect our cash flow. In addition, proposed regulatory changes, if adopted, would require the Department of Defense's contracting officers to impose contractual withholdings at no less than certain minimum levels based on assessments of a contractor's business systems. An unfavorable outcome to an audit, review, or investigation by any U.S. government agency could materially and adversely affect our relationship with the U.S. government. If a government investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, withholding of payments, suspension of payments, fines, and suspension or debarment from doing business with the U.S. government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us. Provisions that we have recorded in our consolidated financial statements as a compliance reserve may not cover actual losses. Furthermore, the disallowance of any costs previously charged could directly and negatively affect our current results of operations for the relevant prior fiscal periods, and we could be required to repay any such disallowed amounts. Each of these results could materially and adversely affect our results of operations or financial condition.

***A delay in the completion of the U.S. government's budget process could result in a reduction in our backlog and have a material adverse effect on our revenue and operating results.***

On an annual basis, the U.S. Congress must approve budgets that govern spending by each of the federal agencies we support. When the U.S. Congress is unable to agree on budget priorities, and thus is unable to pass the annual budget on a timely basis, the U.S. Congress typically enacts a continuing resolution. A continuing resolution allows government agencies to operate at spending levels approved in the previous budget cycle. Under a continuing resolution, funding may not be available for new projects. In addition, when government agencies operate on the basis of a continuing resolution, they may delay funding we expect to receive on contracts we are already performing. Any such delays would likely result in new business initiatives being delayed or canceled and a reduction in our backlog, and could have a material adverse effect on our revenue and operating results. In addition, a failure to complete the budget process and fund government operations pursuant to a continuing resolution may result in a federal government shutdown (such as that which occurred during the government fiscal year 2014 and, to a lesser extent, government fiscal year 2018). A shutdown may result in us incurring substantial costs without reimbursement under our contracts and the delay or cancellation of key programs or the delay of contract payments, which could have a material adverse effect on our revenue and operating results. In addition, when supplemental appropriations are required to operate the U.S. government or fund specific programs and passage of legislation needed to approve any supplemental appropriation bill is delayed, the overall funding environment for our business could be adversely affected.

### **Risks Related to Our Indebtedness**

***We have substantial indebtedness and may incur substantial additional indebtedness, which could adversely affect our financial health and our ability to obtain financing in the future as well as to react to changes in our business.***

As of March 31, 2018, we had total indebtedness of approximately \$1.8 billion and \$498.6 million of availability under our revolving credit facility (the "Revolving Credit Facility"). We are able to, and may, incur additional indebtedness in the future, subject to the limitations contained in the agreements governing our indebtedness. Our substantial indebtedness could have important consequences to holders of our common stock, including:

- making it more difficult for us to satisfy our obligations with respect to our Secured Credit Facility, consisting of a \$1,094 million term loan facility ("Term Loan A"), a \$395 million term loan facility ("Term Loan B" and, together with Term Loan A, the "Term Loans") and a \$500 million Revolving Credit Facility, with a sublimit for letters of credit of \$100 million, our \$350 million in aggregate principal amount of 5.125% Senior Notes due 2025 (the "Senior Notes") and our other debt;

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions
- exposing us to the risk of increased interest rates as certain of our borrowings, including under the Secured Credit Facility, are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors or competitors with comparable debt and more favorable terms and thereby affecting our ability to compete; and
- increasing our cost of borrowing.

Although the Secured Credit Facility and the indenture governing the Senior Notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness. In addition, the Revolving Credit Facility provides for commitments of \$500 million, which as of March 31, 2018, had availability of \$498.6 million. Additionally, the used portion as it pertains to open standby letters of credit and bank guarantees totaled \$1.4 million. Furthermore, subject to specified conditions, without the consent of the then-existing lenders (but subject to the receipt of commitments), the indebtedness under the Secured Credit Facility may be increased by up to (x) \$400 million plus (y) an additional amount if, after giving pro forma effect to the incurrence of such additional amount and after giving effect to any acquisition consummated concurrently therewith and all other appropriate pro forma adjustment events, the consolidated net senior secured leverage ratio is equal to or less than 3.50:1.00. If new debt is added to our current debt levels, the related risks that we and the guarantors now face would increase and we may not be able to meet all our debt obligations, including the repayment of the Senior Notes.

***We may not be able to generate sufficient cash to service our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments on or refinance our debt obligations will depend on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to financial, business, legislative, regulatory and other factors beyond our control. We might not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. For information regarding the risks to our business that could impair our ability to satisfy our obligations under our indebtedness, see “— Risks Related to Our Business.”

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations.

The agreements governing our indebtedness restrict our ability to dispose of assets and use the proceeds from those dispositions and also restrict our ability to raise debt to be used to repay other indebtedness when it becomes due.

We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due. In addition, under the Secured Credit Facility, we are subject to mandatory prepayments of our Term Loans from a portion of our excess cash flows, which may be stepped down upon the achievement of specified first lien leverage ratios. To the extent that we are required to prepay any amounts under our Term Loans, we may have insufficient cash to make required principal and interest payments on other indebtedness.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial condition and results of operations and our ability to satisfy our obligations under our indebtedness.

If we cannot make scheduled payments on our debt, we will be in default and lenders under our Secured Credit Facility and holders of the Senior Notes could declare all outstanding principal and interest to be due and payable, the lenders under the Revolving Credit Facility could terminate their commitments to loan money, the lenders could foreclose against the assets securing their loans and we could be forced into bankruptcy or liquidation. All of these events could result in you losing some or all of the value of your investment.

***The terms of the agreements governing our indebtedness restrict our current and future operations, particularly our ability to respond to changes or to take certain actions, which could harm our long-term interests.***

The Secured Credit Facility and the indenture governing the Senior Notes contain covenants that, among other things, impose significant operating and financial restrictions on us and limit our ability to engage in actions that may be in our long-term best interest, including restrictions on our ability to:

- incur additional indebtedness, guarantee indebtedness or issue disqualified stock or preferred stock;
- pay dividends on or make other distributions in respect of, or repurchase or redeem, our capital stock;
- prepay, redeem or repurchase subordinated indebtedness;
- make loans and investments;
- sell or otherwise dispose of assets;
- incur liens securing indebtedness;
- enter into transactions with affiliates;
- enter into agreements restricting our subsidiaries' ability to pay dividends to us or the guarantors or make other intercompany transfers;
- consolidate, merge or sell all or substantially all of our or any guarantor's assets;
- designate our subsidiaries as unrestricted subsidiaries; and
- enter into certain lines of business.

These covenants are subject to a number of important exceptions and qualifications. In addition, the restrictive covenants in the Secured Credit Facility require us to maintain a consolidated net total leverage ratio and a consolidated net interest coverage ratio that will each be tested at the end of each fiscal quarter. Our ability to satisfy that financial ratio test may be affected by events beyond our control.

A breach of the covenants under the agreements governing our indebtedness could result in an event of default under those agreements. Such a default may allow certain creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the Secured Credit Facility would also permit the lenders under the Revolving Credit Facility to terminate all other commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under the Secured Credit Facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event the lenders accelerate the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness.

As a result of all of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions might hinder our ability to grow in accordance with our strategy.

***Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.***

Borrowings under the Secured Credit Facility are at variable rates of interest and expose us to interest rate risk. Interest rates are currently at historically low levels. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease.

Based on Term Loans outstanding as of March 31, 2018 and assuming all revolving loans are fully drawn, and after considering interest rate swaps that fixed the interest rate on \$450 million of principal of our variable rate debt, each quarter point change in interest rates would result in a \$3.8 million change in our projected annual interest expense on our



indebtedness under the Secured Credit Facility. We have entered into interest rate swaps and may in the future enter into additional interest rate swaps, that involve the exchange of floating for fixed rate interest payments in order to reduce future interest rate volatility of our variable rate indebtedness. However, due to risks for hedging gains and losses and cash settlement costs, we may not elect to maintain such interest rate swaps, and any swaps may not fully mitigate our interest rate risk.

***A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us or our indebtedness could make it more difficult for us to obtain additional debt financing in the future.***

Our indebtedness has been rated by nationally recognized rating agencies and may in the future be rated by additional rating agencies. We cannot assure you that any rating assigned to us or our indebtedness will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances relating to the basis of the rating, such as adverse changes in our business, so warrant. Any downgrade, suspension or withdrawal of a rating by a rating agency (or any anticipated downgrade, suspension or withdrawal) could make it more difficult or more expensive for us to obtain additional debt financing in the future.

### **Risks Related to Our Common Stock**

***Booz Allen Holding is a holding company with no operations of its own, and it depends on its subsidiaries for cash to fund all of its operations and expenses, including to make future dividend payments, if any.***

The operations of Booz Allen Holding are conducted almost entirely through its subsidiaries and its ability to generate cash to meet its debt service obligations or to pay dividends is highly dependent on the earnings and the receipt of funds from its subsidiaries via dividends or intercompany loans. Further, the Secured Credit Facility and indenture governing the Senior Notes significantly restricts the ability of our subsidiaries to pay dividends or otherwise transfer assets to us. In addition, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock.

***Our financial results may vary significantly from period to period as a result of a number of factors many of which are outside our control, which could cause the market price of our Class A Common Stock to fluctuate.***

Our financial results may vary significantly from period to period in the future as a result of many external factors that are outside of our control. Factors that may affect our financial results and that could cause the market price of our outstanding securities, including our Class A Common Stock, to fluctuate include those listed in this "Risk Factors" section and others such as:

- any cause of reduction or delay in U.S. government funding;
- fluctuations in revenue earned on existing contracts;
- commencement, completion, or termination of contracts during a particular period;
- a potential decline in our overall profit margins if our other direct costs and subcontract revenue grow at a faster rate than labor-related revenue;
- strategic decisions by us or our competitors, such as changes to business strategy, strategic investments, acquisitions, divestitures, spin offs, and joint ventures;
- a change in our contract mix to less profitable contracts;
- changes in policy or budgetary measures that adversely affect U.S. government contracts in general;
- variable purchasing patterns under U.S. government GSA schedules, blanket purchase agreements, which are agreements that fulfill repetitive needs under GSA schedules, and IDIQ contracts;
- changes in demand for our services and solutions;
- fluctuations in the degree to which we are able to utilize our professionals;
- seasonality associated with the U.S. government's fiscal year;
- an inability to utilize existing or future tax benefits for any reason, including a change in law;
- alterations to contract requirements; and
- adverse judgments or settlements in legal disputes.

***We cannot assure you that we will pay special or regular dividends on our stock in the future.***

The board of directors has authorized and declared a regular quarterly dividend for each quarter in the last several years. The board of directors has also authorized and declared special cash dividends from time to time. The declaration of any future

dividends and the establishment of the per share amount, record dates and payment dates for any such future dividends are subject to the discretion of the board of directors taking into account future earnings, cash flows, financial requirements and other factors. There can be no assurance that the board of directors will declare any dividends in the future. To the extent that expectations by market participants regarding the potential payment, or amount, of any special or regular dividend prove to be incorrect, the price of our common stock may be materially and negatively affected and investors that bought shares of our common stock based on those expectations may suffer a loss on their investment. Further, to the extent that we declare a regular or special dividend at a time when market participants hold no such expectations or the amount of any such dividend exceeds current expectations, the price of our common stock may increase and investors that sold shares of our common stock prior to the record date for any such dividend may forego potential gains on their investment.

***Fulfilling our obligations incident to being a public company, including with respect to the requirements of and related rules under the Sarbanes Oxley Act of 2002, is expensive and time consuming and any delays or difficulty in satisfying these obligations could have a material adverse effect on our future results of operations and our stock price.***

As a public company, the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, as well as the New York Stock Exchange rules, require us to implement various corporate governance practices and adhere to a variety of reporting requirements and complex accounting rules. Compliance with these public company obligations requires us to devote significant management time and place significant additional demands on our finance and accounting staff and on our financial, accounting, and information systems. We have hired additional accounting and financial staff with appropriate public company reporting experience and technical accounting knowledge. Other expenses associated with being a public company include increased auditing, accounting, and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees, listing fees, as well as other expenses.

In particular, the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal control over financial reporting in accordance with an established internal control framework, and to report on our conclusions as to the effectiveness of our internal controls. It also requires an independent registered public accounting firm to test our internal control over financial reporting and report on the effectiveness of such controls. In addition, we are required under the Exchange Act to maintain disclosure controls and procedures and internal control over financial reporting. Because of inherent limitations in any internal control environment, there can be no assurance that all control issues and instances of fraud, errors or misstatements, if any, within our company have been or will be detected on a timely basis. Such deficiencies could result in the correction or restatement of financial statements of one or more periods. Any failure to maintain effective controls or implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. We also rely on third parties for certain calculations and other information that support our accounting and financial reporting, which includes reports from such organizations on their controls and systems that are used to generate this information. The calculations and other information that we receive from such third parties may not be accurate, and we may not receive adequate or timely information related to internal control failures occurring at these organizations. Any failure by such third parties to provide us with accurate information or implement and maintain effective controls may cause us to be unable to meet our reporting obligations as a publicly traded company. If we are unable to conclude that we have effective internal control over financial reporting, or if our independent registered public accounting firm is unable to provide us with an unqualified report regarding the effectiveness of our internal control over financial reporting, investors could lose confidence in the reliability of our consolidated financial statements, which could result in a decrease in the value of our common stock. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC, the New York Stock Exchange, or other regulatory authorities.

***Provisions in our organizational documents and in the Delaware General Corporation Law may prevent takeover attempts that could be beneficial to our stockholders.***

Our amended and restated certificate of incorporation and amended and restated bylaws include a number of provisions that may have the effect of delaying, deterring, preventing, or rendering more difficult a change in control of Booz Allen Holding that our stockholders might consider in their best interests. These provisions include:

- establishment of a classified Board, with staggered terms;
- granting to the Board the sole power to set the number of directors and to fill any vacancy on the Board;
- limitations on the ability of stockholders to remove directors;
- granting to the Board the ability to designate and issue one or more series of preferred stock without stockholder approval, the terms of which may be determined at the sole discretion of the Board;
- a prohibition on stockholders from calling special meetings of stockholders;
- the establishment of advance notice requirements for stockholder proposals and nominations for election to the Board at stockholder meetings;

- requiring approval of two-thirds of stockholders to amend the bylaws; and
- prohibiting our stockholders from acting by written consent.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which imposes additional requirements regarding mergers and other business combinations. These provisions may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future.

Our amended and restated certificate of incorporation and amended and restated by-laws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult, or prevent a change in our control, which may not be in the best interests of our stockholders.

***The market for our Class A Common Stock may be adversely affected by the performance of other companies in the government services market.***

In addition to factors that may affect our financial results and operations, the price of our Class A Common Stock may be impacted by the financial performance and outlook of other companies in the government services market. While certain factors may affect all participants in the markets in which we operate, such as U.S. government spending conditions and changes in rules and regulations applicable to government contractors, the market for our Class A Common Stock may be adversely affected by financial results or negative events only affecting other market participants or financial results of such participants. While such events or results may not impact or be indicative of our current or future performance, the price of our securities may nonetheless be adversely affected as a result thereof.

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

We do not own any facilities or real estate. Our corporate headquarters is located at 8283 Greensboro Drive, McLean, Virginia 22102. We lease other operating offices and facilities throughout North America, and a limited number of overseas locations. Our principal offices outside of McLean, Virginia include: Annapolis Junction, Maryland; Rockville, Maryland; Laurel, Maryland; San Diego, California; Herndon, Virginia; Charleston, South Carolina; Arlington, Virginia; Alexandria, Virginia; and Washington, D.C. We have a number of Sensitive Compartmented Information Facilities, which are enclosed areas within buildings that are used to perform classified work for the U.S. Intelligence Community. Many of our employees are located in facilities provided by the U.S. government. The total square footage of our leased offices and facilities is approximately 2.60 million square feet. We believe our facilities meet our current needs.

**Item 3. *Legal Proceedings***

Our performance under U.S. government contracts and compliance with the terms of those contracts and applicable laws and regulations are subject to continuous audit, review, and investigation by the U.S. government which may include such investigative techniques as subpoenas or civil investigative demands. Given the nature of our business, these audits, reviews, and investigations may focus, among other areas, on various aspects of procurement integrity, labor time reporting, sensitive and/or classified information access and control, executive compensation, and post government employment restrictions. We are not always aware of our status in such matters, but we are currently aware of certain pending audits and investigations involving labor time reporting, procurement integrity, and classified information access. In addition, from time to time, we are also involved in legal proceedings and investigations arising in the ordinary course of business, including those relating to employment matters, relationships with clients and contractors, intellectual property disputes, and other business matters. These legal proceedings seek various remedies, including claims for monetary damages in varying amounts, none of which are considered material, or are unspecified as to amount. Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, we do not expect any of the currently ongoing audits, reviews, investigations, or litigation to have a material adverse effect on our financial condition and results of operations. As of March 31, 2018 and 2017, there were no material amounts accrued in the consolidated financial statements related to these proceedings.

Six former officers and stockholders who had departed the company prior to the Carlyle Acquisition have filed a total of nine suits in various jurisdictions, with original filing dates ranging from July 3, 2008 through December 15, 2009, against us and certain of our current and former directors and officers. Three of these suits were amended on July 2, 2010 and then further amended into one consolidated complaint on September 7, 2010. Another two of the original nine suits were consolidated into

one complaint on September 24, 2014. Each of the suits arises out of the Carlyle Acquisition and alleges that the former stockholders are entitled to certain payments that they would have received if they had held their stock at the time of the Carlyle Acquisition. Some of the suits also allege that the acquisition price paid to stockholders was insufficient. The various suits assert claims for breach of contract, tortious interference with contract, breach of fiduciary duty, civil Racketeer Influenced and Corrupt Organizations Act, or RICO, violations, violations of the Employee Retirement Income Security Act, or ERISA, and/or securities and common law fraud. Three of these suits have been dismissed with all appeals exhausted. The two suits that were consolidated into one action on September 24, 2014 were settled on April 16, 2015. One of the remaining suits has been dismissed by the United States District Court for the Southern District of California and such dismissal was upheld by the United States Court of Appeals for the Ninth Circuit. The plaintiff in this suit subsequently filed a Petition for Writ of Certiorari to the United States Supreme Court, which was denied by the United States Supreme Court on January 9, 2017. The other three remaining suits that were previously consolidated on September 7, 2010 have been dismissed by the United States District Court for the Southern District of New York and were on appeal before the United States Court of Appeals for the Second Circuit. On July 13, 2017, the United States Court of Appeals for the Second Circuit affirmed the ruling of the United States District Court for the Southern District of New York, except for one plaintiff's securities fraud claim, which was remanded to the United States District Court for the Southern District of New York to give the plaintiff, Paul Kocourek, leave to file another amended complaint to attempt to plead a securities fraud claim. On April 6, 2018, the plaintiff filed an amended complaint in which Mr. Kocourek, individually, as Trustee of the Paul Kocourek Trust and on behalf of a putative class, alleges that the Company and certain former officers and directors violated Sections 10(b), 20(a) and 14(e) of the Exchange Act. On April 25, 2018, the court entered an order postponing the deadline within which the defendants must answer or move to dismiss the amended complaint. A lead plaintiff has not been appointed.

As of March 31, 2018, the aggregate alleged damages that will be sought in the remaining suit is unknown. As of March 31, 2018, although the outcome of any of these cases is inherently uncertain and may be materially adverse, based on current information, we do not expect them to have a material adverse effect on our financial condition and results of operations.

On June 7, 2017, Booz Allen Hamilton Inc. was informed that the U.S. Department of Justice (DOJ) is conducting a civil and criminal investigation of the Company. In connection with the investigation, the DOJ has requested information from the Company relating to certain elements of the Company's cost accounting and indirect cost charging practices with the U.S. government. Since learning of the investigation, the Company has engaged a law firm experienced in these matters to represent the Company in connection with this matter and respond to the government's requests. As is commonly the case with this type of matter, the Company has also been in contact with other regulatory agencies and bodies, including the SEC, which notified the Company that it is conducting an investigation that the Company believes relates to the matters that are also the subject of the DOJ's investigation. The Company may receive additional regulatory or governmental inquiries related to the matters that are subject of the DOJ's investigation. In accordance with the Company's practice, the Company is cooperating with all relevant government parties. The total cost associated with these matters will depend on many factors, including the duration of these matters and any related findings. At this stage, the Company is not able to reasonably estimate the expected amount or range of cost or any loss associated with these matters.

On June 19, 2017, a purported stockholder of the Company filed a putative class action lawsuit in the United States District Court for the Eastern District of Virginia styled *Langley v. Booz Allen Hamilton Holding Corp.*, No. 17-cv-00696 naming the Company, its Chief Executive Officer and its Chief Financial Officer as defendants purportedly on behalf of all purchases of the Company's securities from May 19, 2016 through June 15, 2017. On September 5, 2017, the court named two lead plaintiffs, and on October 20, 2017, the lead plaintiffs filed a consolidated amended complaint. The complaint asserts claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, alleging misrepresentations or omissions by the Company purporting to relate to matters that are the subject of the DOJ investigation described above. The plaintiffs seek to recover from the Company and the individual defendants an unspecified amount of damages. The Company believes the suit lacks merit and intends to defend against the lawsuit. Motions to dismiss were argued on January 12, 2018, and on February 8, 2018, the court dismissed the amended complaint in its entirety without prejudice. At this stage of the lawsuit, the Company is not able to reasonably estimate the expected amount or range of cost or any loss associated with the lawsuit.

On November 13, 2017, a Verified Shareholder Derivative Complaint was filed in the United States District Court for the District of Delaware styled *Celine Thum v. Rozanski et al.*, C.A. No. 17-cv-01638, naming the Company as a nominal defendant and numerous current and former officers and directors as defendants. The complaint asserts claims for breach of fiduciary duties, unjust enrichment, waste of corporate assets, abuse of control, gross mismanagements, and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act, purportedly relating to matters that are the subject of the DOJ investigation described above. The parties have stipulated to a stay of the proceedings pending the outcome of the securities litigation (described above), which the court ordered on January 24, 2018. At this stage of the lawsuit, the Company is not able to reasonably estimate the expected amount or range of cost or any loss associated with the lawsuit.

#### Item 4. *Mine Safety Disclosures*

None.

#### Executive Officers of the Registrant

The following table sets forth information about our executive officers as of the date hereof:

Name	Age	Position
Horacio D. Rozanski	50	President and Chief Executive Officer
Lloyd W. Howell, Jr.	51	Executive Vice President, Chief Financial Officer and Treasurer
Kristine Martin Anderson	49	Executive Vice President
Karen M. Dahut	54	Executive Vice President
Nancy J. Laben	56	Executive Vice President, Chief Legal Officer and Secretary
Gary D. Labovich	58	Executive Vice President
Christopher Ling	53	Executive Vice President
Joseph Logue	53	Executive Vice President
Joseph W. Mahaffee	60	Executive Vice President and Chief Administrative Officer
Angela M. Messer	54	Executive Vice President and Chief Transformation Officer
Susan L. Penfield	56	Executive Vice President
Elizabeth M. Thompson	63	Executive Vice President and Chief People Officer
Laura S. Adams	45	Vice President, Corporate Controller and Chief Accounting Officer

*Horacio D. Rozanski* is our President and Chief Executive Officer and served as our Chief Operating Officer until January 1, 2015. Mr. Rozanski served as the Chief Strategy and Talent Officer in 2010 and, prior to that, Chief Personnel Officer of our company from 2002 through 2010. Mr. Rozanski joined our company in 1992 and became an Executive Vice President in 2009, our President on January 1, 2014 and our Chief Executive Officer on January 1, 2015. He serves on the board of trustees of the Jewish Primary Day School of the Nation's Capital and the board of directors of The Center for Talent Innovation and the United States Holocaust Memorial Museum's Committee on Conscience and as Vice Chair of the Corporate Fund for the John F. Kennedy Center for the Performing Arts.

*Lloyd W. Howell, Jr.* is an Executive Vice President of our company and our Chief Financial Officer and Treasurer since July 1, 2016. Mr. Howell previously served as the group leader for our Civil Commercial Group. Mr. Howell joined our company in 1988, left in 1991, rejoined in 1995 and became an Executive Vice President in 2005. He served as chairman of our Ethics & Compliance Committee for over seven years, until April 2014. Mr. Howell serves on the boards of directors of Integra Life Sciences, Partnership for Public Service and Capital Partners for Education. Mr. Howell also serves on the board of overseers for the School of Engineering and Applied Science and as a Trustee at the University of Pennsylvania.

*Kristine Martin Anderson* is an Executive Vice President and is the group leader for the company's Civil Group after leading the company's civil health business since April 2015. Prior to joining Booz Allen in 2006, she was vice president for operations and strategy at CareScience, a software solutions company. Ms. Anderson currently serves on the eHealth Initiative's board of directors. In addition, she serves on the Cost and Resource Use Standing Committee of the National Quality Forum and the Quality and Safety Committee for the Healthcare Information and Management Systems Society.

*Karen M. Dahut* is an Executive Vice President and is the group leader for the company's Defense Group and Commercial Group. Ms. Dahut joined our company in 2002 and became a Senior Vice President in 2004. Ms. Dahut led the company's Strategic Innovations Group from 2012 to April 2016 and the Civil Commercial Group from 2016 to March 2018. Previously, she also led the company's Analytics business and its US Navy and Marine Corps business. Ms. Dahut is a board member of the Tech Data Corporation and Northern Virginia Technology Council.

*Nancy J. Laben* is an Executive Vice President of our company and our Chief Legal Officer and Secretary. Ms. Laben joined our company in September 2013. She oversees the Legal functions, Ethics & Compliance and Corporate Affairs. Before joining our company, Ms. Laben served as General Counsel of AECOM Technology Corporation from June 2010 to August 2013, where she was responsible for all legal support. Prior to June 2010, Ms. Laben served as Deputy General Counsel at Accenture plc beginning in 1989. Prior to Accenture, Ms. Laben served in the law department at IBM Corporation.

*Gary Labovich* is an Executive Vice President and leads the modernization of our management systems. He joined Booz Allen in July 2004. Mr. Labovich has led the company's systems delivery and digital businesses as well as the delivery of the company's financial services capabilities and service offerings to both federal and private sector clients. Prior to joining the

company, Mr. Labovich spent 18 years at American Management Systems in key roles as an entrepreneur and a senior executive specializing in systems development and strategic consulting for federal, state, local and commercial organizations. Mr. Labovich is a former chair and a member of the board of trustees for the Greater DC Maryland Chapter of the National Multiple Sclerosis and serves on the board of trustees for Clark University.

*Christopher Ling* is an Executive Vice President and leads the company's National Security Group. Mr. Ling joined the company in 1991 and has over 25 years of experience in management consulting, analytics, missions operations, technology, cybersecurity, engineering, and innovation to design, develop and implement solutions. Prior to becoming the group lead for the National Security Group, Mr. Ling led the company's International business from April 2016 through March 2018, where he provided a range of general management consulting, defense, counter terrorism, cyber and data analytics to public and commercial/private sector clients primarily in the Middle East. Mr. Ling was also responsible for leading the company's cyber business from April 2014 through March 2016 and the Defense/Military Intel business prior to April 2014. Mr. Ling is a member of the Business Executives for National Security.

*Joseph Logue* is an Executive Vice President of our company and was the group leader for our Defense Intelligence Group until March 2018. Mr. Logue joined our company in 1997 and became an Executive Vice President in 2009. Previously, he led our former commercial Information Technology practice. As previously disclosed, Mr. Logue will retire from the company effective June 30, 2018.

*Joseph W. Mahaffee* is an Executive Vice President, our Chief Administrative Officer (CAO) and was our Chief Information Security Officer (CISO) until April 2018. Mr. Mahaffee joined the company in 1981. Prior to his CAO and CISO roles, Mr. Mahaffee served in a variety of client/market-facing leadership roles, including Client Service Officer for our NSA account, Assurance and Resilience Capability Leader and the Northeast Region Leader. Mr. Mahaffee has primarily focused his career serving clients in the Defense and Intelligence Community markets. Altogether, he has more than 38 years of professional experience in Cybersecurity, systems engineering, communications, information assurance and signals intelligence. Prior to joining our company, Mr. Mahaffee was an information security engineer with the National Security Agency.

*Angela Messer* is an Executive Vice President and our Chief Transformation Officer (CTO) since April 2018. Ms. Messer joined our company in 1996, left and rejoined in 2001 and became Executive Vice President in 2013. Previously she led the company's Cyber capability, guiding teams of cyber forensics engineers, data scientists, and threat intelligence experts who focus on cyber malware, cyber next gen operations and incident response. Previously, she led the company's Army business, which is a global, multi-functional business in the defense and intelligence sector. Prior to joining the company, she was a U.S. Army officer, managed two commercial businesses and launched a startup software development company.

*Susan L. Penfield* is an Executive Vice President of our company and is the group leader for our Strategic Innovation Group. Ms. Penfield joined the company in 1994. She has over 25 years of strategy, technology, marketing and solutions delivery experience. Prior to joining the Strategic Innovation Group, Ms. Penfield led the company's Health business, where she drove technology and transformation initiatives across the Federal, commercial and non-profit health space. She serves on the board of directors of the Children's Inn at the National Institutes of Health and Seedspot. Ms. Penfield is a member of the the National Association for Female Executives (NAFE), and was recognized by the NAFE as its 2015 Digital Trailblazer.

*Elizabeth M. Thompson* is an Executive Vice President of our company and serves as our Chief People Officer. Ms. Thompson joined our company in 2008. Ms. Thompson served as Vice President of Human Resources for Fannie Mae from 2000 to 2008. Ms. Thompson holds an M.S. in Human Resources and Personnel Management from American University. Ms. Thompson is also a member of the board of directors of the Thurgood Marshall College Fund.

*Laura S. Adams* is a Vice President of our company and our Corporate Controller and Chief Accounting Officer. Ms. Adams joined Booz Allen in January 2009 and has served as the company's Controller since July 2014 and Chief Accounting Officer since 2016. Ms. Adams brings more than 25 years of finance and accounting specialty and industry experience, primarily in aerospace and defense and government and commercial IT management consulting services. Before joining Booz Allen, Ms. Adams was a senior manager in the audit and assurance practice of Ernst & Young from 1995 through 2008.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Our Class A Common Stock began trading on the New York Stock Exchange on November 17, 2010. At the annual meeting of stockholders held on July 31, 2014, the stockholders approved a proposal to amend and restate the certificate of incorporation, which had the effect of converting all issued and outstanding shares of Class B Non-Voting Common Stock and Class C Restricted Common Stock into shares of Class A Common Stock on a one-for-one basis. The conversion was effected on August 13, 2014 when the Company filed its third amended and restated certificate of incorporation with the Secretary of State of the State of Delaware. As a result of the conversion, there were no shares of Class B Non-Voting Common Stock and Class C Restricted Common Stock outstanding at such time. On September 30, 2015, the Company purchased, at par value, all issued and outstanding shares of Class E special voting common stock in connection with the exercise of the final tranche of rollover options during the second quarter of fiscal 2016. There is no established trading market for each of our Class B Non-Voting Common Stock, Class C Restricted Common Stock, or Class E Special Voting Common Stock. On May 22, 2018, there were 75,571 beneficial holders of our Class A Common Stock. The following table sets forth, for the periods indicated, the high and low sales price per share of our Class A Common Stock as reported by the New York Stock Exchange:

	High	Low
Fiscal 2018		
1 <sup>st</sup> Quarter	\$ 39.67	\$ 31.06
2 <sup>nd</sup> Quarter	37.82	31.56
3 <sup>rd</sup> Quarter	39.38	35.71
4 <sup>th</sup> Quarter	40.25	35.21
Fiscal 2017		
1 <sup>st</sup> Quarter	\$ 30.64	\$ 27.02
2 <sup>nd</sup> Quarter	31.94	29.03
3 <sup>rd</sup> Quarter	38.54	29.55
4 <sup>th</sup> Quarter	37.69	32.75

#### Dividends

During fiscal 2018, the Company's Board of Directors authorized and declared three regular quarterly cash dividends of \$0.17 per share and one quarterly cash dividend of \$0.19 per share. During fiscal 2017, the Company's Board of Directors authorized and declared three regular quarterly cash dividends of \$0.15 per share and one quarterly cash dividend of \$0.17 per share. The Company plans to continue paying recurring dividends in the future and assessing its excess cash resources to determine the best way to utilize its excess cash flow to meet its objectives. Any future dividends declared will be at the discretion of the Company's Board of Directors and will depend, among other factors, upon our earnings, liquidity, financial condition, alternate capital allocation opportunities, or any other factors our Board of Directors deems relevant. On May 29, 2018, the Company announced that its Board of Directors had declared a quarterly cash dividend of \$0.19 per share. Payment of the dividend will be made on June 29, 2018 to stockholders of record at the close of business on June 14, 2018.

#### Recent Sales of Unregistered Securities

None.

### Issuer Purchases of Equity Securities

The following table shows the share repurchase activity for each of the three months in the quarter ended March 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 2018	—	\$—	—	\$ 270,902,584
February 2018	1,067,857	\$37.46	1,067,857	\$ 230,902,601
March 2018	857,351	\$38.55	857,351	\$ 197,855,040
Total	<u>1,925,208</u>		<u>1,925,208</u>	

- (1) On December 12, 2011, the Board of Directors approved a \$30.0 million share repurchase program. On January 27, 2015, the Board of Directors approved an increase to our share repurchase authorization from \$30.0 million to up to \$180.0 million. On January 25, 2017, the Board of Directors approved an increase to our share repurchase authorization from \$180.0 million to up to \$410.0 million. On November 2, 2017, the Board of Directors approved an increase to our share repurchase authorization from \$410.0 million to up to \$610.0 million. On May 24, 2018, the Board of Directors approved an increase to our share repurchase authorization from \$610.0 million to up to \$910.0 million. As of May 24, 2018, taking into effect the increase in the share repurchase authorization, the Company may repurchase up to approximately \$493.7 million of additional shares of common stock under its share repurchase program. A special committee of the Board of Directors was appointed to evaluate market conditions and other relevant factors and initiate repurchases under the program from time to time. The share repurchase program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice.

### Use of Proceeds from Registered Securities

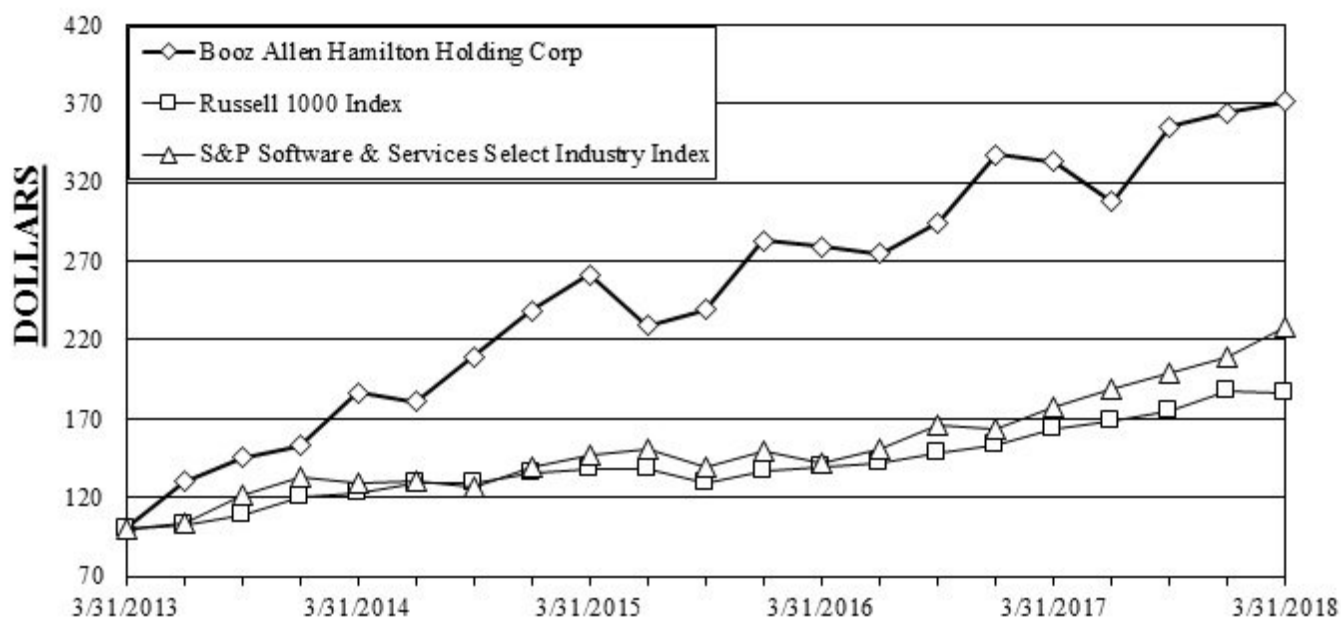
None.



## Performance

The graph set forth below compares the cumulative shareholder return on our Class A Common Stock between March 31, 2013 and March 31, 2018, to the cumulative return of (i) the Russell 1000 Index and (ii) S&P Software & Services Select Industry Index over the same period. The Russell 1000 and S&P Software & Services Select Industry Indices represent comparator groups for relative cumulative return performance to Booz Allen Hamilton. This graph assumes an initial investment of \$100 on March 31, 2013 in our Class A Common Stock, the Russell 1000 Index, and the S&P Software & Services Select Industry Index and assumes the reinvestment of dividends, if any. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

### COMPARISON OF CUMULATIVE TOTAL RETURNS



ASSUMES \$100 INVESTED ON MARCH 31, 2013  
ASSUMES DIVIDEND REINVESTED

Company/Market/Peer Group	3/31/2013	3/31/2014	3/31/2015	3/31/2016	3/31/2017	3/31/2018
Booz Allen Hamilton Holding Corp.	\$ 100.00	\$ 186.31	\$ 261.62	\$ 279.33	\$ 332.97	\$ 371.42
Russell 1000 Index	\$ 100.00	\$ 122.41	\$ 138.00	\$ 138.69	\$ 162.87	\$ 185.63
S&P Software & Services Select Industry Index	\$ 100.00	\$ 129.16	\$ 146.39	\$ 142.24	\$ 176.82	\$ 228.48

This performance graph and other information furnished under this Part II Item 5 of this Annual Report shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

## Item 6. Selected Financial Data

The selected consolidated statements of operations data for fiscal 2018, fiscal 2017, and fiscal 2016 and the selected consolidated balance sheet data as of March 31, 2018 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated statement of operations data for fiscal 2015 and fiscal 2014 and the selected consolidated balance sheet data as of March 31, 2016, 2015 and 2014 have been derived from audited consolidated financial statements which are not included in this Annual Report. Our historical results are not

necessarily indicative of the results that may be expected for any future period. The selected financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report.

(In thousands, except share and per share data)	Fiscal Year Ended March 31,				
	2018	2017	2016	2015	2014
<b>Consolidated Statements of Operations:</b>					
Revenue	\$ 6,171,853	\$ 5,804,284	\$ 5,405,738	\$ 5,274,770	\$ 5,478,693
Operating costs and expenses:					
Cost of revenue	2,867,103	2,691,982	2,580,026	2,593,849	2,716,113
Billable expenses	1,861,312	1,751,077	1,513,083	1,406,527	1,487,115
General and administrative expenses	858,597	817,434	806,509	752,912	742,527
Depreciation and amortization	64,756	59,544	61,536	62,660	72,327
Total operating costs and expenses	5,651,768	5,320,037	4,961,154	4,815,948	5,018,082
Operating income	520,085	484,247	444,584	458,822	460,611
Interest expense	(82,269)	(62,298)	(70,815)	(71,832)	(78,030)
Other income (expense), net	188	(10,049)	5,693	(1,072)	(1,794)
Income before income taxes	438,004	411,900	379,462	385,918	380,787
Income tax expense	132,893	159,410	85,368	153,349	148,599
Net income	\$ 305,111	\$ 252,490	\$ 294,094	\$ 232,569	\$ 232,188
Earnings per common share (1):					
Basic	\$ 2.08	\$ 1.69	\$ 1.98	\$ 1.58	\$ 1.62
Diluted	\$ 2.05	\$ 1.67	\$ 1.94	\$ 1.52	\$ 1.54
Weighted average common shares outstanding (1):					
Basic	145,964,574	148,218,968	146,494,407	145,414,120	141,314,544
Diluted	147,750,022	150,274,640	149,719,137	150,375,531	148,681,074
Dividends declared per share	\$ 0.70	\$ 0.62	\$ 0.54	\$ 1.46	\$ 2.40

(In thousands)	As of March 31,				
	2018	2017	2016	2015	2014
<b>Consolidated Balance Sheets:</b>					
Cash and cash equivalents	\$ 286,958	\$ 217,417	\$ 187,529	\$ 207,217	\$ 259,994
Working capital	452,553	193,079	249,858	299,675	309,186
Total assets	3,603,366	3,373,105	3,010,171	2,863,982	2,915,229
Long-term debt, net of current portion	1,755,479	1,470,174	1,484,448	1,555,761	1,567,893
Stockholders’ equity	554,628	573,591	408,488	186,498	171,636

- (1) Basic earnings per share for the Company has been computed using the weighted average number of shares of Class A Common Stock, Class B Non-Voting Common Stock, and Class C Restricted Common Stock outstanding during the period. The Company’s diluted earnings per share has been computed using the weighted average number of shares of Class A Common Stock, Class B Non-Voting Common Stock, and Class C Restricted Common Stock including the dilutive effect of outstanding common stock options and other stock-based awards. For the purposes of calculating basic and diluted earnings per share, the Company has utilized the two class method, given non-forfeitable dividends declared on unvested Class A Restricted Common Stock. The weighted average number of Class E Special Voting Common Stock has not been included in the calculation of either basic earnings per share or diluted earnings per share due to the terms of such common stock.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, and liquidity and capital resources. You should read this discussion in conjunction with “Item 6. Selected Financial Data,” and our consolidated financial statements and the related notes contained elsewhere in this Annual Report.

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources, and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in “Item 1A. Risk Factors” and “Introductory Note — Cautionary Note Regarding Forward-Looking Statements”. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

*Our fiscal year ends March 31 and, unless otherwise noted, references to years or fiscal are for fiscal years ended March 31. See “— Results of Operations.”*

## **Overview**

We are a leading provider of management and technology consulting, engineering, analytics, digital solutions, mission operations, and cyber expertise to U.S. and international governments, major corporations, and not-for-profit organizations. Our ability to deliver value to our clients has always been, and continues to be, a product of the strong character, expertise and tremendous passion of our people. Our approximately 24,600 employees work to solve hard problems by making clients' missions their own, combining decades of consulting and domain expertise with functional expertise in areas such as analytics, digital solutions, engineering, and cyber, all fostered by a culture of innovation that extends to all reaches of the company.

Through our dedication to our clients' missions, and a commitment to evolving our business to address their client needs, we have longstanding relationships with our clients, some more than 75 years. We support critical missions for a diverse base of federal government clients, including nearly all of the U.S. government's cabinet-level departments, as well as increasingly for top-tier commercial and international clients. We support our federal government clients by helping them tackle their most complex and pressing challenges such as protecting soldiers in combat and supporting their families, advancing cyber capabilities, keeping our national infrastructure secure, enabling and enhancing digital services, transforming the healthcare system, and improving government efficiency to achieve better outcomes. We serve commercial clients across industries including financial services, health and life sciences, energy, and transportation to solve the hardest and most consequential challenges, including through our cybersecurity products and services. Our international clients are primarily in the Middle East, and we have a growing presence in Southeast Asia.

## **Financial and Other Highlights**

During fiscal 2018, the Company generated its highest annual revenue since its initial public offering and reported increases in headcount and backlog for the year. Revenue increased 6.3% from fiscal 2017 to fiscal 2018 primarily driven by increased client demand, which led to increased client staff headcount, and an increase in client staff labor. Revenue also benefited from higher billable expenses as compared to the prior year.

Operating income increased 7.4% to \$520.1 million in fiscal 2018 from \$484.2 million in fiscal 2017, which reflects an increase in operating margin to 8.4% from 8.3% in the comparable period. The increase in operating income was primarily driven by the same factors driving revenue growth as well as improved contract profitability. The increase in operating income was partially offset by an increase in the Company's provisions for the potential recovery of allowable expenses recorded during fiscal 2018 as compared to fiscal 2017. The Company also incurred incremental legal costs during fiscal 2018 in response to the U.S. Department of Justice investigation and matters which purport to relate to the investigation, a portion of which was offset by the receipt of insurance reimbursements. We expect to incur additional costs in the future. Based on the information currently available, the Company is not able to reasonably estimate the expected long-term incremental legal costs or amounts that may be reimbursed associated with this investigation and these related matters.

## Non-GAAP Measures

We publicly disclose certain non-GAAP financial measurements, including Revenue, Excluding Billable Expenses, Adjusted Operating Income, Adjusted EBITDA, Adjusted EBITDA Margin on Revenue, Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses, Adjusted Net Income, and Adjusted Diluted Earnings Per Share, or Adjusted Diluted EPS, because management uses these measures for business planning purposes, including to manage our business against internal projected results of operations and measure our performance. We view Adjusted Operating Income, Adjusted EBITDA, Adjusted EBITDA Margin on Revenue, Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses, Adjusted Net Income, and Adjusted Diluted EPS as measures of our core operating business, which exclude the impact of the items detailed below, as these items are generally not operational in nature. These non-GAAP measures also provide another basis for comparing period to period results by excluding potential differences caused by non-operational and unusual or non-recurring items. In addition, we use Revenue, Excluding Billable Expenses because it provides management useful information about the Company's operating performance by excluding the impact of costs that are not indicative of the level of productivity of our consulting staff headcount and our overall direct labor, which management believes provides useful information to our investors about our core operations. We also utilize and discuss Free Cash Flow, because management uses this measure for business planning purposes, measuring the cash generating ability of the operating business, and measuring liquidity generally. We present these supplemental measures because we believe that these measures provide investors and securities analysts with important supplemental information with which to evaluate our performance, long-term earnings potential, or liquidity, as applicable, and to enable them to assess our performance on the same basis as management. These supplemental performance measurements may vary from and may not be comparable to similarly titled measures by other companies in our industry. Revenue, Excluding Billable Expenses, Adjusted Operating Income, Adjusted EBITDA, Adjusted EBITDA Margin on Revenue, Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses, Adjusted Net Income, Adjusted Diluted EPS, and Free Cash Flow are not recognized measurements under accounting principles generally accepted in the United States, or GAAP, and when analyzing our performance or liquidity, as applicable, investors should (i) evaluate each adjustment in our reconciliation of revenue to Revenue, Excluding Billable Expenses, operating income to Adjusted Operating Income, net income to Adjusted EBITDA, Adjusted EBITDA Margin on Revenue, Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses, Adjusted Net Income and Adjusted Diluted Earnings Per Share, and net cash provided by operating activities to Free Cash Flow, (ii) use Revenue, Excluding Billable Expenses, Adjusted Operating Income, Adjusted EBITDA, Adjusted EBITDA Margin on Revenue, Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses, Adjusted Net Income, and Adjusted Diluted EPS in addition to, and not as an alternative to, revenue, operating income, net income or diluted EPS, as measures of operating results, each as defined under GAAP and (iii) use Free Cash Flow in addition to, and not as an alternative to, net cash provided by operating activities as a measure of liquidity, each as defined under GAAP. We have defined the aforementioned non-GAAP measures as follows:

- "Revenue, Excluding Billable Expenses" represents revenue less billable expenses. We use Revenue, Excluding Billable Expenses because it provides management useful information about the Company's operating performance by excluding the impact of costs that are not indicative of the level of productivity of our consulting staff headcount and our overall direct labor, which management believes provides useful information to our investors about our core operations.
- "Adjusted Operating Income" represents operating income before: (i) adjustments related to the amortization of intangible assets resulting from the acquisition of our Company by The Carlyle Group (the "Carlyle Acquisition"), and (ii) transaction costs, fees, losses, and expenses, including fees associated with debt prepayments. We prepare Adjusted Operating Income to eliminate the impact of items we do not consider indicative of ongoing operating performance due to their inherent unusual, extraordinary, or non-recurring nature or because they result from an event of a similar nature.
- "Adjusted EBITDA" represents net income before income taxes, net interest and other expense and depreciation and amortization before certain other items, including transaction costs, fees, losses, and expenses, including fees associated with debt prepayments. "Adjusted EBITDA Margin on Revenue" is calculated as Adjusted EBITDA divided by revenue. "Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses" is calculated as Adjusted EBITDA divided by Revenue, Excluding Billable Expenses. The Company prepares Adjusted EBITDA, Adjusted EBITDA Margin on Revenue, and Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses to eliminate the impact of items it does not consider indicative of ongoing operating performance due to their inherent unusual, extraordinary or non-recurring nature or because they result from an event of a similar nature.
- "Adjusted Net Income" represents net income before: (i) adjustments related to the amortization of intangible assets resulting from the Carlyle Acquisition, (ii) transaction costs, fees, losses, and expenses, including fees associated with debt prepayments, (iii) amortization or write-off of debt issuance costs and write-off of original issue discount, (iv) release of income tax reserves, and (v) re-measurement of deferred tax assets and

liabilities as a result of the 2017 Tax Act in each case net of the tax effect where appropriate calculated using an assumed effective tax rate. We prepare Adjusted Net Income to eliminate the impact of items, net of tax, we do not consider indicative of ongoing operating performance due to their inherent unusual, extraordinary, or non-recurring nature or because they result from an event of a similar nature. We view net income excluding the impact of the re-measurement of the Company's deferred tax assets and liabilities as a result of the 2017 Tax Act as an important indicator of performance consistent with the manner in which management measures and forecasts the Company's performance and the way in which management is incentivized to perform.

- "Adjusted Diluted EPS" represents diluted EPS calculated using Adjusted Net Income as opposed to net income. Additionally, Adjusted Diluted EPS does not contemplate any adjustments to net income as required under the two-class method as disclosed in the footnotes to the consolidated financial statements.
- "Free Cash Flow" represents the net cash generated from operating activities less the impact of purchases of property and equipment.

Below is a reconciliation of Revenue, Excluding Billable Expenses, Adjusted Operating Income, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Diluted EPS, and Free Cash Flow to the most directly comparable financial measure calculated and presented in accordance with GAAP.

(Amounts in thousands, except share and per share data)	Fiscal Year Ended March 31,		
	2018	2017	2016
	(Unaudited)		
<b>Revenue, Excluding Billable Expenses</b>			
Revenue	\$ 6,171,853	\$ 5,804,284	\$ 5,405,738
Billable expenses	1,861,312	1,751,077	1,513,083
Revenue, Excluding Billable Expenses	<u>\$ 4,310,541</u>	<u>\$ 4,053,207</u>	<u>\$ 3,892,655</u>
<b>Adjusted Operating Income</b>			
Operating Income	\$ 520,085	\$ 484,247	\$ 444,584
Amortization of intangible assets (a)	—	4,225	4,225
Transaction expenses (b)	—	3,354	—
Adjusted Operating Income	<u>\$ 520,085</u>	<u>\$ 491,826</u>	<u>\$ 448,809</u>
<b>EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin on Revenue &amp; Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses</b>			
Net income	\$ 305,111	\$ 252,490	\$ 294,094
Income tax expense	132,893	159,410	85,368
Interest and other, net (c)	82,081	72,347	65,122
Depreciation and amortization	64,756	59,544	61,536
EBITDA	<u>584,841</u>	<u>543,791</u>	<u>506,120</u>
Transaction expenses (b)	—	3,354	—
Adjusted EBITDA	<u>\$ 584,841</u>	<u>\$ 547,145</u>	<u>\$ 506,120</u>
Adjusted EBITDA Margin on Revenue	9.5%	9.4%	9.4%
Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses	13.6%	13.5%	13.0%
<b>Adjusted Net Income</b>			
Net income	\$ 305,111	\$ 252,490	\$ 294,094
Amortization of intangible assets (a)	—	4,225	4,225
Transaction expenses (b)	—	3,354	—
Release of income tax reserves (d)	—	—	(53,301)
Re-measurement of deferred tax assets/liabilities (e)	(9,107)	—	—
Amortization or write-off of debt issuance costs and write-off of original issue discount	2,655	8,866	5,201
Adjustments for tax effect (f)	(969)	(6,578)	(3,770)
Adjusted Net Income	<u>\$ 297,690</u>	<u>\$ 262,357</u>	<u>\$ 246,449</u>
<b>Adjusted Diluted Earnings Per Share</b>			
Weighted-average number of diluted shares outstanding	147,750,022	150,274,640	149,719,137
Adjusted Net Income Per Diluted Share (g)	<u>\$ 2.01</u>	<u>\$ 1.75</u>	<u>\$ 1.65</u>
<b>Free Cash Flow</b>			
Net cash provided by operating activities	\$ 369,143	\$ 382,277	\$ 249,234
Less: Purchases of property and equipment	(78,437)	(53,919)	(66,635)
Free Cash Flow	<u>\$ 290,706</u>	<u>\$ 328,358</u>	<u>\$ 182,599</u>

(a) Reflects amortization of intangible assets resulting from the Carlyle Acquisition.

(b) Reflects debt refinancing costs incurred in connection with the refinancing transaction consummated on July 13, 2016.

- (c) Reflects the combination of Interest expense and Other income (expense), net from the consolidated statement of operations.
- (d) Release of pre-acquisition income tax reserves assumed by the Company in connection with the Carlyle Acquisition.
- (e) Reflects the provisional income tax benefit associated with the re-measurement of the Company's deferred tax assets and liabilities as a result of the 2017 Tax Act.
- (f) Fiscal 2017 and 2016 reflect the tax effect of adjustments at an assumed effective tax rate of 40%. Beginning in the third quarter of fiscal 2018 with the enactment of the 2017 Tax Act, adjustments are reflected using an assumed effective tax rate of 36.5%, which approximates a blended federal and state tax rate for fiscal 2018, and consistently excludes the impact of other tax credits and incentive benefits realized.
- (g) Excludes an adjustment of approximately \$1.9 million, \$2.3 million, and \$3.5 million of net earnings for fiscal 2018, 2017, and 2016, respectively, associated with the application of the two-class method for computing diluted earnings per share.

## **Factors and Trends Affecting Our Results of Operations**

Our results of operations have been, and we expect them to continue to be, affected by the following factors, which may cause our future results of operations to differ from our historical results of operations discussed under “— Results of Operations.”

### ***Business Environment and Key Trends in Our Markets***

We believe that the following trends and developments in the U.S. government services industry and our markets may influence our future results of operations:

- uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government actions to approve funding of the U.S. government, address budgetary constraints, including caps on the discretionary budget for defense and non-defense departments and agencies, as established by the Bipartisan Budget Control Act of 2011 and subsequently adjusted by the American Tax Payer Relief Act of 2012, the Bipartisan Budget Act of 2013 and the Bipartisan Budget Act of 2015, and address the ability of Congress to determine how to allocate the available budget authority and pass appropriations bills to fund both U.S. government departments and agencies that are, and those that are not, subject to the caps;
- budget deficits and the growing U.S. national debt increasing pressure on the U.S. government to reduce federal spending across all federal agencies together with associated uncertainty about the size and timing of those reductions;
- cost-cutting and efficiency initiatives, current and future budget restrictions, continued implementation of Congressionally mandated automatic spending cuts and other efforts to reduce U.S. government spending could cause clients to reduce or delay funding for orders for services or invest appropriated funds on a less consistent or rapid basis or not at all, particularly when considering long-term initiatives and in light of uncertainty around Congressional efforts to approve funding of the U.S. government and to craft a long-term agreement on the U.S. government's ability to incur indebtedness in excess of its current limits and generally in the current political environment, there is a risk that clients will not issue task orders in sufficient volume to reach current contract ceilings, alter historical patterns of contract awards, including the typical increase in the award of task orders or completion of other contract actions by the U.S. government in the period before the end of the U.S. government's fiscal year on September 30, delay requests for new proposals and contract awards, rely on short-term extensions and funding of current contracts, or reduce staffing levels and hours of operation;
- delays in the completion of future U.S. government's budget processes, which have in the past and could in the future delay procurement of the products, services, and solutions we provide;
- changes in the relative mix of overall U.S. government spending and areas of spending growth, with shifts in priorities on homeland security, intelligence, defense-related programs, and healthcare, and continued increased spending on technology and innovation including cybersecurity, Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR), advanced analytics, systems modernization and integration;
- legislative and regulatory changes to limitations on the amount of allowable executive compensation permitted under flexibly priced contracts following adoption of interim rules adopted by federal agencies implementing a section of the Bipartisan Budget Act of 2013, which substantially further reduce the amount of allowable executive compensation under these contracts and extend these limitations to a larger segment of our executives and our entire contract base;



- efforts by the U.S. government to address organizational conflicts of interest and related issues and the impact of those efforts on us and our competitors;
- increased audit, review, investigation and general scrutiny by U.S. government agencies of government contractors' performance under U.S. government contracts and compliance with the terms of those contracts and applicable laws;
- the federal focus on refining the definition of “inherently governmental” work, including proposals to limit contractor access to sensitive or classified information and work assignments, which will continue to drive pockets of insourcing in various agencies, particularly in the intelligence market;
- negative publicity and increased scrutiny of government contractors in general, including us, relating to U.S. government expenditures for contractor services and incidents involving the mishandling of sensitive or classified information, data breaches and cybersecurity;
- U.S. government agencies awarding contracts on a technically acceptable/lowest cost basis, which could have a negative impact on our ability to win certain contracts;
- increased competition from other government contractors and market entrants seeking to take advantage of certain of the trends identified above, and industry trend towards consolidation, which may result in the emergence of companies that are better able to compete against us;
- cost-cutting and efficiency and effectiveness efforts by U.S. civilian agencies with a focus on increased use of performance measurement, “program integrity” efforts to reduce waste, fraud and abuse in entitlement programs, and renewed focus on improving procurement practices for and interagency use of IT services, including through the use of cloud based options and data center consolidation;
- restrictions by the U.S. government on the ability of federal agencies to use lead system integrators, in response to cost, schedule and performance problems with large defense acquisition programs where contractors were performing the lead system integrator role;
- increasingly complex requirements of the Department of Defense and the U.S. intelligence community, including cybersecurity, managing federal health care cost growth and focus on reforming existing government regulation of various sectors of the economy, such as financial regulation and healthcare; and
- increasing small business regulations across the Department of Defense and civilian agency clients continue to gain traction, agencies are required to meet high small business set aside targets, and large business prime contractors are required to subcontract in accordance with considerable small business participation goals necessary for contract award.

### ***Sources of Revenue***

Substantially all of our revenue is derived from services provided under contracts and task orders with the U.S. government, primarily by our consulting staff and, to a lesser extent, our subcontractors. Funding for our contracts and task orders is generally linked to trends in budgets and spending across various U.S. government agencies and departments. We provide services under a large portfolio of contracts and contract vehicles to a broad client base, and we believe that our diversified contract and client base lessens potential volatility in our business; however, a reduction in the amount of services that we are contracted to provide to the U.S. government or any of our significant U.S. government clients could have a material adverse effect on our business and results of operations. In particular, the Department of Defense is one of our significant clients, and the Budget Control Act (BCA) of 2011 (as amended by the American Taxpayer Relief Act of 2012, the Bipartisan Budget Act of 2013, the Bipartisan Budget Act of 2015, and the Bipartisan Act of 2018), provides for automatic spending cuts (referred to as sequestration) totaling approximately \$1.2 trillion between 2013 and 2021, including an estimated \$500 billion in federal defense spending cuts over this time period. The Bipartisan Budget Act of 2018 raised BCA spending caps on defense spending by \$80 billion for fiscal 2018, and \$85 billion for fiscal 2019. For non-defense funding, the Bipartisan Budget Act of 2018 raised BCA spending caps by \$63 billion for fiscal 2018 and \$67 billion for fiscal 2019. While the American Taxpayer Relief Act of 2012, the Bipartisan Budget Act of 2013, the Bipartisan Budget Act of 2015, and the Bipartisan Budget Act of 2018 all negated and raised budget limits put in place by the BCA for both defense and non-defense spending, those spending limits are due to return in fiscal 2020, and absent another budget deal, could result in significant cuts to the budget levels allowed by the Bipartisan Budget Act of 2018. This could result in a commensurate reduction in the amount of services that we are contracted to provide to the Department of Defense and could have a material adverse effect on our business and results of operations, and given the uncertainty of when and how these automatic reductions required by the BCA may return and/or be applied, we are unable to predict the nature or magnitude of the potential adverse effect.

### ***Contract Types***

We generate revenue under the following three basic types of contracts:

- *Cost-Reimbursable Contracts.* Cost-reimbursable contracts provide for the payment of allowable costs incurred during performance of the contract, up to a ceiling based on the amount that has been funded, plus a fee. As we increase or decrease our spending on allowable costs, our revenue generated on cost-reimbursable contracts will increase, up to the ceiling and funded amounts, or decrease, respectively. We generate revenue under two general types of cost-reimbursable contracts: cost-plus-fixed-fee and cost-plus-award-fee, both of which reimburse allowable costs and provide for a fee. The fee under each type of cost-reimbursable contract is generally payable upon completion of services in accordance with the terms of the contract. Cost-plus-fixed-fee contracts offer no opportunity for payment beyond the fixed fee. Cost-plus-award-fee contracts also provide for an award fee that varies within specified limits based upon the client’s assessment of our performance against a predetermined set of criteria, such as targets for factors like cost, quality, schedule, and performance.
- *Time-and-Materials Contracts.* Under a time-and-materials contract, we are paid a fixed hourly rate for each direct labor hour expended, and we are reimbursed for billable material costs and billable out-of-pocket expenses inclusive of allocable indirect costs. To the extent our actual direct labor including allocated indirect costs, and associated billable expenses decrease or increase in relation to the fixed hourly billing rates provided in the contract, we will generate more or less profit, respectively, or could incur a loss.
- *Fixed-Price Contracts.* Under a fixed-price contract, we agree to perform the specified work for a predetermined price. To the extent our actual direct and allocated indirect costs decrease or increase from the estimates upon which the price was negotiated, we will generate more or less profit, respectively, or could incur a loss. Some fixed-price contracts have a performance-based component, pursuant to which we can earn incentive payments or incur financial penalties based on our performance. Fixed-price level of effort contracts require us to provide a specified level of effort (i.e., labor hours), over a stated period of time, for a fixed price.

The amount of risk and potential reward varies under each type of contract. Under cost-reimbursable contracts, there is limited financial risk, because we are reimbursed for all allowable costs up to a ceiling. However, profit margins on this type of contract tend to be lower than on time-and-materials and fixed-price contracts. Under time-and-materials contracts, we are reimbursed for the hours worked using the predetermined hourly rates for each labor category. In addition, we are typically reimbursed for other contract direct costs and expenses at cost. We assume financial risk on time-and-materials contracts because our labor costs may exceed the negotiated billing rates. Profit margins on well-managed time-and-materials contracts tend to be higher than profit margins on cost-reimbursable contracts as long as we are able to staff those contracts with people who have an appropriate skill set. Under fixed-price contracts, we are required to deliver the objectives under the contract for a predetermined price. Compared to time-and-materials and cost-reimbursable contracts, fixed-price contracts generally offer higher profit margin opportunities because we receive the full benefit of any cost savings but generally involve greater financial risk because we bear the impact of any cost overruns. In the aggregate, the contract type mix in our revenue for any given period will affect that period's profitability. Changes in contract type as a result of re-competes and new business could influence the percentage/mix in unanticipated ways.

The table below presents the percentage of total revenue for each type of contract:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Cost-reimbursable (1)	51%	50%	51%
Time-and-materials	25%	26%	26%
Fixed-price (2)	24%	24%	23%

(1) Includes both cost-plus-fixed-fee and cost-plus-award-fee contracts.

(2) Includes fixed-price level of effort contracts.

#### *Contract Diversity and Revenue Mix*

We provide services to our clients through a large number of single award contracts, contract vehicles, and multiple award contract vehicles. Most of our revenue is generated under indefinite delivery/indefinite quantity, or IDIQ, contract vehicles, which include multiple award government wide acquisition contract vehicles, or GWACs, and General Services Administration Multiple Award Schedule Contracts, or GSA schedules, and certain single award contracts. GWACs and GSA schedules are

available to all U.S. government agencies. Any number of contractors typically compete under multiple award IDIQ contract vehicles for task orders to provide particular services, and we earn revenue under these contract vehicles only to the extent that we are successful in the bidding process for task orders. No single task order under any IDIQ contract represented more than 2.7% of our revenue in fiscal 2018. No single definite contract accounted for more than 2.2% of our revenue in fiscal 2018.

We generate revenue under our contracts and task orders through our provision of services as both a prime contractor and subcontractor, as well as from the provision of services by subcontractors under contracts and task orders for which we act as the prime contractor. For fiscal 2018, 2017, and 2016, 91%, 91%, and 90%, respectively, of our revenue was generated by contracts and task orders for which we served as a prime contractor; 9%, 9%, and 10%, respectively, of our revenue was generated by contracts and task orders for which we served as a subcontractor; and 25%, 25%, and 24%, respectively, of our revenue was generated by services provided by our subcontractors. The mix of these types of revenue affects our operating margin. Substantially all of our operating margin is derived from direct consulting staff labor as the portion of our operating margin derived from fees we earn on services provided by our subcontractors is not significant. We view growth in direct consulting staff labor as the primary driver of earnings growth. Direct consulting staff labor growth is driven by consulting staff headcount growth, after attrition, and total backlog growth.

### *Our People*

Revenue from our contracts is derived from services delivered by consulting staff and, to a lesser extent, from our subcontractors. Our ability to hire, retain, and deploy talent with skills appropriately aligned with client needs is critical to our ability to grow our revenue. We continuously evaluate whether our talent base is properly sized and appropriately compensated and contains an optimal mix of skills to be cost competitive and meet the rapidly evolving needs of our clients. We seek to achieve that result through recruitment and management of capacity and compensation. As of March 31, 2018, 2017, and 2016, we employed approximately 24,600, 23,300, and 22,600 people, respectively, of which approximately 22,100, 21,000, and 20,300, respectively, were consulting staff.

### *Contract Backlog*

We define backlog to include the following three components:

- *Funded Backlog.* Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- *Unfunded Backlog.* Unfunded backlog represents the revenue value of orders (including optional orders) for services under existing contracts for which funding has not been appropriated or otherwise authorized.
- *Priced Options.* Priced contract options represent 100% of the revenue value of all future contract option periods under existing contracts that may be exercised at our clients' option and for which funding has not been appropriated or otherwise authorized.

Backlog does not include any task orders under IDIQ contracts, except to the extent that task orders have been awarded to us under those contracts.

The following table summarizes the value of our contract backlog at the respective dates presented:

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(In millions)		
Backlog:			
Funded	\$ 2,685	\$ 2,815	\$ 2,673
Unfunded	4,161	3,098	2,546
Priced options	9,174	7,679	6,595
Total backlog	<u>\$ 16,020</u>	<u>\$ 13,592</u>	<u>\$ 11,814</u>

Our backlog includes orders under contracts that in some cases extend for several years. The U.S. Congress generally appropriates funds for our clients on a yearly basis, even though their contracts with us may call for performance that is expected to take a number of years to complete. As a result, contracts typically are only partially funded at any point during their term and all or some of the work to be performed under the contracts may remain unfunded unless and until the U.S. Congress makes subsequent appropriations and the procuring agency allocates funding to the contract.

We view growth in total backlog and consulting staff headcount as the two key measures of our potential business growth. Growing and deploying consulting staff is the primary means by which we are able to achieve profitable revenue growth. To the extent that we are able to hire additional consulting staff and deploy them against funded backlog, we generally recognize increased revenue. Total backlog increased by 17.9% from March 31, 2017 to March 31, 2018 and increased by 15.1% from March 31, 2016 to March 31, 2017. Additions to funded backlog, during fiscal 2018 and 2017 totaled \$6.0 billion and \$5.9 billion, respectively, with the increase from fiscal 2017 to fiscal 2018 due to the conversion of unfunded backlog to funded backlog, the award of new contracts and task orders under which funding was appropriated, and the subsequent funding of priced options. We report internally on our backlog on a monthly basis and review backlog upon occurrence of certain events to determine if any adjustments are necessary.

We cannot predict with any certainty the portion of our backlog that we expect to recognize as revenue in any future period and we cannot guarantee that we will recognize any revenue from our backlog. The primary risks that could affect our ability to recognize such revenue on a timely basis or at all are: program schedule changes, contract modifications, and our ability to assimilate and deploy new consulting staff against funded backlog; cost-cutting initiatives and other efforts to reduce U.S. government spending, which could reduce or delay funding for orders for services; and delayed funding of our contracts due to delays in the completion of the U.S. government's budgeting process and the use of continuing resolutions by the U.S. government to fund its operations. The amount of our funded backlog is also subject to change, due to, among other factors: changes in congressional appropriations that reflect changes in U.S. government policies or priorities resulting from various military, political, economic or international developments; changes in the use of U.S. government contracting vehicles, and the provisions therein used to procure our services and adjustments to the scope of services, or cancellation of contracts, by the U.S. government at any time. In our recent experience, none of the following additional risks have had a material negative effect on our ability to realize revenue from our funded backlog: the unilateral right of the U.S. government to cancel multi-year contracts and related orders or to terminate existing contracts for convenience or default; in the case of unfunded backlog, the potential that funding will not be made available; and, in the case of priced options, the risk that our clients will not exercise their options.

In addition, funded backlog includes orders under contracts for which the period of performance has expired, and we may not recognize revenue on the funded backlog that includes such orders due to, among other reasons, the tardy submission of invoices by our subcontractors and the expiration of the relevant appropriated funding in accordance with a predetermined expiration date such as the end of the U.S. government's fiscal year. The revenue value of orders included in funded backlog that has not been recognized as revenue due to period of performance expirations has not exceeded approximately 7.9% of funded backlog as of the end of any of the four fiscal quarters preceding the fiscal quarter ended March 31, 2018.

We expect to recognize revenue from a substantial portion of funded backlog as of March 31, 2018 within the next twelve months. However, given the uncertainties discussed above, as well as the risks described in "Item 1A. Risk Factors", we can give no assurance that we will be able to convert our backlog into revenue in any particular period, if at all.

### ***Operating Costs and Expenses***

Costs associated with compensation and related expenses for our people are the most significant component of our operating costs and expenses. The principal factors that affect our costs are additional people as we grow our business and are awarded new contracts, task orders, and additional work under our existing contracts, and the hiring of people with specific skill sets and security clearances as required by our additional work.

Our most significant operating costs and expenses are described below.

- *Cost of Revenue.* Cost of revenue includes direct labor, related employee benefits, and overhead. Overhead consists of indirect costs, including indirect labor relating to infrastructure, management and administration, and other expenses.
- *Billable Expenses.* Billable expenses include direct subcontractor expenses, travel expenses, and other expenses incurred to perform on contracts.
- *General and Administrative Expenses.* General and administrative expenses include indirect labor of executive management and corporate administrative functions, marketing and bid and proposal costs, and other discretionary spending.
- *Depreciation and Amortization.* Depreciation and amortization includes the depreciation of computers, leasehold improvements, furniture and other equipment, and the amortization of internally developed software, as well as third-party software that we use internally, and of identifiable long-lived intangible assets over their estimated useful lives.

### ***Seasonality***

The U.S. government's fiscal year ends on September 30 of each year. While not certain, it is not uncommon for U.S. government agencies to award extra tasks or complete other contract actions in the weeks before the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds. In addition, we also have historically experienced higher bid and proposal costs in the months leading up to the U.S. government's fiscal year end as we pursue new contract opportunities being awarded shortly after the U.S. government fiscal year end as new opportunities are expected to have funding appropriated in the U.S. government's subsequent fiscal year. We may continue to experience this seasonality in future periods, and our future periods may be affected by it. While not certain, changes in the government's funding and spending patterns have altered historical seasonality trends, supporting our approach to managing the business on an annual basis.

Seasonality is just one of a number of factors, many of which are outside of our control, which may affect our results in any period. See "Item 1A. Risk Factors."

### **Critical Accounting Estimates and Policies**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated 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 consolidated financial statements as well as the reported amounts of revenue and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies, including the critical policies and practices listed below, are more fully described and discussed in the notes to the consolidated financial statements. We consider the following accounting policies to be critical to an understanding of our financial condition and results of operations because these policies require the most difficult, subjective or complex judgments on the part of our management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

#### ***Revenue Recognition and Cost Estimation***

Substantially all of our revenue is derived from contracts to provide professional services to the U.S. government and its agencies. In most cases, we recognize revenue as work is performed. We recognize revenue for cost-reimbursable-plus-fixed-fee contracts with the U.S. government as hours are worked based on reimbursable and allowable costs, recoverable indirect costs and an accrual for the fixed fee component of these contracts. Executive compensation that we determine to be allowable for cost reimbursement based on management's estimates is recognized as revenue, net of reserves. Management's estimates in this regard are based on a number of factors that may change over time, including executive compensation survey data, our and other government contractors' experiences with the DCAA audit practices in our industry, and relevant decisions of courts and boards of contract appeals. Many of our U.S. government contracts include award fees, which are earned based on the client's evaluation of our performance. We have significant history with the client for the majority of contracts on which we earn award fees. That history and management's evaluation and monitoring of performance form the basis for our ability to estimate such fees over the life of the contract. Based on these estimates, we recognize award fees as work on the contracts is performed. Revisions to these estimates may result in increases or decreases to revenue and income, and are reflected in the consolidated financial statements in periods in which they are identified. Historically, revisions to these estimates have not had a material effect on our results of operations.

Revenue for time-and-materials contracts is recognized as services are performed, generally on the basis of contract allowable labor hours worked multiplied by the contract-defined billing rates, plus allowable direct costs and indirect cost allocations associated with materials used and other direct expenses incurred in connection with the performance of the contract.

For fixed-price contracts, we primarily recognize revenue on the percentage-of-completion basis with progress toward completion of a particular contract based on actual costs incurred relative to total estimated costs to be incurred over the life of the contract. On some fixed-price contracts we may use an alternative input method to calculate the percent complete, such as labor hours or labor dollars. This method is used when a contract contains significant, up-front material purchases resulting in costs incurred that are not representative of the actual progress on the contract. Profits on fixed-price contracts result from the difference between the incurred costs used to calculate the percentage of completion and the revenue earned. These methods are followed where reasonably dependable estimates of revenue and costs under the contract can be made. If we are unable to reasonably estimate revenue or cost, the completed contract method is used. Historically, we have been able to reasonably estimate total contract revenue and costs and such estimates are regularly reviewed. Recorded revenue and costs are subject to revision as the contract progresses. Such revisions may result in increases or decreases to revenue and income, and are reflected in the consolidated financial statements in the periods in which they are first identified. If our estimates indicate that a contract

loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Estimating costs under our long-term contracts is complex and involves significant judgment. Factors that must be considered in making estimates include labor productivity and availability, the nature and technical complexity of the work to be performed, potential performance delays, warranty obligations, availability and timing of funding from the client, progress toward completion, and recoverability of claims. Adjustments to original estimates are often required as work progresses and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimates is made when facts develop, events become known, or an adjustment is otherwise warranted, such as in the case of a contract modification. We have procedures and processes in place to monitor the actual progress of a project against estimates and our estimates are updated if circumstances are warranted. Historically, revisions to our estimates have not had a material effect on our results of operations.

### ***Business Combinations***

The accounting for the Company's business combinations consists of allocating the purchase price to tangible and intangible assets acquired and liabilities assumed based on their fair values, with the excess recorded as goodwill. Certain fair value measurements include inputs that are unobservable, requiring management to make judgments and estimates that can be affected by contract performance and other factors that may cause final amounts to differ materially from original estimates. We have up to one year from the acquisition date to use additional information obtained to adjust the fair value of the acquired assets and liabilities which may result in changes to the recorded values with an offsetting adjustment to goodwill.

### ***Goodwill and Intangible Assets Impairment***

We test goodwill and trade name for impairment at least annually as of January 1 of each year and more frequently if interim indicators of impairment exist. We perform our impairment testing of goodwill at the reporting level. As our business is highly integrated and all of our components have similar economic characteristics, we conclude that we have one reporting unit at the consolidated entity level, which is the same as our single operating segment. We test goodwill for impairment using the quantitative method (primarily based on market capitalization). We test the trade name for impairment using the relief from royalty method that requires management to make significant amount of judgments and estimates in the valuation.

Amortizable intangible assets are tested for impairment when an event occurs or circumstances change indicating that the carrying amount of the asset may not be recoverable. A significant amount of management judgment is required to determine if an event representing an impairment indicator has occurred during the year, including but not limited to: a decline in forecasted cash flows; a sustained, material decline in the stock price and market capitalization; a significant adverse change in the business climate or economy; or unanticipated competition. An adverse change in any of these factors could have a significant impact on the recoverability of other intangible assets.

During the fiscal years ended March 31, 2018 and 2016, the Company did not record any impairment of intangible assets. During the fiscal year ended March 31, 2017, the Company recorded impairment charges of \$3.8 million related to intangible assets acquired in a historical acquisition. We do not consider goodwill, trade name, or any other amortizable intangible assets at risk of impairment.

### ***Share-Based Payments***

We use the Black-Scholes option-pricing model to estimate the fair value for stock options. Critical inputs into the Black-Scholes option-pricing model include the following: option exercise price, fair value of the stock price, expected life of the option, annualized volatility of the stock, annual rate of quarterly dividends on the stock, and the risk-free interest rate.

During fiscal 2018, the Company's Board of Directors authorized and declared recurring cash dividends in the amount of \$0.17 per share (declared in the first three quarters) and \$0.19 per share (declared in the fourth quarter) to holders of Booz Allen Holding's Class A Common Stock. Therefore, an annualized dividend yield between 1.89% and 2.00% was used in the Black-Scholes option-pricing model for all grants made during the fiscal year. Implied volatility is calculated as of each grant date based on our historical volatility. Other than the expected life of the option, volatility is the most sensitive input to our option grants. The expected term is estimated using historical exercise patterns of our equity award recipients.

The risk-free interest rate used in the Black-Scholes option-pricing model is determined by referencing the U.S. Treasury yield curve rates with the remaining term equal to the expected life assumed at the date of grant.

Forfeitures for our stock option awards are estimated based on our historical analysis of attrition levels and updated annually. We do not expect this assumption to change materially, as attrition levels associated with new option grants have not materially changed.

As a public company, we use the closing price of our Class A Common Stock on the grant date for valuation purposes.

## ***Accounting for Income Taxes***

Provisions for federal, state, and foreign income taxes are calculated from the income reported on our consolidated financial statements based on current tax law and also include the cumulative effect of any changes in tax rates from those previously used in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for purposes of preparing consolidated financial statements than for income tax purposes.

Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for uncertain tax positions when, despite the belief that our tax positions are supportable, there remains uncertainty in a tax position taken in our previously filed income tax returns. For tax positions where it is more likely than not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. To the extent we prevail in matters for which accruals have been established or are required to pay amounts in excess of reserves, our effective tax rate in a given consolidated financial statement period may be materially impacted.

The carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in certain tax jurisdictions to realize the value of these assets. If we are unable to generate sufficient future taxable income in these jurisdictions, a valuation allowance is recorded when it is more likely than not that the value of the deferred tax assets is not realizable.

The 2017 Tax Act significantly changes how the Company is taxed, requiring complex computations to be performed and significant judgments to be made in interpretation of the provisions. Subsequent to the enactment of the 2017 Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provides guidance on accounting for the tax effects of the 2017 Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the 2017 Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification No. 740, "Income Taxes" (ASC 740). In accordance with SAB 118, the Company must reflect the income tax effects of those aspects of the 2017 Tax Act for which the accounting under ASC 740 is complete. To the extent the Company is accounting for certain income tax effects of the 2017 Tax Act which are incomplete but a reasonable estimate can be determined, the company must record a provisional estimate in the financial statements. As noted in "Item 1A. Risk Factors-Risks Related to Our Business--Changes in tax law, including the 2017 Tax Act, could adversely impact our results of operations", our assessment of the 2017 Tax Act may be significantly affected by regulations and interpretive guidance expected to be issued by the tax authorities, clarifications of the accounting treatment of various items, our additional analysis, and our refinement of our estimates of the effects of the 2017 Tax Act, and therefore, such final amounts may be materially different than our current provisional amounts, which could materially affect our tax obligations and effective tax rate. For a description of our related accounting policies, refer to Note 2 and Note 13 to our accompanying consolidated financial statements.

### ***Recent Accounting Pronouncements***

See Note 2 to our accompanying audited consolidated financial statements for information related to our adoption of new accounting standards and for information on our anticipated adoption of recently issued accounting standards.

### **Segment Reporting**

We report operating results and financial data in one operating and reportable segment. We manage our business as a single profit center in order to promote collaboration, provide comprehensive functional service offerings across our entire client base, and provide incentives to employees based on the success of the organization as a whole. Although certain information regarding served markets and functional capabilities is discussed for purposes of promoting an understanding of our complex business, we manage our business and allocate resources at the consolidated level of a single operating segment.

### **Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, and have been prepared in accordance with GAAP, and the rules and regulations of the U.S. Securities and Exchange Commission, or SEC. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements and notes of the Company include its subsidiaries, and the joint ventures and partnerships over which the Company has a controlling financial interest. The Company uses the equity method to account for investments in entities that it does not control if it is otherwise able to exert significant influence over the entities' operating and financial policies.

The Company's fiscal year ends on March 31 and unless otherwise noted, references to fiscal year or fiscal are for fiscal years ended March 31. The accompanying consolidated financial statements present the financial position of the Company as of March 31, 2018 and 2017 and the Company's results of operations for fiscal 2018, fiscal 2017, and fiscal 2016.

Certain amounts reported in the Company's prior year consolidated financial statements have been reclassified to conform to the current year presentation.

## Results of Operations

The following table sets forth items from our consolidated statements of operations for the periods indicated:

	Fiscal Year Ended March 31,			Fiscal 2018 Versus Fiscal 2017	Fiscal 2017 Versus Fiscal 2016
	2018	2017	2016		
	(In thousands)				
Revenue	\$ 6,171,853	\$ 5,804,284	\$ 5,405,738	6.3 %	7.4 %
Operating costs and expenses:					
Cost of revenue	2,867,103	2,691,982	2,580,026	6.5 %	4.3 %
Billable expenses	1,861,312	1,751,077	1,513,083	6.3 %	15.7 %
General and administrative expenses	858,597	817,434	806,509	5.0 %	1.4 %
Depreciation and amortization	64,756	59,544	61,536	8.8 %	(3.2)%
Total operating costs and expenses	5,651,768	5,320,037	4,961,154	6.2 %	7.2 %
Operating income	520,085	484,247	444,584	7.4 %	8.9 %
Interest expense	(82,269)	(62,298)	(70,815)	32.1 %	(12.0)%
Other income (expense), net	188	(10,049)	5,693	NM	NM
Income before income taxes	438,004	411,900	379,462	6.3 %	8.5 %
Income tax expense	132,893	159,410	85,368	(16.6)%	86.7 %
Net income	\$ 305,111	\$ 252,490	\$ 294,094	20.8 %	(14.1)%

NM - Not meaningful

### *Fiscal 2018 Compared to Fiscal 2017*

#### *Revenue*

Revenue increased to \$6,171.9 million from \$5,804.3 million, or a 6.3% increase, primarily due to increased client demand which led to increased client staff headcount, and an increase in client staff labor, as well as increases in billable expenses.

#### *Cost of Revenue*

Cost of revenue increased to \$2,867.1 million from \$2,692.0 million, or a 6.5% increase. This increase was primarily due to an increase in salaries and salary-related benefits of \$168.8 million, higher incentive compensation of \$9.6 million, and an increase in employer retirement plan contributions of \$9.5 million. The increase in salaries and salary-related benefits was driven by an increase in headcount growth and annual base salary increases. Cost of revenue as a percentage of revenue was 46.5% and 46.4% in fiscal 2018 and fiscal 2017, respectively.

#### *Billable Expenses*

Billable expenses increased to \$1,861.3 million from \$1,751.1 million, or a 6.3% increase. The overall increase was primarily attributable to an increase in use of subcontractors in the current year driven by client demand. In addition, contracts which require the Company to incur travel expenses on behalf of clients increased over the prior year period. Billable expenses as a percentage of revenue were 30.2% for both fiscal 2018 and fiscal 2017.

#### *General and Administrative Expenses*

General and administrative expenses increased to \$858.6 million from \$817.4 million, or a 5.0% increase. The increase was primarily due to salaries and salary-related benefits of \$43.0 million, driven by headcount growth as well as annual base salary increases, and occupancy costs of \$5.1 million, partially offset by lower incentive compensation of \$9.9 million. General and administrative expenses as a percentage of revenue were 13.9% and 14.1% for fiscal 2018 and fiscal 2017, respectively.



### *Depreciation and Amortization Expense*

Depreciation and amortization expense increased to \$64.8 million from \$59.5 million, or an 8.8% increase, primarily due to increases in intangible asset amortization related to the Company's acquisition of Aquilent in fiscal 2017, partially offset by a decrease in amortization of other amortizable intangible assets that fully amortized in fiscal 2017.

### *Interest Expense*

Interest expense increased to \$82.3 million from \$62.3 million, or a 32.1% increase, primarily as a result of interest expense related to the issuance of the Senior Notes in April 2017.

### *Income Tax Expense*

Income tax expense decreased to \$132.9 million from \$159.4 million, or a 16.6% decrease. The effective tax rate decreased to 30.3% in fiscal 2018 from 38.7% in fiscal 2017 primarily due to the blended federal tax rate benefit of the 2017 Tax Act and provisional estimates for the re-measurement of the existing deferred tax balances. See Note 13 to our consolidated financial statements for additional information. The effective tax rate also decreased with the recognition of excess tax benefits of \$14.5 million being reflected in earnings as a reduction to income tax expense for fiscal 2018. This was driven by the Company's initial adoption of new accounting guidance in the first quarter of fiscal 2018 whereby excess tax benefits on employee share-based payment awards are now recognized in earnings as a reduction to income tax expense instead of as an adjustment to additional paid-in-capital, as was the case historically. See Notes 2 to our consolidated financial statements for additional information on how this accounting change could impact earnings in future periods.

### ***Fiscal 2017 Compared to Fiscal 2016***

#### *Revenue*

Revenue increased to \$5,804.3 million from \$5,405.7 million, or a 7.4% increase, primarily driven by stronger client demand, as evidenced by our backlog growth. The increase in client demand coupled with our increased client staff headcount and client billability, resulted in increases in our direct labor and corresponding generation of revenue growth. Revenue growth was also driven by an increase in billable expenses, including subcontractors and direct material and other direct cost purchases for clients. Conversions to funded backlog during fiscal 2017 totaled \$5.9 billion in comparison to \$5.4 billion for the comparable year with the increase from fiscal 2016 to fiscal 2017 due to the conversion of unfunded backlog to funded backlog, the award of new contracts and task orders under which funding was appropriated, and the subsequent funding of priced options.

#### *Cost of Revenue*

Cost of revenue decreased to \$2,692.0 million from \$2,580.0 million, or a 4.3% decrease. This increase was primarily due to an increase in salaries and salary-related benefits of \$98.4 million and an increase in incentive compensation of \$5.4 million. The increase in salaries and salary-related benefits was driven by an increase in headcount growth, annual base salary increases and consulting staff spending more time on direct contract activities. Cost of revenue as a percentage of revenue was 46.4% and 47.7% in fiscal 2017 and fiscal 2016, respectively.

#### *Billable Expenses*

Billable expenses increased to \$1,751.1 million from \$1,513.1 million, or a 15.7% increase. The overall increase was primarily attributable to an increase in use of subcontractors in fiscal 2017 driven by client demand. In addition, contracts which require the Company to incur direct expenses on behalf of our clients have increased over the prior year period. Billable expenses as a percentage of revenue were 30.2% and 28.0% in fiscal 2017 and fiscal 2016, respectively.

#### *General and Administrative Expenses*

General and administrative expenses increased to \$817.4 million from \$806.5 million, or a 1.4% increase, primarily due to the correction of an immaterial misstatement. In addition, the Company recorded an impairment charge of \$3.8 million for the technologies, customer relationships and other intangible assets related to a business acquisition. These increases were partially offset by decreases in occupancy costs and other business expenses of approximately \$11.6 million. General and administrative expenses as a percentage of revenue were 14.1% and 14.9% for fiscal 2017 and fiscal 2016, respectively.

#### *Depreciation and Amortization Expense*

Depreciation and amortization expense decreased to \$59.5 million from \$61.5 million, or a 3.2% decrease, primarily due to a decrease in depreciation expense resulting from the effect of lower capital expenditures in prior years.

### Interest Expense

Interest expense decreased to \$62.3 million from \$70.8 million, or a 12.0% decrease, primarily as a result of the Third Amendment to the Credit Agreement consummated in July 2016, which reduced interest expense for fiscal 2017 as compared to fiscal 2016.

### Income Tax Expense

Income tax expense increased to \$159.4 million from \$85.4 million, or a 86.7% increase. The effective tax rate increased to 38.7% in fiscal 2017 from 22.5% in fiscal 2016, primarily due to the release of uncertain tax position reserves in fiscal 2016.

### Liquidity and Capital Resources

As of March 31, 2018, our total liquidity was \$787.0 million, consisting of \$287.0 million of cash and cash equivalents and \$500.0 million available under the Revolving Credit Facility. In the opinion of management, we will be able to meet our liquidity and cash needs through a combination of cash flows from operating activities, available cash balances, and available borrowing under the Revolving Credit Facility. If these resources need to be augmented, additional cash requirements would likely be financed through the issuance of debt or equity securities.

The following table presents selected financial information for the periods presented:

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(In thousands)		
Cash and cash equivalents	\$ 286,958	\$ 217,417	\$ 187,529
Total debt	\$ 1,818,579	\$ 1,663,324	\$ 1,597,261
Net cash provided by operating activities	\$ 369,143	\$ 382,277	\$ 249,234
Net cash used in investing activities	(96,453)	(300,896)	(117,753)
Net cash used in financing activities	(203,149)	(51,493)	(151,169)
Total increase (decrease) in cash and cash equivalents	\$ 69,541	\$ 29,888	\$ (19,688)

From time to time we evaluate alternative uses for excess cash resources once our operating cash flow and required debt servicing needs have been met. Some of the possible uses of our remaining excess cash at any point in time may include funding strategic acquisitions, further investment in our business, and returning value to shareholders through share repurchases, recurring dividends, and special dividends. While the timing and financial magnitude of these possible actions are currently indeterminable, the Company expects to be able to manage and adjust its capital structure in the future to meet its liquidity needs.

Historically, we have been able to generate sufficient cash to fund our operations, mandatory debt and interest payments, capital expenditures, and discretionary funding needs. However, due to fluctuations in cash flows, including as a result of the trends and developments described above under "—Factors and Trends Affecting Our Results of Operations" relating to U.S. government cost-cutting, reductions or delays in the U.S. government appropriations and spending process and other budgetary matters, it may be necessary from time-to-time in the future to borrow under our Secured Credit Facility to meet cash demands. While the timing and financial magnitude of these possible actions are currently indeterminable, we expect to be able to manage and adjust our capital structure to meet our liquidity needs. Our expected liquidity and capital structure may also be impacted by discretionary investments and acquisitions that we could pursue. We anticipate that cash provided by operating activities, existing cash and cash equivalents, and borrowing capacity under our Revolving Credit Facility will be sufficient to meet our anticipated cash requirements for the next twelve months, which primarily include:

- operating expenses, including salaries;
- working capital requirements to fund the growth of our business;
- capital expenditures which primarily relate to the purchase of computers, business systems, furniture and leasehold improvements to support our operations;
- commitments and other discretionary investments;
- debt service requirements for borrowings under our Secured Credit Facility and interest payments for the Senior Notes; and
- cash taxes to be paid.

Our ability to fund our operating needs depends, in part, on our ability to continue to generate positive cash flows from operations or, if necessary, raise cash in the capital markets.

### ***Cash Flows***

Cash received from clients, either from the payment of invoices for work performed or for advances in excess of costs incurred, is our primary source of cash. We generally do not begin work on contracts until funding is appropriated by the client. Billing timetables and payment terms on our contracts vary based on a number of factors, including whether the contract type is cost-reimbursable, time-and-materials, or fixed-price. We generally bill and collect cash more frequently under cost-reimbursable and time-and-materials contracts, as we are authorized to bill as the costs are incurred or work is performed. In contrast, we may be limited to bill certain fixed-price contracts only when specified milestones, including deliveries, are achieved. In addition, a number of our contracts may provide for performance-based payments, which allow us to bill and collect cash prior to completing the work.

Accounts receivable is the principal component of our working capital and is generally driven by revenue growth with other short-term fluctuations related to the payment practices of our clients. Our accounts receivable reflects amounts billed to our clients as of each balance sheet date. Our clients generally pay our invoices within 30 days of the invoice date. At any month-end, we also include in accounts receivable the revenue that was recognized in the preceding month, which is generally billed early in the following month. Finally, we include in accounts receivable amounts related to revenue accrued in excess of amounts billed, primarily on our fixed-price and cost-reimbursable-plus-award-fee contracts. The total amount of our accounts receivable can vary significantly over time, but is generally sensitive to revenue levels. Total accounts receivable (billed and unbilled combined, net of allowance for doubtful accounts) days sales outstanding, or DSO, which we calculate by dividing total accounts receivable by revenue per day during the relevant fiscal quarter, was 65 as of March 31, 2018 and 60 as of March 31, 2017. DSO increased as a result of sustained revenue growth and the timing of billings and collections associated with that growth.

### ***Operating Cash Flow***

Net cash provided by operations is primarily affected by the overall profitability of our contracts, our ability to invoice and collect cash from clients in a timely manner, and our ability to manage our vendor payments. Continued uncertainty in global economic conditions may also affect our business as customers and suppliers may decide to downsize, defer, or cancel contracts, which could negatively affect the operating cash flows. Net cash provided by operations was \$369.1 million in fiscal 2018 compared to \$382.3 million in the prior year, or a 3.4% decrease. The decrease was primarily the result of higher cash taxes paid during fiscal 2018 and an increase in working capital needs, including an increase in accounts receivable that is consistent with our growth.

### ***Investing Cash Flow***

Net cash used in investing activities was \$96.5 million in fiscal 2018 compared to \$300.9 million in the prior year period, or a 67.9% decrease. The decrease in net cash used in investing activities was due to the Company's acquisition of eGov Holdings, Inc. (d/b/a Aquilent) in fiscal 2017, partially offset by an increase in capital expenditures over the prior year primarily related to the timing of the leasehold improvements to update existing office space.

### ***Financing Cash Flow***

Net cash used in financing activities was \$203.1 million in fiscal 2018 compared to \$51.5 million in the prior year period. The increase in net cash used in financing activities was primarily due to the following:

- An increase in share repurchases over the prior year period of \$223.8 million. In fiscal 2018, the Company repurchased a total of 7.3 million shares of Class A Common Stock, including those related to shares withheld to cover Restricted Stock vesting, for \$260.4 million and also paid \$9.9 million for shares of Class A Common Stock repurchased in fiscal 2017 that settled in fiscal 2018. In fiscal 2017, the Company repurchased a total of 1.3 million shares of Class A Common Stock for \$46.5 million.
- Net borrowings on the Revolving Credit Facility decreased \$225.0 million as compared to the prior year period.
- The above was offset by net proceeds received of \$343.3 million from the issuance of the Senior Notes.

### ***Dividends and Share Repurchases***

The Company paid \$0.70 in dividends per share to shareholders of record in fiscal 2018. On May 29, 2018, the Company announced a regular quarterly cash dividend in the amount of \$0.19 per share. The quarterly dividend is payable on June 29, 2018 to stockholders of record on June 14, 2018.

The following table summarizes the cash distributions recognized in the consolidated statement of cash flows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(In thousands)		
Recurring dividends (1)	\$ 103,411	\$ 92,925	\$ 80,015
Dividend equivalents (2)	951	2,254	31,802
Total distributions	<u>\$ 104,362</u>	<u>\$ 95,179</u>	<u>\$ 111,817</u>

(1) Amounts represent recurring dividends that were declared and paid for during each quarter of fiscal 2018, 2017, and 2016, respectively.

(2) Dividend equivalents are distributions made to option holders equal to the previously declared special dividends.

On December 12, 2011, the Board of Directors authorized the repurchase of up to \$30.0 million of our shares. On January 27, 2015, the share repurchase authorization was increased to \$180.0 million. On January 25, 2017, the Board of Directors approved an increase to share repurchase authorization from \$180.0 million to \$410.0 million. On November 2, 2017, the Board of Directors approved an increase to our share repurchase authorization from \$410.0 million to up to \$610.0 million. During fiscal 2018 and 2017, the Company purchased 7.2 million and 1.3 million shares of the Company's Class A Common Stock for an aggregate of \$257.6 million and \$46.4 million, respectively. Following the aforementioned repurchases as of March 31, 2018, the Company had \$197.9 million remaining under the repurchase program.

On May 24, 2018, the Board of Directors approved an increase to our share repurchase authorization from \$610.0 million to up to \$910.0 million. As of May 24, 2018, taking into effect the increase in the share repurchase authorization, the Company may repurchase up to approximately \$493.7 million of additional shares of common stock under its share repurchase program.

Any determination to pursue one or more of the above alternative uses for excess cash is subject to the discretion of our Board of Directors, and will depend upon various factors, including our results of operations, financial condition, liquidity requirements, restrictions that may be imposed by applicable law, our contracts, and our Credit Agreement, as amended, and other factors deemed relevant by our Board of Directors.

### ***Indebtedness***

Our debt totaled \$1,818.6 million and \$1,663.3 million as of March 31, 2018 and 2017, respectively. Our debt bears interest at specified rates and is held by a syndicate of lenders (see Note 11 to our consolidated financial statements).

On March 7, 2018, Booz Allen Hamilton and Booz Allen Investor, and certain wholly-owned subsidiaries of Booz Allen Hamilton, entered into the Fifth Amendment (the "Fifth Amendment") to the Credit Agreement (the "Credit Agreement"), dated as of July 31, 2012 among Booz Allen Hamilton, Booz Allen Investor, certain wholly owned subsidiaries of Booz Allen Hamilton and Bank of America, N.A., as Administrative Agent, Collateral Agent and Issuing Lender (as previously amended by the First Amendment to Credit Agreement, dated as of August 16, 2013, the Second Amendment to Credit Agreement, date as of May 7, 2014, the Third Amendment to the Credit Agreement, dated as of July 13, 2016 and the Fourth Amendment to the Credit Agreement, dated as of February 6, 2017). Pursuant to the Fifth Amendment, the Company reduced the interest rate spread applicable to Term Loan B ("Term Loan B" and, together with Term Loan A, the "Term Loans"). The interest rate applicable to the Term Loan A ("Term Loan A") is unchanged.

Prior to the Fifth Amendment, approximately \$395 million were outstanding under the Term Loan B. Pursuant to the Fifth Amendment, certain lenders converted their existing Term Loan B loans into a new tranche of Term Loan B loans in an aggregate amount, along with Term Loan B loans advances by certain new lenders, of approximately \$395 million. The proceeds from the new lenders were used to prepay in full all of the existing Term B Loans that were not converted into the Term Loan B tranche.

As of March 31, 2018, the Credit Agreement, as amended, provided the Company with a \$1,094 million Term Loan A and a \$395 million Term Loan B, and a \$500.0 million Revolving Credit Facility, with a sublimit for letters of credit of \$100.0 million. As of March 31, 2018, the maturity date of Term Loan A and the termination date for the Revolving Credit Facility was June 30, 2021 and the maturity date of Term Loan B was June 30, 2023. Booz Allen Hamilton's obligations and the guarantors' guarantees under the Credit Agreement, as amended, are secured by a first priority lien on substantially all of the assets (including capital stock of subsidiaries) of Booz Allen Hamilton, Investor and the subsidiary guarantors, subject to certain exceptions set forth in the Credit Agreement, as amended, and related documentation. Subject to specified conditions, without the consent of the then-existing lenders (but subject to the receipt of commitments), the Term Loans or Revolving Credit Facility may be expanded (or a new term loan facility or revolving credit facility added to the existing facilities) by up to (i)

\$400 million plus (ii) the aggregate principal amount under which pro forma consolidated net secured leverage remains less than or equal to 3.50:1.00.

At Booz Allen Hamilton's option, borrowings under Term Loan A and Revolving Credit Facility bear interest based either on LIBOR (adjusted for maximum reserves, and subject to a floor of zero) for the applicable interest period or a base rate (equal to the highest of (x) the administrative agent's prime corporate rate, (y) the overnight federal funds rate plus 0.50% and (z) three-month LIBOR (adjusted for maximum reserves, and subject to a floor of zero) plus 1.00%), in each case plus an applicable margin, payable at the end of the applicable interest period and in any event at least quarterly. The applicable margin for Term Loan A and borrowings under the Revolving Credit Facility ranges from 1.50% to 2.25% for LIBOR loans and 0.50% to 1.25% for base rate loans, in each case based on Booz Allen Hamilton's consolidated total net leverage ratio. Unused commitments under the Revolving Credit Facility are subject to a quarterly fee ranging from 0.30% to 0.40% based on Booz Allen Hamilton's consolidated total net leverage ratio.

Under the Fifth Amendment, the rate at which Term Loan B bears interest is based on LIBOR (adjusted for maximum reserves and subject to a floor of zero plus 2.00% for the applicable interest period) or a base rate (equal to the highest of (x) the corporate base rate established by the administrative agent, (y) the overnight federal funds rate plus 0.50%, (z) three-month LIBOR (adjusted for maximum reserves) plus 1.00%, plus, in each case, 1.25%, payable at the end of the applicable interest period; provided, that if such rate shall be less than zero, such rate shall be deemed to be zero.

Booz Allen Hamilton occasionally borrows under the Revolving Credit Facility in anticipation of cash demands. During fiscal 2018 and 2017, Booz Allen Hamilton accessed a total of \$125.0 million and \$575.0 million, respectively of its \$500.0 million Revolving Credit Facility. As of March 31, 2018, there was no outstanding balance on the Revolving Credit Facility. As of March 31, 2017, \$130.0 million was outstanding on the Revolving Credit Facility.

The Credit Agreement, as amended, requires quarterly principal payments of 1.25% of the stated principal amount of Term Loan A until maturity, and quarterly principal payments of 0.25% of the stated principal amount of Term Loan B until maturity.

We also have agreed to pay customary letter of credit and agency fees. As of March 31, 2018 and 2017, we were contingently liable under open standby letters of credit and bank guarantees issued by our banks in favor of third parties that totaled \$6.3 million and \$8.6 million, respectively. These letters of credit and bank guarantees primarily support insurance and bid and performance obligations. At March 31, 2018 and 2017, approximately \$1.4 million and \$1.7 million of these instruments reduce our available borrowings under the Revolving Credit Facility. The remainder is guaranteed under a separate \$15.0 million facility established in fiscal 2015, of which \$10.1 million and \$3.1 million, respectively, was available to us at March 31, 2018 and 2017. As of March 31, 2018, we had \$498.6 million of capacity available for additional borrowings under the Revolving Credit Facility.

The Credit Agreement, as amended, contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants include limitations on the following, in each case subject to certain exceptions: (i) indebtedness and liens; (ii) mergers, consolidations or amalgamations, liquidations, wind-ups or dissolutions, and disposition of all or substantially all assets; (iii) dispositions of property; (iv) restricted payments; (v) investments; (vi) transactions with affiliates; (vii) sale and lease back transactions; (viii) change in fiscal periods; (ix) negative pledges; (x) restrictive agreements; (xi) line of business; and (xii) speculative hedging. The events of default include the following, in each case subject to certain exceptions: (a) failure to make required payments under the Secured Credit Facility; (b) material breaches of representations or warranties under the Secured Credit Facility; (c) failure to observe covenants or agreements under the Secured Credit Facility; (d) failure to pay or default under certain other material indebtedness; (e) bankruptcy or insolvency; (f) certain ERISA events; (g) certain material judgments; (h) actual or asserted invalidity of the Guarantee and Collateral Agreements or the other security documents or failure of the guarantees or perfected liens thereunder; and (i) a change of control. In addition, we are required to meet certain financial covenants at each quarter end, namely Consolidated Net Total Leverage and Consolidated Net Interest Coverage Ratios. As of March 31, 2018, we were compliant with these covenants.

During fiscal 2018, interest payments of \$38.1 million and \$14.9 million were made for the Term Loan A and Term Loan B facilities, respectively. During fiscal 2017, interest payments of \$28.8 million and \$19.5 million were made for the Term Loan A and Term Loan B facilities, respectively.

The total outstanding debt balance is recorded in the accompanying consolidated balance sheets net of unamortized discount and debt issuance costs of \$20.7 million and \$18.1 million as of March 31, 2018 and 2017, respectively.

On April 25, 2017, Booz Allen Hamilton issued \$350 million aggregate principal amount of its 5.125% Senior Notes due 2025 under an Indenture, dated April 25, 2017, among Booz Allen Hamilton, certain subsidiaries of Booz Allen Hamilton, as guarantors (the "Subsidiary Guarantors"), and Wilmington Trust, National Association, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of April 25, 2017, among Booz Allen Hamilton, the Subsidiary Guarantors and the Trustee. A portion of the proceeds was used to repay all outstanding loans under the Revolving Credit

Facility. We intend to use the remaining proceeds for working capital and other general corporate purposes, which may include the repayment of a portion or all of the outstanding DPO. During fiscal 2018, interest payments of \$9.3 million were made for the Senior Notes. There were no similar payments made or required in fiscal 2017. (see Note 11 to our consolidated financial statements).

Borrowings under our Term Loans, and if used, our Revolving Credit Facility, incur interest at a variable rate. In accordance with our risk management strategy between April 6, 2017 and May 24, 2017, Booz Allen Hamilton executed a series of interest rate swaps. As of March 31, 2018, we had interest rate swaps with an aggregate notional amount of \$450 million. These instruments hedge the variability of cash outflows for interest payments on the floating portion of our debt. The Company's objectives in using cash flow hedges are to reduce volatility due to interest rate movements and to add stability to interest expense (see Note 12 in our consolidated financial statements).

### Capital Structure and Resources

Our stockholders' equity amounted to \$554.6 million as of March 31, 2018, a decrease of \$19.0 million compared to stockholders' equity of \$573.6 million as of March 31, 2017. The decrease was primarily due to a \$269.6 million increase in treasury stock resulting from the repurchase of shares of our Class A Common Stock and \$103.4 million in dividend payments during fiscal 2018. These were partially offset by net income of \$305.1 million, stock-based compensation expense of \$23.3 million, and stock option exercises of \$12.1 million in fiscal 2018.

### Off-Balance Sheet Arrangements

As of March 31, 2018, we did not have any material off-balance sheet arrangements.

### Contractual Obligations

The following table summarizes our contractual obligations that require us to make future cash payments as of March 31, 2018. For contractual obligations, we included payments that we have an unconditional obligation to make.

	Payments Due by Fiscal Periods				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 years
	(In thousands)				
Long-term debt (a)	\$ 1,839,275	\$ 63,100	\$ 126,200	\$ 924,725	\$ 725,250
Operating lease obligations	423,507	71,013	123,032	87,573	141,889
Interest on indebtedness	342,586	75,549	143,806	74,710	48,521
Deferred payment obligation (b)	83,333	83,333	—	—	—
Payments to the Booz Allen Foundation (c)	3,333	3,333	—	—	—
Liability to option holders (d)	280	280	—	—	—
Tax liabilities for uncertain tax positions (e)	11,787	519	11,268	—	—
Total contractual obligations	<u>\$ 2,704,101</u>	<u>\$ 297,127</u>	<u>\$ 404,306</u>	<u>\$ 924,725</u>	<u>\$ 915,660</u>

- (a) See Note 11 to our consolidated financial statements for additional information regarding debt and related matters.
- (b) Includes \$80 million deferred payment obligation balance plus interest due within the next year.
- (c) See Note 20 to our consolidated financial statements for a discussion of the Company's binding and irrevocable pledge to the Booz Allen Foundation.
- (d) Reflects liabilities to holders of stock options issued under the Equity Incentive Plan, as amended, as a result of special dividends paid in November 2013, and February and August 2014.
- (e) Reflects a reserve of \$10.2 million for income tax uncertainties created with the acquisition discussed in Note 4 to our consolidated financial statements.

In the normal course of business, we enter into agreements with subcontractors and vendors to provide products and services that we consume in our operations or that are delivered to our clients. These products and services are not considered unconditional obligations until the products and services are actually delivered, at which time we record a liability for our obligation.

## **Capital Expenditures**

Since we do not own any of our facilities, our capital expenditure requirements primarily relate to the purchase of computers, business systems, furniture, and leasehold improvements to support our operations. Direct facility and equipment costs billed to clients are not treated as capital expenses. Our capital expenditures for fiscal 2018 and 2017 were \$78.4 million and \$53.9 million, respectively, and the majority of such capital expenditures related to facilities infrastructure, equipment, and information technology. The increase in capital expenditures over the prior year primarily related to the timing of the leasehold improvements to update existing office space. Expenditures for facilities infrastructure and equipment are generally incurred to support new and existing programs across our business. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure. We expect capital expenditures for fiscal 2019 to increase from fiscal 2018 as a result of increased investments in our facilities, infrastructure, systems, and technology to support our continued growth.

## **Commitments and Contingencies**

We are subject to a number of reviews, investigations, claims, lawsuits, and other uncertainties related to our business. For a discussion of these items, refer to Note 21 to our consolidated financial statements.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the potential loss arising from adverse changes in market rates and market prices such as those related to interest rates. We actively monitor these exposures and manage such risks through our regular operating and financing activities or through the use of derivative financial instruments.

Our exposure to market risk for changes in interest rates relates primarily to our outstanding debt and cash equivalents, which consist primarily of funds invested in U.S. government money-market funds, and our cash flow hedges. As of March 31, 2018 and 2017, we had \$287.0 million and \$217.4 million, respectively, in cash and cash equivalents. The interest expense associated with our term loans and any loans under our revolving credit facility will vary with market rates.

Our exposure to market risk for changes in interest rates related to our outstanding debt will impact our Secured Credit Facility. A hypothetical interest rate increase of 1% would have increased interest expense related to the term facilities under our Secured Credit Facility by approximately \$14.9 million in fiscal 2018 and \$15.5 million in fiscal 2017, and likewise decreased our income and cash flows. As the Company's interest rate swaps are forward starting in nature, with a start date of April 30, 2018, they will not reduce interest expense until fiscal 2019. The year over year increase in interest expense is primarily due to the April 2017 issuance of the Senior Notes. Additionally, 1 Month LIBOR, the benchmark interest rate attached to our floating rate debt, rose approximately 90 basis points throughout fiscal 2018, further contributing to the Company's increased interest expense. This increase in LIBOR was partially offset with a 25 basis point reduction in our Term Loan B credit spread as part of the Fifth Amendment on March 7, 2018.

The return on our cash and cash equivalents balance as of March 31, 2018 and 2017 was less than 2%. Therefore, the corresponding impact to our interest income, and likewise to our income and cash flow, was not material.

Pursuant to our interest rate risk management strategies, we began using interest rate cash flow hedges in April 2017 to add stability to our incurrence of interest rate expense and to manage our exposure to related interest rate movement. See Note 12 to our consolidated financial statements for further discussion. As of March 31, 2018, we had interest rate swaps with an aggregate notional amount of \$450 million. These derivative instruments hedge the variability of cash outflows for interest payments on our variable rate debt and are recorded at fair value on our consolidated balance sheet. As of March 31, 2018, a 25 basis point increase in interest rates would increase the fair value of our interest rate swaps by approximately \$3.7 million and a 25 basis point decrease in interest rates would decrease the fair value of our interest rate swaps by approximately \$3.7 million.



**Item 8.      *Financial Statements and Supplementary Data***

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**Report of Ernst & Young LLP,  
Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of  
Booz Allen Hamilton Holding Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Booz Allen Hamilton Holding Corporation (the Company) as of March 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2018 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at March 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 29, 2018 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2006  
Tysons, Virginia  
May 29, 2018

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
<small>(Amounts in thousands, except share and per share data)</small>		
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 286,958	\$ 217,417
Accounts receivable, net of allowance	1,130,452	991,810
Prepaid expenses and other current assets	71,309	85,253
<b>Total current assets</b>	<u>1,488,719</u>	<u>1,294,480</u>
Property and equipment, net of accumulated depreciation	169,896	139,167
Deferred tax assets	—	10,825
Intangible assets, net of accumulated amortization	260,972	271,880
Goodwill	1,581,146	1,571,190
Other long-term assets	102,633	85,563
<b>Total assets</b>	<u>\$ 3,603,366</u>	<u>\$ 3,373,105</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 63,100	\$ 193,150
Accounts payable and other accrued expenses	557,559	504,117
Accrued compensation and benefits	282,750	263,816
Other current liabilities	132,757	140,318
<b>Total current liabilities</b>	<u>1,036,166</u>	<u>1,101,401</u>
Long-term debt, net of current portion	1,755,479	1,470,174
Income tax reserves	11,787	11,647
Deferred tax liabilities	4,485	—
Other long-term liabilities	240,821	216,292
<b>Total liabilities</b>	<u>3,048,738</u>	<u>2,799,514</u>
Commitments and contingencies (Note 21)		
<b>Stockholders' equity:</b>		
Common stock, Class A — \$0.01 par value — authorized, 600,000,000 shares; issued, 158,028,673 shares at March 31, 2018 and 155,901,485 shares at March 31, 2017; outstanding, 143,446,539 shares at March 31, 2018 and 148,887,708 shares at March 31, 2017	1,580	1,559
Treasury stock, at cost — 14,582,134 shares at March 31, 2018 and 7,013,777 shares at March 31, 2017	(461,457)	(191,900)
Additional paid-in capital	346,958	302,907
Retained earnings	682,653	478,102
Accumulated other comprehensive loss	(15,106)	(17,077)
<b>Total stockholders' equity</b>	<u>554,628</u>	<u>573,591</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 3,603,366</u>	<u>\$ 3,373,105</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(Amounts in thousands, except per share data)		
Revenue	\$ 6,171,853	\$ 5,804,284	\$ 5,405,738
Operating costs and expenses:			
Cost of revenue	2,867,103	2,691,982	2,580,026
Billable expenses	1,861,312	1,751,077	1,513,083
General and administrative expenses	858,597	817,434	806,509
Depreciation and amortization	64,756	59,544	61,536
Total operating costs and expenses	<u>5,651,768</u>	<u>5,320,037</u>	<u>4,961,154</u>
Operating income	520,085	484,247	444,584
Interest expense	(82,269)	(62,298)	(70,815)
Other income (expense), net	188	(10,049)	5,693
Income before income taxes	<u>438,004</u>	<u>411,900</u>	<u>379,462</u>
Income tax expense	132,893	159,410	85,368
Net income	<u>\$ 305,111</u>	<u>\$ 252,490</u>	<u>\$ 294,094</u>
Earnings per common share (Note 3):			
Basic	<u>\$ 2.08</u>	<u>\$ 1.69</u>	<u>\$ 1.98</u>
Diluted	<u>\$ 2.05</u>	<u>\$ 1.67</u>	<u>\$ 1.94</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(Amounts in thousands)		
Net income	\$ 305,111	\$ 252,490	\$ 294,094
Other comprehensive income, net of tax:			
Unrealized gain on derivatives designated as cash flow hedges	4,993	—	
Change in postretirement plan costs	(171)	2,536	2,546
Total other comprehensive (loss) income, net of tax	\$ 4,822	\$ 2,536	\$ 2,546
Comprehensive income	\$ 309,933	\$ 255,026	\$ 296,640

The accompanying notes are an integral part of these Consolidated Financial Statements.

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Fiscal Year Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>(Amounts in thousands)</b>			
<b>Cash flows from operating activities</b>			
Net income	\$ 305,111	\$ 252,490	\$ 294,094
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	64,756	59,544	61,536
Stock-based compensation expense	23,318	21,249	24,992
Deferred income taxes	13,505	15,536	3,549
Excess tax benefits from stock-based compensation	(14,457)	(18,175)	(31,924)
Amortization of debt issuance costs and loss on extinguishment	5,974	15,566	8,359
Losses (gains) on dispositions and impairments	(246)	4,673	547
Changes in assets and liabilities:			
Accounts receivable	(135,870)	(87,154)	(31,229)
Income taxes receivable / payable	9,636	54,564	(4,170)
Prepaid expenses and other current assets	14,119	(115)	24,873
Other long-term assets	(12,394)	(10,146)	(49,060)
Accrued compensation and benefits	11,296	21,535	(8,409)
Accounts payable and other accrued expenses	47,316	14,846	4,911
Accrued interest	6,218	(806)	(2,829)
Income tax reserves	140	(91)	(56,927)
Other current liabilities	6,461	13,256	66,031
Other long-term liabilities	24,260	25,505	(55,110)
Net cash provided by operating activities	<u>369,143</u>	<u>382,277</u>	<u>249,234</u>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(78,437)	(53,919)	(66,635)
Payments for business acquisitions, net of cash acquired	(19,113)	(247,627)	(51,118)
Insurance proceeds received for damage to equipment	1,097	650	—
Net cash used in investing activities	<u>(96,453)</u>	<u>(300,896)</u>	<u>(117,753)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock	8,907	6,314	5,977
Stock option exercises	12,095	14,687	7,962
Excess tax benefits from stock-based compensation	—	18,175	31,924
Repurchases of common stock	(270,318)	(46,548)	(63,152)
Cash dividends paid	(103,411)	(92,925)	(80,015)
Dividend equivalents paid to option holders	(951)	(2,254)	(31,802)
Repayment of debt	(317,149)	(968,325)	(295,063)
Proceeds from debt issuance	467,678	1,019,383	273,000
Net cash used in financing activities	<u>(203,149)</u>	<u>(51,493)</u>	<u>(151,169)</u>
Net increase (decrease) in cash and cash equivalents	69,541	29,888	(19,688)
Cash and cash equivalents—beginning of year	217,417	187,529	207,217
Cash and cash equivalents—end of year	<u>\$ 286,958</u>	<u>\$ 217,417</u>	<u>\$ 187,529</u>
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the period for:			
Interest	\$ 62,498	\$ 49,062	\$ 57,068
Income taxes	\$ 128,416	\$ 89,556	\$ 143,083
<b>Supplemental disclosures of non-cash investing and financing activities</b>			
Share repurchases transacted but not settled and paid	\$ 9,146	\$ 9,907	\$ —
Contingent consideration arising from businesses acquired	\$ —	\$ 3,576	\$ —

The accompanying notes are an integral part of these Consolidated Financial Statements.

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Amounts in thousands, except share data)	Class A Common Stock		Class E Special Voting Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balance at March 31, 2015</b>	150,237,675	\$ 1,502	1,851,589	\$ 6	(2,999,393)	\$ (72,293)	\$ 174,985	\$ 104,457	\$ (22,159)	\$ 186,498
Issuance of common stock	443,813	4	0	—	0	—	5,973	—	—	5,977
Stock options exercised	2,709,570	28	(1,851,589)	(6)	0	—	7,940	—	—	7,962
Excess tax benefits from the exercise of stock options	0	—	0	—	0	—	31,924	—	—	31,924
Repurchase of common stock	0	—	0	—	(2,399,203)	(63,152)	—	—	—	(63,152)
Recognition of liability related to future stock option exercises (Note 18)	0	—	0	—	0	—	(2,339)	—	—	(2,339)
Net income	0	—	0	—	0	—	—	294,094	—	294,094
Other comprehensive income, net of tax	0	—	0	—	0	—	—	—	2,546	2,546
Dividends paid (Note 17)	0	—	0	—	0	—	—	(80,014)	—	(80,014)
Stock-based compensation expense	0	—	0	—	0	—	24,992	—	—	24,992
<b>Balance at March 31, 2016</b>	153,391,058	\$ 1,534	0	\$ —	(5,398,596)	\$ (135,445)	\$ 243,475	\$ 318,537	\$ (19,613)	\$ 408,488
Issuance of common stock	578,932	6	0	—	0	—	6,308	—	—	6,314
Stock options exercised	1,931,495	19	0	—	0	—	14,668	—	—	14,687
Excess tax benefits from the exercise of stock options	0	—	0	—	0	—	18,175	—	—	18,175
Repurchase of common stock	0	—	0	—	(1,615,181)	(56,455)	—	—	—	(56,455)
Recognition of liability related to future stock option exercises (Note 18)	0	—	0	—	0	—	(968)	—	—	(968)
Net income	0	—	0	—	0	—	—	252,490	—	252,490
Other comprehensive income, net of tax	0	—	0	—	0	—	—	—	2,536	2,536
Dividends paid (Note 17)	0	—	0	—	0	—	—	(92,925)	—	(92,925)
Stock-based compensation expense	0	—	0	—	0	—	21,249	—	—	21,249
<b>Balance at March 31, 2017</b>	155,901,485	\$ 1,559	0	\$ —	(7,013,777)	\$ (191,900)	\$ 302,907	\$ 478,102	\$ (17,077)	\$ 573,591
Issuance of common stock	866,099	8	0	—	0	—	8,899	—	—	8,907
Stock options exercised	1,261,089	13	0	—	0	—	12,082	—	—	12,095
Excess tax benefits from the exercise of stock options	0	—	0	—	0	—	—	—	—	—
Repurchase of common stock	0	—	0	—	(7,568,357)	(269,557)	—	—	—	(269,557)
Recognition of liability related to future stock option exercises (Note 18)	0	—	0	—	0	—	(248)	—	—	(248)
Net income	0	—	0	—	0	—	—	305,111	—	305,111
Reclassification of AOCI due to the Act (Note 2)	0	—	0	—	0	—	—	2,851	(2,851)	—
Other comprehensive (loss) income, net of tax	0	—	0	—	0	—	—	—	4,822	4,822
Dividends paid (Note 17)	0	—	0	—	0	—	—	(103,411)	—	(103,411)
Stock-based compensation expense	0	—	0	—	0	—	23,318	—	—	23,318
<b>Balance at March 31, 2018</b>	158,028,673	\$ 1,580	0	\$ —	(14,582,134)	\$ (461,457)	\$ 346,958	\$ 682,653	\$ (15,106)	\$ 554,628

The accompanying notes are an integral part of these Consolidated Financial Statements.

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in tables in thousands, except share and per share data or unless otherwise noted)**  
**March 31, 2018**

## **1. BUSINESS OVERVIEW**

### ***Our Business***

Booz Allen Hamilton Holding Corporation, including its wholly owned subsidiaries, or Holding, the Company or we, us, and our, was incorporated in Delaware in May 2008. The Company provides management and technology consulting, engineering, analytics, digital solutions, mission operations, and cyber expertise to U.S. and international governments, major corporations, and not-for-profit organizations. The Company reports operating results and financial data in one reportable segment. The Company is headquartered in McLean, Virginia, with approximately 24,600 employees as of March 31, 2018.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, and the rules and regulations of the U.S. Securities and Exchange Commission, or SEC. All intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements and notes of the Company include its subsidiaries, and the joint ventures and partnerships over which the Company has a controlling financial interest. The Company uses the equity method to account for investments in entities that it does not control if it is otherwise able to exert significant influence over the entities' operating and financial policies.

The Company's fiscal year ends on March 31 and unless otherwise noted, references to fiscal year or fiscal are for fiscal years ended March 31. The accompanying consolidated financial statements present the financial position of the Company as of March 31, 2018 and 2017 and the Company's results of operations for fiscal 2018, fiscal 2017, and fiscal 2016.

Certain amounts reported in the Company's prior year consolidated financial statements have been reclassified to conform to the current year presentation.

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Areas of the consolidated financial statements where estimates may have the most significant effect include contractual and regulatory reserves, valuation and lives of tangible and intangible assets, contingent consideration related to business acquisitions, impairment of long-lived assets, accrued liabilities, revenue recognition and costs to complete fixed-price contracts, bonus and other incentive compensation, stock-based compensation, reserves for tax benefits and valuation allowances on deferred tax assets, provisions for income taxes, postretirement obligations, certain deferred costs, collectability of receivables, and loss accruals for litigation. Actual results experienced by the Company may differ materially from management's estimates.

### ***Revenue Recognition***

Substantially all of the Company's revenue is derived from services and solutions provided to the U.S. government and its agencies, primarily by the Company's consulting staff and, to a lesser extent, subcontractors. The Company generates its revenue from the following types of contractual arrangements: cost-reimbursable-plus-fee contracts, time-and-materials contracts, and fixed-price contracts.

Revenue on cost-reimbursable-plus-fee contracts is recognized as services are performed, generally based on the allowable costs incurred during the period plus any recognizable earned fee. The Company considers fixed fees under cost-reimbursable-plus-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract. For cost-reimbursable-plus-fee contracts that include performance-based fee incentives, which are principally award fee arrangements, the Company recognizes income when such fees are probable and estimable. Estimates of the total fee to be earned are made based on contract provisions, prior experience with similar contracts or clients, and management's evaluation of the performance on such contracts. Revisions to these estimates may result in increases or decreases to revenue and income, and are reflected in the consolidated financial statements in periods in which they are identified. Historically, revisions to these



**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in tables in thousands, except share and per share data or unless otherwise noted)**

estimates have not had a material effect on our results of operations. Contract costs, including indirect expenses, are subject to audit by the Defense Contract Audit Agency, or DCAA, and, accordingly, are subject to possible cost disallowances. Executive compensation that we determine to be allowable for cost reimbursement based on management's estimates is recognized as revenue, net of reserves. Management's estimates in this regard are based on a number of factors that may change over time, including executive compensation survey data, our and other government contractors' experiences with the DCAA audit practices in our industry, and relevant decisions of courts and boards of contract appeals.

Revenue earned under time-and-materials contracts is recognized as hours are worked based on contractually billable rates to the client. Costs on time-and-materials contracts are expensed as incurred.

Revenue on fixed-price contracts is primarily recognized using the percentage of completion method based on actual costs incurred relative to total estimated costs for the contract. On some fixed-price contracts the Company may use an alternative input method to calculate the percent complete, such as labor hours or labor dollars. This method is used when a contract contains significant, up-front material purchases resulting in costs incurred that are not representative of the actual progress on the contract. In either method, these estimated costs are updated during the term of the contract, and may result in revision by the Company of recognized revenue and estimated costs in the period in which the changes in estimated costs are identified. Historically, revisions to these estimates have not had a material effect on our results of operations. Profits on fixed-price contracts result from the difference between incurred costs used to calculate the percentage of completion and revenue earned.

Contract accounting requires significant judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of the Company's contracts, developing total revenue and cost at completion estimates requires the use of significant judgment. Contract costs include direct labor and billable expenses and an allocation of allowable indirect costs. Billable expenses is comprised of subcontracting costs and other "out-of-pocket" costs that often include, but are not limited to, travel-related costs and telecommunications charges. The Company typically recognizes revenue and billable expenses from these transactions on a gross basis when it is the primary obligor on our contracts with customers. Assumptions regarding the length of time to complete the contract also include expected increases in wages and prices for materials. Estimates of total contract revenue and costs are monitored during the term of the contract and are subject to revision as the contract progresses. Anticipated losses on contracts are recognized in the period they are deemed probable and can be reasonably estimated.

The Company's contracts may include the delivery of a combination of one or more of the Company's service offerings. In these situations, the Company determines whether such arrangements with multiple service offerings should be treated as separate units of accounting based on how the elements are bid or negotiated, whether the customer can accept separate elements of the arrangement, and the relationship between the pricing on the elements individually and combined. All other revenues are recognized when persuasive evidence of an arrangement exists, services or products have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include operating cash on hand and highly liquid investments having a weighted average maturity of 60 days or less and a weighted average life of 120 days or less. The Company's cash equivalents consist primarily of institutional and government money market funds and money market deposit accounts. The Company maintains its cash and cash equivalents in bank accounts that, at times, exceed the federally insured FDIC limits. The Company has not experienced any losses in such accounts.

#### ***Valuation of Accounts Receivable***

The Company maintains allowances for doubtful accounts against certain billed and unbilled receivables based upon the latest information regarding whether specific charges are recoverable or invoices are ultimately collectible. Assessing the recoverability of charges and collectability of customer receivables requires management judgment. The Company determines its allowance for doubtful accounts by specifically analyzing individual accounts receivable, historical bad debts, customer credit-worthiness, current economic conditions, accounts receivable aging trends for billed receivables, availability of funding, compliance with contractual terms and conditions, client satisfaction with work performed, and other factors impacting unbilled receivables. Valuation reserves are periodically re-evaluated and adjusted as more information about the ultimate recoverability and collectability of accounts receivable becomes available. Upon determination that a receivable is uncollectible, the receivable balance and any associated reserve are written off.

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in tables in thousands, except share and per share data or unless otherwise noted)**

***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. The Company's cash equivalents are generally invested in U.S. government money market funds and money market deposit accounts. The Company believes that credit risk for accounts receivable is limited as the receivables are primarily with the U.S. government.

***Property and Equipment***

Property and equipment are recorded at cost, and the balances are presented net of accumulated depreciation. The cost of software purchased or internally developed is capitalized, as appropriate. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Furniture and equipment is depreciated over five to ten years, computer equipment is depreciated over four years, and software purchased or developed for internal use is depreciated over three to five years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term. Maintenance and repairs are charged to expense as incurred.

Rent expense is recorded on a straight-line basis over the life of the respective lease. The difference between the cash payment and rent expense is recorded as deferred rent in either accounts payable and other accrued expenses or other long-term liabilities in the consolidated balance sheets, depending on when the amounts will be recognized. The Company receives incentives for tenant improvements on certain of its leases. The cash expended on such improvements is recorded as property and equipment and amortized over the life of the associated asset, or lease term, whichever is shorter. Incentives for tenant improvements are recorded as deferred rent in either accounts payable and other accrued expenses or other long-term liabilities in the consolidated balance sheets depending on when the amounts will be recognized. Incentives for tenant improvements are amortized on a straight-line basis over the lease term.

***Business Combinations***

The accounting for the Company's business combinations consists of allocating the purchase price to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values, with the excess recorded as goodwill. The Company has up to one year from the acquisition date to use information as of each acquisition date to adjust the fair value of the acquired assets and liabilities which may result in material changes to their recorded values with an offsetting adjustment to goodwill.

We have a contingent consideration arrangement in connection with a business acquisition which requires a fair value measurement determined using probability-weighted cash flows. See Note 19 to our consolidated financial statements for further information about the valuation of the contingent consideration liability and the inputs used in the fair value measurement.

***Intangible Assets***

Intangible assets primarily consist of the Company's trade name, customer relationships, and other amortizable intangible assets. Customer relationships are generally amortized on an accelerated basis over the expected life based on projected future cash flows of approximately three to twelve years. The Company's trade name is not amortized, but is tested for impairment on at least an annual basis as of January 1 and more frequently if interim indicators of impairment exist. The trade name is considered to be impaired if the carrying value exceeds its estimated fair value. The Company used the relief from royalty method to estimate the fair value. The fair value of the asset is the present value of the license fees avoided by owning the asset, or the royalty savings. During the fiscal year ended March 31, 2017, the Company recorded impairment charges related to intangible assets acquired in an acquisition. During the fiscal year ended March 31, 2018, and 2016, the Company did not record any impairment of intangible assets.

***Goodwill***

The Company assesses goodwill for impairment on at least an annual basis on January 1 unless interim indicators of impairment exist. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. The Company operates as a single operating segment and as a single reporting unit for the purpose of evaluating goodwill. As of January 1, 2018, the Company performed its annual impairment test of goodwill by comparing the fair value of the Company (based on market capitalization) to the carrying value of the Company's net equity, and concluded that the fair value of the reporting unit was significantly greater than the carrying amount. During the fiscal years ended March 31, 2018, 2017, and 2016, the Company did not record any impairment of goodwill.

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***Long-Lived Assets***

The Company reviews its long-lived assets, including property and equipment and amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If the total of the expected undiscounted future net cash flows is less than the carrying amount of the asset, a loss is recognized for any excess of the carrying amount over the fair value of the asset. During the fiscal years ended March 31, 2018, 2017, and 2016, the Company did not record any material impairment charges.

***Income Taxes***

The Company provides for income taxes as a “C” corporation on income earned from operations. The Company is subject to federal, state, and foreign taxation in various jurisdictions.

Deferred tax assets and liabilities are recorded to recognize the expected future tax benefits or costs of events that have been, or will be, reported in different years for financial statement purposes than for tax purposes. Deferred tax assets and liabilities are computed based on the difference between the consolidated financial statement carrying amount and tax basis of assets and liabilities using enacted tax rates and laws for the years in which these items are expected to reverse. If management determines that some portion or all of a deferred tax asset is not “more likely than not” to be realized, a valuation allowance is recorded as a component of the income tax provision to reduce the deferred tax asset to an appropriate level in that period. In determining the need for a valuation allowance, management considers all positive and negative evidence, including historical earnings, projected future taxable income, future reversals of existing taxable temporary differences, taxable income in prior carryback periods, and prudent, feasible tax-planning strategies.

The Company periodically assesses its tax positions for all periods open to examination by tax authorities based on the latest available information. Where it is not more likely than not that the Company’s tax position will be sustained, the Company records its best estimate of the resulting tax liability, penalties, and interest in the consolidated financial statements. These uncertain tax positions are recorded as a component of income tax expense. As uncertain tax positions in periods open to examination are closed out, or as new information becomes available, the resulting change is reflected in the recorded liability and income tax expense. Penalties and interest recognized related to the reserves for uncertain tax positions are recorded as a component of income tax expense.

See Note 13 to our consolidated financial statements for further information regarding the effects of U.S. tax law changes enacted during the third fiscal quarter of 2018 and financial reporting guidance issued by the SEC.

***Comprehensive Income***

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, and is presented in the consolidated statements of comprehensive income. Accumulated other comprehensive loss as of March 31, 2018 and 2017 consisted of net unrealized losses on the Company’s defined and postretirement benefit plans and unrealized gains or losses on interest rate swaps designated as cash flow hedges.

***Share-Based Payments***

Share-based payments to employees are recognized in the consolidated statements of operations based on their grant date fair values with the expense for time vested awards recognized on an accelerated basis over the vesting period. The expense for performance awards is recognized straight line over the vesting period. The Company uses the Black-Scholes option-pricing model to determine the fair value of its option awards at the time of grant.

***Defined Benefit Plan and Other Postretirement Benefits***

The Company recognizes the underfunded status of defined benefit plans on the consolidated balance sheets within other long-term liabilities. Gains and losses, and prior service costs and credits that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive income (loss), net of tax effects, and will be amortized as a component of net periodic cost in future periods. The measurement date, the date at which the benefit obligations are measured, is the Company’s fiscal year-end.

The Company also offers medical and dental benefits to inactive employees (and their eligible dependents) on long-term disability. The Company accrues the costs of the benefits at the date the inactive employee becomes disability eligible and elects to participate in the benefit. The accrued cost for such benefits is calculated using an actuarial estimate of the present value of all future benefit payments for obligations at the end of the fiscal year.

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***Self-Funded Medical Plans***

The Company maintains self-funded medical insurance. Self-funded plans include Consumer Driven Health Plans with a Health Savings Account option and traditional choice plans. Further, self-funded plans also include prescription drug and dental benefits. The Company records an incurred but unreported claim liability in the accrued compensation and benefits line of the consolidated balance sheets for self-funded plans based on an actuarial valuation. The estimate of the incurred but unreported claim liability was provided by a third-party valuation firm, primarily based on claims and participant data for the medical, dental, and pharmacy related costs.

***Fair Value Measurements***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, we consider the principal or most advantageous market in which the asset or liability would transact, and if necessary, consider assumptions that market participants would use when pricing the asset or liability.

The accounting guidance for fair value measurements establishes a three-level fair value hierarchy that prioritizes the inputs used in measuring fair value as follows: observable inputs such as quoted prices in active markets (Level 1); inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2); and unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions (Level 3). Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. See Note 19 to our consolidated financial statements for additional information on the Company's fair value measurements.

***Recent Accounting Pronouncements***

On February 14, 2018, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU 2018-02, *Income Statement, Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This guidance permits entities to reclassify the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts related to items remaining in accumulated other comprehensive income to retained earnings as a result of the Tax Cuts and Jobs Act (the "2017 Tax Act") enacted by the U.S. federal government on December 22, 2017. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Although immaterial, the Company early adopted ASU 2018-02 and made an election to reclassify \$2.9 million from accumulated other comprehensive income to retained earnings in the fourth quarter of fiscal 2018.

On December 22, 2017, the Staff of the SEC issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, or SAB 118, which addresses situations where the accounting under FASB Accounting Standards Codification No. 740, *Income Taxes*, or ASC 740 is incomplete for certain income tax effects of Public Law No. 115-97, commonly referred to as the 2017 Tax Act, by the time an entity issues its financial statements for the fiscal period that includes the date that the 2017 Tax Act was enacted.

Under ASC 740, entities are required to adjust current and deferred tax liabilities and assets for the effects of changes in tax laws or rates at their date of enactment. However, pursuant to SAB 118, if an entity does not have the necessary information available, prepared, or analyzed for certain income tax effects of the 2017 Tax Act at the time an entity's financial statements are issued, an entity shall apply ASC 740 based on the provisions of the tax laws that were in effect immediately prior to the enactment of the 2017 Tax Act. If the accounting for certain income tax effects of the 2017 Tax Act is incomplete, but an entity can determine a reasonable estimate for those effects, an entity can record provisional amounts and adjust such amounts as necessary during a measurement period, which ends on the earlier of when an entity has obtained, prepared, and analyzed the information necessary to complete the accounting requirements of ASC 740 and December 22, 2018.

As discussed further in Note 13, the Company is a fiscal year-end taxpayer and is required to use a blended statutory federal tax rate, inclusive of the federal rate change enacted on December 22, 2017, to compute its effective tax rate from the third quarter of fiscal 2018. These effects contributed to an overall decrease in the Company's effective tax rate. Based on ASC 740, comparative prior period amounts were not adjusted for the rate change effects of the 2017 Tax Act.

Further, the Company recognized provisional tax effects of the 2017 Tax Act in the year ended March 31, 2018 and recorded \$9.1 million in income tax benefit which relates entirely to the re-measurement of deferred tax assets and liabilities using the new 21% tax rate. Upon completion of its on-going assessment of the implications of the 2017 Tax Act during the measurement period, the Company may identify additional re-measurement adjustments to the recorded deferred tax balances

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resulting from the 2017 Tax Act given its complexity and pending further interpretive guidance that may be issued by the Internal Revenue Service (IRS). In addition, a tax accounting method change was filed as of March 31, 2018 associated with the Company's unbilled receivables that is currently pending IRS approval. As a non-automatic method change, the Company can not yet adjust for this in the deferred re-measurement process. The Company will continue to assess its provision for income taxes as future guidance is issued. Any such revisions will be treated in accordance with the measurement period guidance outlined in SAB 118.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*. This guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. Additionally, the guidance also expands an entity's ability to apply hedge accounting for nonfinancial and financial risk components, simplifies the hedge documentation and hedge effectiveness assessment requirements, and modifies certain disclosure requirements. ASU 2017-12 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which will change the presentation of net periodic benefit cost components on the consolidated statement of operations. Under this guidance, the service cost component of net periodic benefit cost will continue to be presented in the same line items as other employee compensation costs, while the remaining components of net periodic benefit costs are to be presented outside operating income. ASU 2017-07 is effective for annual reporting periods beginning after December 15, 2017 and is to be applied retrospectively, with early adoption permitted. The Company will adopt the new standard in the first quarter of fiscal 2019 on a retrospective basis. For the Officer Medical Plan, the adoption of ASU 2017-07 will result in a reclassification of \$7.3 million and \$7.8 million of net periodic benefit costs that are not related to service components to other income (expense), net for fiscal 2018 and fiscal 2017, respectively. The adoption of this standard and change in classification is not expected to be material to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements. The Company adopted ASU 2016-09 in the first quarter of fiscal 2018. Certain of the simplification provisions were not applicable to the Company. The Company will continue its existing practice of estimating the number of forfeitures that are expected to occur rather than account for forfeitures when they occur as permitted under the new guidance.

The primary impacts of adopting ASU 2016-09 were those related to excess tax benefits and tax deficiencies. The new guidance requires that such amounts be recognized as income tax expense or benefit in the statement of operations, which could result in fluctuations in the Company's effective tax rate period over period depending on how many awards vest, or options are exercised, in a quarter. The guidance also requires that the cash flows associated with these transactions be presented with other income tax related cash flows in the operating activities section of the statement of cash flows. The Company recognized excess tax benefits, inclusive of the impact of the 2017 Tax Act, of \$14.5 million during fiscal year 2018, as a reduction to income tax expense in the consolidated statement of operations. The effect of adopting ASU 2016-09 resulted in a decrease in the Company's current period effective tax rate. As permitted, the Company adopted the guidance related to the presentation of excess tax benefits in the consolidated statement of cash flows on a prospective basis. Prior period amounts were not adjusted.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability of accounting for lease transactions. The new leasing standard requires lessees to recognize lease assets and lease liabilities on their balance sheet for all leases with a lease term of greater than 12 months. Lessor accounting is largely unchanged. Topic 842 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The new leasing standard currently requires the application of a modified retrospective approach to the beginning of the earliest period presented in the financial statements. In January 2018, the FASB issued an exposure draft of the proposed ASU, *Leases (Topic 842): Targeted Improvements*. The proposed ASU provides an alternative transition method of adoption, permitting the recognition of a cumulative-effect adjustment to retained earnings on the date of adoption. The Company intends to adopt the standard on the effective date and we will make a transition decision upon the FASB deciding whether it will approve an alternative transition method.

A dedicated implementation team has been established that continues to make progress toward completing the evaluation of the impact of the new standard. The Company is currently evaluating its population of leased assets in order to assess the

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impact of Topic 842 on its lease portfolio, and designing and implementing new processes and controls. Until this effort is completed, the Company cannot determine the effect of Topic 842 on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standard Codification No. 606, Revenue from Contracts with Customers (Topic 606). Topic 606, as amended, will replace existing revenue recognition standards by outlining a single set of comprehensive principles for recognizing revenue. The revenue standard will also significantly expand the disclosure requirements for revenue arrangements. Amendments to Topic 606 have generally focused on promoting a more consistent interpretation and application of the principles for recognizing revenue.

Topic 606 was effective for the Company beginning on April 1, 2018 (i.e., beginning with the first quarter fiscal 2019 interim financial statements). The Company will adopt the new revenue standard using the full retrospective transition method, which requires that it be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown (i.e., April 1, 2016 or the beginning of the first quarter of fiscal 2017). During fiscal 2018, the Company completed its assessment of the cumulative effect of adopting Topic 606 and assessed the impact to be immaterial. Under the full retrospective method, the Company principally recognized the cumulative effect of adoption as an increase in billed and unbilled accounts receivables, an increase in deferred tax liabilities, and a net increase in retained earnings as of April 1, 2016 of less than \$3.0 million. The Company has substantially completed its assessment of the impact of adoption on our fiscal 2017 and 2018 results and the Company believes the retrospective impact of Topic 606 to those prior fiscal periods to be immaterial. The impact of Topic 606 on fiscal 2017 and 2018 results may not be representative of the impact on subsequent years' results.

During fiscal 2018, the Company substantially completed its evaluation of Topic 606, including the impact on our accounting policies and practices, accounting systems and business processes. As a result of our evaluation, the Company identified changes to and modified certain of our accounting policies and practices. While some system changes were complex to design and test, the effect of such changes were not significant upon adoption of Topic 606. The Company also designed and implemented specific controls over our evaluation of the impact of Topic 606, including the calculation of the cumulative effect of adopting Topic 606. Finally, the Company has designed new internal controls and modified certain of our existing internal controls and processes to incorporate the revisions made to accounting policies and practices on a post-adoption basis.

While the Company's comprehensive assessment identified the following notable observations or impacts to our accounting policies and practices, the Company does not believe that adopting Topic 606 under its principles-based approach to recognizing revenue will be material to the Company's fiscal year consolidated financial statements:

- The Company expects insignificant changes related to recognizing revenue and earnings over time for long-term contracts as work progresses because of the continuous transfer of control to the customer, generally using an input measure (e.g., costs incurred) to reflect progress.
- The determination of the customer and contract under Topic 606 will not significantly change.
- Revenue previously deferred for non-federal government arrangements that commenced without a signed, written contract may be recognized under Topic 606 when such arrangements are legally enforceable under applicable laws and regulations.
- The Company has determined that in its U.S. government contract portfolio, there are certain periods of performance option exercises that will be evaluated as separate performance obligations or new arrangements for accounting purposes due to their distinct nature. For example, these situations may arise when options to renew the period of performance are not exercised within a relatively short period after execution of the base contract and are thus evaluated to be separate and unrelated purchasing decisions by the customer, or when an option exercise is not the continuation of an integrated service, finished deliverable, or a single combined output.
- The determination of contract transaction price associated with performance-based contracts (i.e., incentive or award-based contracts) will generally be consistent with the Company's current measurement practices for such contracts. The Company's estimates at completion for most fixed price contracts will now include unfunded components.
- For interim period financial reporting purposes under Topic 606, contract revenue attributable to indirect costs will be recognized using the agreed-upon annual forward-pricing rates established with the U.S. government at the start of each fiscal year. Forward pricing rates are estimated and agreed upon between the Company and the U.S. government and represent indirect contract costs required to execute and administer contract obligations. The impact of any agreed-upon changes, or changes in the estimated annual forward-pricing rates, will be recorded in the interim financial reporting period when such changes are determined. The impact of this change relates to the interim financial reporting period differences between the actual indirect cost incurred and allocated to contracts compared to the estimated amounts allocated to

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contracts using the estimated annual forward-pricing rates established with the U.S. government, which the Company believes represents the transaction price under Topic 606. This change to our interim accounting policies and practices aligns to the principles of Topic 606 indicating that revenue should reflect expectations about the consideration a company will be entitled to receive from a customer and such revenue and profit margin should be applied on a consistent basis using judgment and reliable estimates for contractual arrangements. This will be a change from the Company's current practices in which the Company records during interim reporting periods adjustments to revenue based on the indirect spending incurred as of that interim period ended primarily for cost-reimbursable and fixed-price contracts. Because of the new revenue standard, profit margin on such contracts is expected to be more consistent throughout the interim periods of the fiscal year, notwithstanding seasonality the Company may experience during interim and fiscal year periods due to changes in the government's funding and spending patterns. The Company believes this change in interim period financial reporting will have no impact on the fiscal year end consolidated statements of operations, balance sheets or statements of cash flow as the estimated indirect forward-pricing rates are adjusted to actual rates at that time.

- Contracts with significant up-front materials are expected to see an increase in the amount of revenue and costs recognized upon the date of the adoption, but the change in profitability is not expected to be significant.

Topic 606 will also require expanded disclosures regarding the nature, timing and uncertainty of revenue and contract balances, including how and when the Company satisfies its performance obligations and the relationship between revenue recognized and changes in contract balances during a reporting period. The Company has evaluated these disclosure requirements and incorporated the collection of relevant data into our reporting process.

Other recent accounting pronouncements issued during fiscal 2018 and through the filing date are not expected to have a material impact on the Company's present or historical consolidated financial statements.

### 3. EARNINGS PER SHARE

The Company computes basic and diluted earnings per share amounts based on net income for the periods presented. The Company uses the weighted average number of common shares outstanding during the period to calculate basic earnings per share, or EPS. Diluted EPS adjusts the weighted average number of shares outstanding to include the dilutive effect of outstanding common stock options and other stock-based awards.

The Company currently has outstanding shares of Class A Common Stock. Unvested Class A Restricted Common Stock holders are entitled to participate in non-forfeitable dividends or other distributions. These unvested restricted shares participated in the Company's dividends declared and paid in each quarter of fiscal 2018, 2017, and 2016. As such, EPS is calculated using the two-class method whereby earnings are reduced by distributed earnings as well as any available undistributed earnings allocable to holders of unvested restricted shares. A reconciliation of the income used to compute basic and diluted EPS for the periods presented are as follows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Earnings for basic computations (1)	\$ 303,224	\$ 250,231	\$ 290,542
Weighted-average Class A Common Stock outstanding	145,964,574	148,218,968	146,494,407
Total weighted-average common shares outstanding for basic computations	145,964,574	148,218,968	146,494,407
Earnings for diluted computations (1)	\$ 303,238	\$ 250,249	\$ 290,596
Dilutive stock options and restricted stock	1,785,448	2,055,672	3,224,730
Average number of common shares outstanding for diluted computations	147,750,022	150,274,640	149,719,137
Earnings per common share			
Basic	\$ 2.08	\$ 1.69	\$ 1.98
Diluted	\$ 2.05	\$ 1.67	\$ 1.94

(1) During fiscal 2018, 2017, and 2016 approximately 0.8 million, 1.3 million, and 1.8 million shares of participating securities were paid dividends totaling \$0.8 million, \$0.9 million, and \$1.0 million, respectively. For fiscal 2018 there were undistributed

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earnings of \$1.1 million allocated to the participating class of securities in both basic and diluted earnings per share. For fiscal 2017 there were undistributed earnings of \$1.4 million allocated to the participating class of securities in both basic and diluted earnings per share. For fiscal 2016 there were undistributed earnings of \$2.5 million allocated to the participating class of securities in both basic and diluted earnings per share. The allocated undistributed earnings and the dividends paid comprise the difference between net income presented on the consolidated statements of operations and earnings for basic and diluted computations for fiscal 2018, 2017, and 2016.

The EPS calculation for fiscal 2018, 2017, and 2016 excludes 0.3 million, 0.05 million, and 0.6 million options as their impact was anti-dilutive.

#### 4. ACQUISITIONS

There were no material acquisitions during fiscal 2018 or through the period subsequent to the issuance of the current financial statements.

##### Fiscal 2017 Acquisition

On January 24, 2017, the Company acquired eGov Holdings, Inc., which we refer to as Aquilent. As a result of the transaction, Aquilent became a wholly owned subsidiary of the Company. Aquilent is an architect of IT solutions for the U.S. Federal government. The acquisition further expands the Company's ability to blend its consulting heritage with advanced technical expertise.

The total purchase consideration paid at closing was \$253.6 million. As part of the acquisition, the Company and the selling shareholders of Aquilent agreed to jointly make an election under Section 338(h)(10) of the Internal Revenue Code of 1986, as amended, or the Code, to treat the acquisition as an asset purchase for income tax purposes. The Company agreed to reimburse the selling stockholders for previously unrealized tax consequences on Aquilent's prior tax-return positions that became realized upon acquisition; and agreed to indemnify the selling stockholders for potential, incremental increases in income taxes and related costs as a result of the Section 338(h)(10) election. The indemnity was evaluated to be acquisition-related contingent consideration, which was preliminarily estimated at the acquisition date fair value of \$3.6 million. The acquisition-related contingent consideration was calculated using probability-weighted cash flows and significant unobservable inputs (Level 3) as described under the fair value hierarchy of ASC 820, *Fair Value Measurements*, or ASC 820.

The Company recorded the assets acquired and liabilities assumed at their acquisition date estimated fair value, with the difference between the fair value of the net assets acquired and the acquisition consideration reflected as goodwill. The following table represents the final allocation of fair value of assets acquired and liabilities assumed:

Current assets	\$	15,809
Other tangible assets		1,144
Customer-relationship intangible assets		69,000
Goodwill		199,826
Current liabilities		(8,450)
Tax liability		(13,554)
Income tax uncertainty		(10,221)
Total purchase consideration transfer at closing	\$	253,554

The identifiable customer-relationship intangible assets of \$69.0 million was valued using the excess earnings method discounted cash flow approach, incorporating Level 3 inputs as described under the fair value hierarchy of ASC 820 and it is being amortized over 12 years. An acquisition date tax of \$13.6 million was relieved and paid during the first quarter of fiscal 2018. The Company continues to carry a related reserve of \$10.2 million for income tax uncertainties created with the acquisition resulting from uncertainty in the sustainability of Aquilent's prior tax-return positions under examination with the relevant tax authorities. The goodwill of \$199.8 million was primarily attributed to the specialized workforce and the expected synergies between the Company and Aquilent. The majority of the goodwill is expected to be deductible for tax purposes. Pro



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forma results of operations for this acquisition are not presented because it is not material to the Company's consolidated results of operations.

**5. GOODWILL AND INTANGIBLE ASSETS**

***Goodwill***

As of March 31, 2018 and 2017, goodwill was 1,581.1 million and 1,571.2 million, respectively. The increase in the carrying amount of goodwill was attributable to an acquisition.

The Company performed an annual impairment test of goodwill as of January 1, 2018 and 2017, and we did not identify any impairment.

***Intangible Assets***

Intangible assets consisted of the following:

	March 31, 2018			March 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets:						
Customer relationships and other amortizable intangible assets	\$ 115,808	\$ 45,036	\$ 70,772	\$ 274,915	\$ 193,235	\$ 81,680
Unamortizable intangible assets:						
Trade name	\$ 190,200	\$ —	\$ 190,200	\$ 190,200	\$ —	\$ 190,200
<b>Total</b>	<b>\$ 306,008</b>	<b>\$ 45,036</b>	<b>\$ 260,972</b>	<b>\$ 465,115</b>	<b>\$ 193,235</b>	<b>\$ 271,880</b>

Intangible assets are generally amortized on an accelerated basis over periods ranging from 3 years to 12 years. The weighted-average remaining period of amortization for all customer relationships is 9.3 years.

The Company performed an annual impairment test of the trade name as of January 1, 2018 and 2017, and did not identify any impairment. However, the Company recognized an impairment charge of \$3.8 million in fiscal 2017 for acquired technology, customer relationships and other intangible assets associated with a historical business acquisition. During fiscal 2018, gross carrying value and accumulated amortization was reduced related to fully-amortized intangible assets.

Amortization expense for fiscal 2018, 2017, and 2016 was \$16.9 million, \$13.9 million, and \$12.1 million, respectively. The following table summarizes the estimated annual amortization expense for future periods indicated below:

**For the Fiscal Year Ended March 31,**

2019	\$ 15,723
2020	12,985
2021	10,166
2022	7,647
2023	6,557
Thereafter	17,694
<b>Total estimated amortization expense</b>	<b>\$ 70,772</b>

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**6. ACCOUNTS RECEIVABLE, NET OF ALLOWANCE**

Accounts receivable, net of allowance consisted of the following:

	March 31,	
	2018	2017
Current assets:		
Accounts receivable–billed	\$ 395,136	\$ 340,716
Accounts receivable–unbilled	735,393	651,094
Allowance for doubtful accounts	(77)	—
Accounts receivable, net	1,130,452	991,810
Other long-term assets:		
Accounts receivable–unbilled	59,633	59,913
Total accounts receivable, net	<u>\$ 1,190,085</u>	<u>\$ 1,051,723</u>

Unbilled amounts represent revenues for which billings have not been presented to customers at year end. These amounts are usually billed and collected within one year. Long-term unbilled receivables not anticipated to be billed and collected within one year, which are primarily related to retainage, holdbacks, and long-term rate settlements to be billed at contract closeout, are included in other long-term assets in the accompanying consolidated balance sheets. The Company recognized a provision for doubtful accounts (including certain unbilled reserves) of \$3.2 million, \$0.6 million, and \$1.1 million for fiscal 2018, 2017, and 2016, respectively.

**7. PROPERTY AND EQUIPMENT, NET**

The components of property and equipment, net were as follows:

	March 31,	
	2018	2017
Furniture and equipment	\$ 164,061	\$ 151,552
Computer equipment	79,629	75,159
Software	59,051	48,361
Leasehold improvements	202,133	177,009
Total	504,874	452,081
Less: Accumulated depreciation and amortization	(334,978)	(312,914)
Property and equipment, net	<u>\$ 169,896</u>	<u>\$ 139,167</u>

Property and equipment, net, includes \$15.6 million and \$8.1 million of internally developed software, net of depreciation as of March 31, 2018 and 2017, respectively. Depreciation and amortization expense relating to property and equipment for fiscal 2018, 2017, and 2016 was \$48.1 million, \$46.3 million, and \$50.1 million, respectively. During fiscal 2018 and 2017, the Company reduced the gross cost and accumulated depreciation and amortization by \$16.1 million and \$11.9 million, respectively, for zero net book value assets deemed no longer in service.

**8. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES**

Accounts payable and other accrued expenses consisted of the following:

	March 31,	
	2018	2017
Vendor payables	\$ 339,993	\$ 268,630
Accrued expenses	217,566	235,487
Total accounts payable and other accrued expenses	<u>\$ 557,559</u>	<u>\$ 504,117</u>

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Accrued expenses consisted primarily of the Company's reserve related to potential cost disallowance in conjunction with government audits. Refer to Note 21 for further discussion of this reserve.

**9. ACCRUED COMPENSATION AND BENEFITS**

Accrued compensation and benefits consisted of the following:

	March 31,	
	2018	2017
Bonus	\$ 87,817	\$ 77,765
Retirement	35,743	31,879
Vacation	131,519	124,486
Other	27,671	29,686
Total accrued compensation and benefits	<u>\$ 282,750</u>	<u>\$ 263,816</u>

**10. DEFERRED PAYMENT OBLIGATION**

Pursuant to an Agreement and Plan of Merger, or the Merger Agreement, dated as of May 15, 2008, and subsequently amended, The Carlyle Group indirectly acquired all of the issued and outstanding stock of the Company. In connection with this transaction, on July 31, 2008 the Company established a Deferred Payment Obligation, or DPO, of \$158.0 million, payable 8.5 years after the Closing Date, or until settlement of all outstanding claims, less any settled claims. Pursuant to the Merger Agreement, \$78.0 million of the \$158.0 million DPO was required to be paid in full to the selling shareholders. On December 11, 2009, in connection with a recapitalization transaction, \$100.4 million was paid to the selling shareholders, of which \$78.0 million was the repayment of that portion of the DPO, with approximately \$22.4 million representing accrued interest.

The remaining \$80.0 million is available to indemnify the Company for certain pre-acquisition tax contingencies, related interest and penalties, and other matters pursuant to the Merger Agreement. Any amounts remaining after the settlement of all claims will be paid out to the selling shareholders. As of March 31, 2018, there were no estimated tax indemnified amounts recorded against the DPO. Remaining potential claims outstanding that may be indemnified pursuant to the Merger Agreement relate to former officers and stockholders' suits that are still in litigation (See Note 21 to our consolidated financial statements).

During fiscal 2018, the Company accrued interest at a rate of 5% per six-month period on the unpaid DPO balance, net of any settled claims or payments, which was \$80.0 million as of March 31, 2018 and 2017. Accordingly, the \$81.3 million and \$81.3 million recorded within other current liabilities as of March 31, 2018 and March 31, 2017, respectively, represent the residual balances estimated to be paid to the selling shareholders subject to any remaining potential claims based on consideration of accrued interest and other matters.

A reconciliation of the principal balance of the DPO to the amount recorded in the consolidated balance sheets for the periods presented are as follows:

	March 31,	
	2018	2017
Deferred payment obligation:	\$ 80,000	\$ 80,000
Accrued interest	1,311	1,304
Amount recorded in the consolidated balance sheet	<u>\$ 81,311</u>	<u>\$ 81,304</u>

The Company paid \$8.0 million in each of fiscal 2018 and 2017 of accrued interest to the selling shareholders.

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**11. DEBT**

Debt consisted of the following:

	March 31, 2018		March 31, 2017	
	Interest Rate	Outstanding Balance	Interest Rate	Outstanding Balance
Term Loan A	3.88%	\$ 1,094,275	2.98%	\$ 1,153,425
Term Loan B	3.88%	395,000	3.08%	398,000
Revolving credit facility (ABR)	—%	—	5.00%	80,000
Revolving credit facility (LIBOR)	—%	—	2.98%	50,000
Senior Notes	5.13%	350,000	—%	—
Less: Unamortized debt issuance costs and discount on debt		(20,696)		(18,101)
<b>Total</b>		<b>1,818,579</b>		<b>1,663,324</b>
Less: Current portion of long-term debt		(63,100)		(193,150)
<b>Long-term debt, net of current portion</b>		<b>\$ 1,755,479</b>		<b>\$ 1,470,174</b>

*Terms Loans and Revolving Credit Facility*

On March 7, 2018, Booz Allen Hamilton Inc. and Booz Allen Hamilton Investor Corporation ("Investor"), and certain wholly-owned subsidiaries of Booz Allen Hamilton, entered into the Fifth Amendment (the "Fifth Amendment") to the Credit Agreement (the "Credit Agreement"), dated as of July 31, 2012 among Booz Allen Hamilton, Investor, certain wholly owned subsidiaries of Booz Allen Hamilton and Bank of America, N.A., as Administrative Agent, Collateral Agent and Issuing Lender (as previously amended by the First Amendment to Credit Agreement, dated as of August 16, 2013, the Second Amendment to Credit Agreement, date as of May 7, 2014, the Third Amendment to the Credit Agreement, dated as of July 13, 2016 and the Fourth Amendment to the Credit Agreement, dated as of February 6, 2017). Pursuant to the Fifth Amendment, the Company reduced the interest rate spread applicable to Term Loan B ("Term Loan B" and, together with Term Loan A, the "Term Loans") from 2.25% to 2.00%. The interest rate applicable to the Term Loan A ("Term Loan A") remained unchanged.

Prior to the Fifth Amendment, \$395 million was outstanding under Term Loan B. Pursuant to the Fifth Amendment, certain lenders converted their existing Term Loan B loans into a new tranche of Term Loan B loans in an aggregate amount, along with Term Loan B loans advanced by certain new lenders, of approximately \$395 million. The proceeds from the new lenders were used to prepay in full all of the existing Term B Loans that were not converted into the new Term Loan B tranche.

As of March 31, 2018, the Credit Agreement, as amended, provided the Company with a 1,094.3 million Term Loan A and a \$395 million Term Loan B and a \$500.0 million revolving credit facility (the "Revolving Credit Facility") with a sub-limit for letters of credit of \$100.0 million. As of March 31, 2018, the maturity date of Term Loan A and the termination date for the Revolving Credit Facility was June 30, 2021 and the maturity date of Term Loan B was June 30, 2023. Booz Allen Hamilton's obligations and the guarantors' guarantees under the Credit Agreement, as amended, are secured by a first priority lien on substantially all of the assets (including capital stock of subsidiaries) of Booz Allen Hamilton, Investor and the subsidiary guarantors, subject to certain exceptions set forth in the Credit Agreement, as amended, and related documentation. Subject to specified conditions, without the consent of the then-existing lenders (but subject to the receipt of commitments), the Term Loans or Revolving Credit Facility may be expanded (or a new term loan facility or revolving credit facility added to the existing facilities) by up to (i) \$400.0 million plus (ii) the aggregate principal amount under which pro forma consolidated net secured leverage remains less than or equal to 3.5:1.00.

At Booz Allen Hamilton's option, borrowings under Term Loan A and the Revolving Credit Facility bear interest based either at LIBOR (adjusted for maximum reserves, and subject to a floor of zero) for the applicable interest period or a base rate (equal to the highest of (x) the administrative agent's prime corporate rate, (y) the overnight federal funds rate plus 0.50% and (z) three-month LIBOR (adjusted for maximum reserves, and subject to a floor of zero) plus 1.00%), in each case plus an applicable margin, payable at the end of the applicable interest period and in any event at least quarterly. The applicable margin for Term Loan A and borrowings under the Revolving Credit Facility ranges from 1.50% to 2.25% for LIBOR loans and 0.50% to 1.25% for base rate loans, in each case based on Booz Allen Hamilton's consolidated total net leverage ratio. The applicable margin for Term Loan B is 2.00% for LIBOR and 1.00% for base rate loans. Unused commitments under the Revolving Credit

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Facility are subject to a quarterly fee ranging from 0.30% to 0.40% based on Booz Allen Hamilton's consolidated total net leverage ratio.

Under the Fifth Amendment, the rate at which Term Loan B bears interest is based either on LIBOR (adjusted for maximum reserves and subject to a floor of zero plus 2.00% for the applicable interest period) or a base rate (equal to the highest of (x) the corporate base rate established by the administrative agent, (y) the overnight federal funds rate plus 0.50%, (z) three-month LIBOR (adjusted for maximum reserves) plus 1.00%, plus, in each case, 1.25%, payable at the end of the applicable interest period; provided, that if such rate shall be less than zero, such rate shall be deemed to be zero.

Booz Allen Hamilton occasionally borrows under the Revolving Credit Facility in anticipation of cash demands. During fiscal 2018 and 2017, Booz Allen Hamilton accessed a total of \$125.0 million and \$575.0 million, respectively, of its \$500.0 million Revolving Credit Facility. As of March 31, 2018, there was no outstanding balance on the Revolving Credit Facility. As of March 31, 2017, there was \$130.0 million outstanding on the Revolving Credit Facility.

The Credit Agreement, as amended, requires quarterly principal payments of 1.25% of the stated principal amount of Term Loan A until maturity, and quarterly principal payments of 0.25% of the stated principal amount of Term Loan B until maturity.

The Credit Agreement, as amended, contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants include limitations on the following, in each case subject to certain exceptions: (i) indebtedness and liens, (ii) mergers, consolidations or amalgamations, liquidations, wind-ups or dissolutions, and disposition of all or substantially all assets; (iii) dispositions of property; (iv) restricted payments; (v) investments; (vi) transactions with affiliates; (vii) sale and lease back transactions; (viii) change in fiscal periods; (ix) negative pledges; (x) restrictive agreements; (xi) line of business; and (xii) speculative hedging. The events of default include the following, in each case subject to certain exceptions: (a) failure to make required payments under the Secured Credit Facility; (b) material breaches of representations or warranties under the Secured Credit Facility; (c) failure to observe covenants or agreements under the Secured Credit Facility; (d) failure to pay or default under certain other material indebtedness; (e) bankruptcy or insolvency; (f) certain Employee Retirement Income Security Act, or ERISA events; (g) certain material judgments; (h) actual or asserted invalidity of the Guarantee and Collateral Agreements or the other security documents or failure of the guarantees or perfected liens thereunder; and (i) a change of control. In addition, Booz Allen Hamilton is required to meet certain financial covenants at each quarter end, namely Consolidated Net Total Leverage and Consolidated Net Interest Coverage Ratios. As of March 31, 2018 and 2017, Booz Allen Hamilton was in compliance with all of these covenants.

During fiscal 2018, interest payments of \$38.1 million and \$14.9 million were made for Term Loan A and Term Loan B, respectively. During fiscal 2017, interest payments of \$28.8 million and \$19.5 million were made for Term Loan A and Term Loan B, respectively.

*Senior Notes*

On April 25, 2017, Booz Allen Hamilton issued \$350.0 million aggregate principal amount of its 5.125% Senior Notes, or the Senior Notes, under an Indenture, dated as of April 25, 2017, among Booz Allen Hamilton, certain subsidiaries of Booz Allen Hamilton, as guarantors, or the Subsidiary Guarantors, and Wilmington Trust, National Association, as trustee, or the Trustee, as supplemented by the First Supplemental Indenture, dated as of April 25, 2017, among Booz Allen Hamilton, the Subsidiary Guarantors and the Trustee. Each of Booz Allen Hamilton's existing and future domestic restricted subsidiaries that guarantee its obligations under the Secured Credit Facility and certain other indebtedness guarantee the Senior Notes on a senior unsecured basis. Interest is payable semi-annually on May 1 and November 1 of each year, beginning on November 1, 2017, and principal is due at maturity on May 1, 2025. In connection with the Senior Notes, the Company recognized \$6.7 million of issuance costs, which were recorded as an offset against the carrying value of debt and will be amortized to interest expense over the term of the Senior Notes. During fiscal 2018, interest payments of \$9.3 million were made for the Senior Notes. There were no similar payments made or required in fiscal 2017.

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The following table summarizes required future debt principal repayments (in thousands):

	Payments Due By March 31,						
	Total	2019	2020	2021	2022	2023	Thereafter
Term Loan A	\$1,094,275	\$59,150	\$59,150	\$59,150	\$916,825	\$—	\$—
Term Loan B	395,000	3,950	3,950	3,950	3,950	3,950	375,250
Senior Notes	350,000	—	—	—	—	—	350,000
Total	<u>\$1,839,275</u>	<u>\$63,100</u>	<u>\$63,100</u>	<u>\$63,100</u>	<u>\$920,775</u>	<u>\$3,950</u>	<u>\$725,250</u>

Interest on debt and debt-like instruments consisted of the following:

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(In thousands)		
Term Loan A Interest Expense	\$ 37,575	\$ 28,646	\$ 21,790
Term Loan B Interest Expense	14,138	18,874	32,070
Interest on Revolving Credit Facility	271	751	363
Senior Notes Interest Expense	16,742	—	—
Deferred Payment Obligation Interest <sup>1</sup>	7,993	7,985	8,015
Amortization of Debt Issuance Costs (DIC) and Original Issue Discount (OID) <sup>2</sup>	5,361	5,683	8,359
Other	189	359	218
Total Interest Expense	<u>\$ 82,269</u>	<u>\$ 62,298</u>	<u>\$ 70,815</u>

<sup>1</sup> Interest payments on the deferred payment obligation are made twice a year in January and July. See Note 10 to our consolidated financial statements.

<sup>2</sup> DIC and OID on the Company's term loans are recorded as a reduction of long-term debt in the consolidated balance sheet and are amortized ratably over the life of the related debt using the effective rate method. DIC on the Company's Revolving Credit Facility is recorded as a long-term asset on the consolidated balance sheet and amortized ratably over the term of the revolving credit facility.

## 12. DERIVATIVES

The Company utilizes derivative financial instruments to manage interest rate risk related to its variable rate debt. The Company's objectives in using these interest rate derivatives, which were designated as cash flow hedges, are to manage its exposure to interest rate movements and reduce volatility to interest expense. During the first quarter of fiscal 2018, the Company entered into several forward starting floating-to-fixed interest rate swap agreements with multiple financial institutions with a start date of April 30, 2018. The aggregate notional amount of these interest rate swap agreements was \$450 million as of March 31, 2018. The swaps have staggered maturities, ranging from June 30, 2021 to June 30, 2022. These swaps mature within the last tranche of the Company's floating rate debt (June 30, 2023).

The floating-to-fixed interest rate swaps involve the exchange of variable interest amounts from a counterparty for the Company making fixed-rate interest payments over the life of the agreements without exchange of the underlying notional amount and effectively converting a portion of the variable rate debt into fixed interest rate debt.

Derivative instruments are recorded in the consolidated balance sheet on a gross basis at estimated fair value. As of March 31, 2018, \$0.7 million and \$7.2 million were classified as other current assets and other long-term assets, respectively, on the consolidated balance sheet. For interest rate swaps designated as cash flow hedges, the effective portion of changes in the fair value of derivatives is recorded in Accumulated Other Comprehensive Income, or AOCI, net of taxes, and is subsequently reclassified into interest expense in the period that the hedged forecasted interest payments are made on the Company's variable-rate debt. During fiscal 2018, a \$7.9 million gain has been recognized in AOCI and there were no amounts reclassified into interest expense. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. As of March 31, 2018, there was no ineffectiveness recognized in earnings.

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Over the next 12 months, the Company estimates that \$0.7 million will be reclassified as a decrease to interest expense. Cash flows associated with periodic settlements of interest rate swaps will be classified as operating activities in the consolidated statement of cash flows.

The Company is subject to counterparty risk in connection with its interest rate swap derivative contracts. Credit risk related to a derivative financial instrument represents the possibility that the counterparty will not fulfill the terms of the contract. The Company mitigates this credit risk by entering into agreements with credit-worthy counterparties and regularly reviews its credit exposure and the creditworthiness of the counterparties.

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### 13. INCOME TAXES

On December 22, 2017, Public Law No. 115-97, commonly referred to as the 2017 Tax Act, was enacted into law. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. It also provides for a one-time transition tax on certain foreign earnings and the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as additional prospective changes beginning in 2018. Those include, but are not limited to: the implication of global intangible low-taxed income (GILTI) and foreign-derived intangible income (FDII), a repeal of the domestic manufacturing deduction, acceleration of tax revenue recognition, additional limitations on executive compensation and changes or limitations on certain tax deductions.

ASC 740 requires the Company to recognize the effect of the 2017 Tax Act in the first interim period including the date of enactment. The tax rate change was administratively effective at the beginning of the Company's 2018 fiscal year utilizing a blended statutory federal rate for the annual period. As a result, the blended federal statutory tax rate for fiscal year 2018 is 31.5%. The lower federal corporate tax rate also required the Company to remeasure its U.S. deferred tax assets and liabilities as well as reassess the realizability of its deferred tax assets and liabilities. The Company recognized the income tax effects in its fiscal 2018 financial statements in accordance with SAB 118 as described in Note 2. At March 31, 2018, the Company has not completed its accounting for the tax effects of the 2017 Tax Act; however, as described below, the Company recorded a provisional amount for the estimated effects on its deferred tax balances.

The Company remeasured its deferred tax asset and liability balances as of the enactment date and at March 31, 2018 based upon the rates at which they are expected to reverse in the future, which is generally 21% for reversals after fiscal 2018 and a blended rate of 31.5% for reversals within fiscal 2018. The provisional amount recorded related to the re-measurement of the net deferred tax balances was a \$9.1 million reduction to income tax expense in the fourth quarter of fiscal 2018. However, the Company is still analyzing certain aspects of the 2017 Tax Act and refining its deferred tax calculations, which may include the impact of interpretative guidance that may be issued by the IRS in the future. As such, the Company's accounting for the impact of the 2017 Tax Act is not yet complete primarily due to the following items: (1) acceleration of depreciation; and (2) limitation on the deductibility of certain executive compensation such as the effects of the adjustment to IRC 162(m). However, the Company was able to make reasonable estimates related to both of these and included these in its provisional amount. The Company continues to wait on additional guidance from the IRS as to the application of the transitional relief provided for under the 2017 Tax Act. As such, the Company will utilize the measurement period under SAB 118 to continue to monitor for any new developments or guidance related to the transitional relief. Upon the release of relevant and appropriate guidance, the Company will update its position accordingly and may make adjustments to its deferred tax assets and liabilities as necessary. These adjustments may result in an impairment or reversal of the assets or liabilities itself. In addition, as discussed in Note 2, a tax accounting method change was filed with the IRS on March 29, 2018 relating to how the Company recognizes revenue for income tax purposes in consideration of revenue changes stemming from ASC 606 and the 2017 Tax Act associated with unbilled receivables. If approved by the IRS, this will impact the deferred tax adjustment in the period it is approved, including the effects of the change in tax rate. The Company expects to finalize its assessment of all provisional amounts within the maximum one-year measurement period, provided for under SAB 118. These estimates are subject to further analysis and review which may result in further adjustments in fiscal 2019 as noted in Note 2.

The provision for income taxes and effective tax rate in fiscal 2018 included a \$23.3 million favorable impact from the change in tax law. This impact is due primarily to the effects of the statutory federal rate provisions of the 2017 Tax Act and the provisional estimates for the re-measurement of the existing deferred tax asset and liability balances as described above. The other key provision that requires recognition in the period of enactment is the one-time transition tax resulting from the mandatory deemed repatriation of undistributed foreign-sourced earnings. As it relates to the Company's operations, there was no impact in fiscal 2018 from the mandatory deemed repatriation as there was no net undistributed foreign taxable income subject to the tax.



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The components of income tax expense were as follows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
<b>Current</b>			
U.S. Federal	\$ 89,300	\$ 115,727	\$ 57,376
State and local	20,074	24,273	20,480
Foreign	10,014	3,874	3,963
Total current	<u>119,388</u>	<u>143,874</u>	<u>81,819</u>
<b>Deferred</b>			
U.S. Federal	15,157	18,451	8,664
State and local	(1,652)	(2,915)	(5,115)
Foreign	—	—	—
Total deferred	<u>13,505</u>	<u>15,536</u>	<u>3,549</u>
Total	<u>\$ 132,893</u>	<u>\$ 159,410</u>	<u>\$ 85,368</u>

A reconciliation of the provision for income tax to the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes for each of the three years ended March 31 is as follows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Income tax expense computed at U.S. federal statutory rate <sup>(1)</sup>	\$ 138,181	\$ 144,165	\$ 132,812
<b>Increases (reductions) resulting from:</b>			
Changes in uncertain tax positions	140	(92)	(56,428)
State and local income taxes, net of federal tax	14,565	13,882	10,092
Foreign income taxes, net of federal tax	6,855	2,518	2,576
Meals and entertainment	2,247	1,328	1,321
Re-measurement of deferred taxes related to the Act	(9,107)	—	—
Excess tax benefits from stock-based compensation	(14,457)	—	—
Federal tax credits	(6,563)	(4,402)	(4,286)
Other	1,032	2,011	(719)
Income tax expense from operations	<u>\$ 132,893</u>	<u>\$ 159,410</u>	<u>\$ 85,368</u>

(1) The U.S. federal statutory income tax rate for fiscal 2018 is a blended rate of 31.5% due to the 2017 Tax Act.

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The significant components of the Company's deferred income tax assets and liabilities were as follows:

	March 31,	
	2018	2017
Deferred income tax assets:		
Accrued expenses	53,322	85,459
Accrued compensation	28,326	41,421
Stock-based compensation	7,785	15,326
Pension and postretirement benefits	34,449	48,672
Property and equipment	—	3,885
Net operating loss/Capital loss carryforwards	3,362	246
Deferred rent and tenant allowance	20,931	25,167
Extended disability benefits	5,963	8,860
State tax credits	9,822	4,829
Other	1,184	1,988
Total gross deferred income tax assets	165,144	235,853
Less: Valuation allowance	(1,373)	—
Total net deferred income tax assets	163,771	235,853
Deferred income tax liabilities:		
Unbilled receivables	(105,498)	(141,357)
Intangible assets	(57,020)	(78,871)
Debt issuance costs	(3,264)	(4,709)
Property and equipment	(398)	—
Interest rate swaps	(2,076)	—
Other	—	(91)
Total deferred income tax liabilities	(168,256)	(225,028)
Net deferred income tax asset (liability)	\$ (4,485)	\$ 10,825

Deferred tax balances arise from temporary differences between the carrying amount of assets and liabilities and their tax basis and are stated at the enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided against deferred tax assets when it is more likely than not that some or all of the deferred tax asset will not be realized. In determining if the Company's deferred tax assets are realizable, management considers all positive and negative evidence, including the history of generating financial reporting earnings, future reversals of existing taxable temporary differences, projected future taxable income, as well as any tax planning strategies.

As of March 31, 2018, the Company has available federal net operating loss and foreign net operating loss ("NOL carryforwards") of \$2.6 million and \$0.8 million, respectively, that may be applied against future taxable income. The net operating losses are primarily attributable to an acquisition and will begin to expire in fiscal 2037. A valuation allowance of \$1.4 million related to net operating losses, has been recorded due to the uncertainty regarding the realization of the asset.

***Uncertain Tax Positions***

The Company maintains reserves for uncertain tax positions related to unrecognized income tax benefits. These reserves involve considerable judgment and estimation and are evaluated by management based on the best information available including changes in tax laws and other information. As of March 31, 2018, 2017, and 2016, the Company has recorded \$11.8 million, \$11.6 million, and \$1.5 million, respectively, of reserves for uncertain tax positions which includes potential tax benefits of \$11.6 million, \$1.4 million, and \$1.4 million, respectively, that, when recognized, impact the effective tax rate.

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For the fiscal year ended March 31, 2016, the Company's reserves for uncertain tax positions decreased primarily as a result of expired statute of limitations for a prior tax year and management's conclusion that the uncertain tax positions related to the statute lapse were effectively settled. The Company released approximately \$56.9 million of its pre-acquisition uncertain tax positions during fiscal 2016, including \$3.2 million of net interest and penalties that were incurred by the Company subsequent to the acquisition. This resulted in a decrease in the Company's effective tax rate for fiscal 2016. As part of this settlement, an amount of \$21.4 million, previously indemnified under the remaining available DPO was relieved. As of March 31, 2016, there were no estimated tax indemnified amounts recorded against the DPO.

A reconciliation of the beginning and ending amount of potential tax benefits for the periods presented is as follows:

	March 31,		
	2018	2017	2016
Beginning of year	\$ 11,588	\$ 1,449	\$ 55,164
Increases in prior year position	41	127	79
Increases in current year position	—	10,278	—
Settlements with taxing authorities	—	—	(2,581)
Lapse of statute of limitations	(21)	(266)	(51,213)
End of year	<u>\$ 11,608</u>	<u>\$ 11,588</u>	<u>\$ 1,449</u>

The Company recognized (released) accrued interest and penalties of \$0.1 million, \$(9) thousand and \$(3.2) million for fiscal 2018, 2017, and 2016, respectively, related to the reserves for uncertain tax positions in the income tax provision. Included in the total reserve for uncertain tax positions are accrued penalties and interest of approximately \$0.2 million, \$0.1 million and \$0.1 million at March 31, 2018, 2017, and 2016 respectively.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. As of March 31, 2018, the Company's tax years ended March 31, 2013 and forward are open and subject to examination by the federal tax authorities. The other jurisdictions currently open or under examination are not considered to be material.

The Company is currently contesting tax assessments from the District of Columbia Office of Tax and Revenue for fiscal years 2013 through 2015 at various stages of applicable administrative and judicial processes, with a combined amount at issue of approximately \$11.5 million, net of associated tax benefits. The Company has taken similar tax positions with respect to subsequent fiscal years, totaling in aggregate \$22.3 million. As of March 31, 2018, the Company does not maintain reserves for any uncertain tax positions related to the contested tax benefits and given the recoverable nature of the state tax expense it does not believe the resolution of these matters will have a material adverse effect on its results of operations, cash flows or financial condition.

#### **14. EMPLOYEE BENEFIT PLANS**

##### ***Defined Contribution Plan***

The Company sponsors the Employees' Capital Accumulation Plan, or ECAP, which is a qualified defined contribution plan that covers eligible U.S. and international employees. ECAP provides for distributions, subject to certain vesting provisions, to participants by reason of retirement, death, disability, or termination of employment. Effective April 1, 2014, the Company transitioned from a discretionary employer contribution to an annual matching contribution of up to 6% of eligible annual income as determined by the Internal Revenue Code for the ECAP. Total expense recognized under ECAP for fiscal 2018, 2017, and 2016 was \$126.9 million, \$116.6 million, and \$108.7 million, respectively, and the Company-paid contributions were \$123.9 million, \$114.8 million, and \$107.5 million, respectively.

##### ***Defined Benefit Plan and Other Postretirement Benefit Plans***

The Company provides postretirement healthcare benefits to former officers under a medical indemnity insurance plan, with premiums paid by the Company. This plan is referred to as the Officer Medical Plan. The Company also established a non-qualified defined benefit plan for all officers in May 1995, or the Retired Officers' Bonus Plan, which pays a lump-sum amount of \$10,000 per year of service as an officer, provided the officer meets retirement vesting requirements. In addition, the Company provides a fixed annual allowance after retirement to cover financial counseling and other expenses. The Retired

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Officers' Bonus Plan is not salary related, but rather is based primarily on years of service. During fiscal 2017, the Company adopted a new plan which will provide for a one-time, lump sum retirement payment of one month's salary when a vice-president retires from the Company, effective April 1, 2017. This is referred to as the Retired Vice-President Bonus Plan.

The Company recognizes a liability for the defined benefit plans' underfunded status, measures the defined benefit plans' obligations that determine its funded status as of the end of the fiscal year, and recognizes as a component of accumulated other comprehensive income the changes in the defined benefit plans' funded status that are not recognized as components of net periodic benefit cost. The components of net postretirement medical expense for the Officer Medical Plan were as follows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Service cost	\$ 4,464	\$ 4,851	\$ 5,702
Interest cost	5,008	4,782	4,505
Net actuarial loss	2,271	3,052	3,536
Total postretirement medical expense	<u>\$ 11,743</u>	<u>\$ 12,685</u>	<u>\$ 13,743</u>

The weighted-average discount rate used to determine the year-end benefit obligations was as follows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Officer Medical Plan	4.10%	4.30%	4.25%
Retired Officers' Bonus Plan	4.10%	4.30%	4.25%
Retired Vice Presidents' Bonus Plan	4.10%	4.30%	—%

Assumed healthcare cost trend rates for the Officer Medical Plan at March 31, 2018 and 2017 were as follows:

Pre-65 initial rate	2018	2017
Healthcare cost trend rate assumed for next year	7.75%	7.25%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2027	2024
Post-65 initial rate	2018	2017
Healthcare cost trend rate assumed for next year	8.00%	8.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2027	2024

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates calculated as of March 31, 2018 would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost	\$ 2,049	\$ (1,591)
Effect on postretirement benefit obligation	21,514	(17,308)

Total defined benefit plan expense, consisting of service, interest, and net actuarial gain associated with the Retired Officers' Bonus Plan was \$0.7 million for fiscal 2018, 2017, and 2016. Benefits paid associated with the Retired Officers' Bonus Plan were \$1.5 million, \$0.9 million, and \$0.3 million for fiscal 2018, 2017, and 2016, respectively. The end-of-period benefit obligation of \$3.8 million and \$4.4 million as of March 31, 2018 and 2017, respectively, is included in postretirement obligations within other long-term liabilities in the accompanying consolidated balance sheets.

Total defined benefit plan expense, consisting of service, interest, prior service cost, and net actuarial gain associated with the Retired Vice-President Bonus Plan was \$0.2 million for fiscal 2018. There was no defined benefit plan expense associated with the Retired Vice-President Bonus Plan for fiscal 2017. There were no benefits paid associated with the Retired Vice-President Bonus Plan for fiscal 2018 and 2017, respectively. The end-of-period benefit obligation associated with the Retired

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Vice-President Bonus Plan was \$0.9 million and \$1.0 million as of March 31, 2018 and 2017, respectively, which are recorded as postretirement obligations within other long-term liabilities in the accompanying consolidated balance sheets.

Other comprehensive loss for fiscal 2018 includes unrecognized gross actuarial gain and prior service cost of \$2.7 million, reduced by taxes of \$1.0 million, that has not yet been recognized in net periodic pension cost for fiscal 2018 for the Retired Officers' Bonus Plan, the Officer Medical Plan, and the Retired Vice-President Bonus Plan. Other comprehensive loss for fiscal 2017 includes unrecognized gross actuarial gain and prior service cost of \$1.1 million, reduced by taxes of \$0.4 million, that has not yet been recognized in net periodic pension cost for fiscal 2017 for the Retired Officers' Bonus Plan, the Officer Medical Plan, and the Retired Vice-President Bonus Plan.

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic cost in fiscal 2019 are \$2.1 million of net actuarial loss, \$0.1 million of net prior service cost, and no net transition (asset) obligation.

The changes in the benefit obligation, plan assets, and funded status of the Officer Medical Plan were as follows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Benefit obligation, beginning of the year	\$ 118,089	\$ 114,008	\$ 107,317
Service cost	4,464	4,851	5,702
Interest cost	5,008	4,782	4,505
Net actuarial (gain) loss	2,744	(2,219)	(496)
Benefits paid	(3,419)	(3,333)	(3,020)
Benefit obligation, end of the year	<u>\$ 126,886</u>	<u>\$ 118,089</u>	<u>\$ 114,008</u>

	Fiscal Year Ended March 31,		
	2018	2017	2016
<b>Changes in plan assets</b>			
Fair value of plan assets, beginning of the year	\$ —	\$ —	\$ —
Employer contributions	3,419	3,333	3,020
Benefits paid	(3,419)	(3,333)	(3,020)
Fair value of plan assets, end of the year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

As of March 31, 2018 and 2017, the unfunded status of the Officer Medical Plan was \$126.9 million and \$118.1 million, respectively, which is included in other long-term liabilities in the accompanying consolidated balance sheets.

***Funded Status for Defined Benefit Plans***

Generally, annual contributions are made at such times and in amounts as required by law and may, from time to time, exceed minimum funding requirements. The Retired Officers' Bonus Plan and the Retired Vice-President Bonus Plan are unfunded plans and contributions are made as benefits are paid. As of March 31, 2018 and 2017, there were no plan assets for either the Retired Officers' Bonus Plan or the Retired Vice-President Bonus Plan and therefore, the accumulated liability of \$4.7 million and \$5.4 million, respectively, is unfunded. The liability will be distributed in a lump-sum payment as each officer or vice-president retires.

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The expected future medical benefit payments and related contributions are as follows:

**For the Fiscal Year Ending March 31,**

2019	\$	3,585
2020	\$	3,936
2021	\$	4,271
2022	\$	4,679
2023	\$	5,588
2024 - 2028	\$	34,503

***Long-term Disability Benefits***

The Company offers medical and dental benefits to inactive employees (and their eligible dependents) on long-term disability. These benefits do not vary with an employee's years of service; therefore, the Company is required to accrue the costs of the benefits at the date the inactive employee becomes disability eligible and elects to participate in the benefit. The accrued cost for such benefits is calculated using an actuarial estimate. The accrued cost for these benefits was \$22.8 million and \$22.5 million at March 31, 2018 and 2017, respectively, and are presented in other long-term liabilities in the accompanying consolidated balance sheets.

**15. ACCUMULATED OTHER COMPREHENSIVE LOSS**

All amounts recorded in other comprehensive loss are related to the Company's post-retirement plans and interest rate swaps designated as cash flow hedges. The following table shows the changes in accumulated other comprehensive income (loss), net of tax:

	<b>Fiscal Year Ended March 31, 2018</b>		
	<b>Post-retirement plans</b>	<b>Derivatives designated as cash flow hedges</b>	<b>Totals</b>
Beginning of year	\$ (17,077)	\$ —	\$ (17,077)
Other comprehensive income (loss) before reclassifications (1)	(1,698)	4,993	3,295
Amounts reclassified from accumulated other comprehensive loss	1,527	—	1,527
Net current-period other comprehensive income (loss)	(171)	4,993	4,822
Reclassification of AOCI due to the Act (2)	(3,707)	856	(2,851)
End of year	\$ (20,955)	\$ 5,849	\$ (15,106)

(1) Changes in other comprehensive income (loss) before reclassification for derivatives designated as cash flow hedges are recorded net of tax expenses of \$2.9 million for the fiscal year ended March 31, 2018.

(2) The amount reclassified from accumulated other comprehensive income to retained earnings from the adoption of ASU 2018-02 as discussed in Note 2.

	<b>Fiscal Year Ended March 31, 2017</b>		
	<b>Post-retirement plans</b>	<b>Derivatives designated as cash flow hedges</b>	<b>Totals</b>
Beginning of year	\$ (19,613)	\$ —	\$ (19,613)
Other comprehensive income (loss) before reclassifications	688	—	688
Amounts reclassified from accumulated other comprehensive loss	1,848	—	1,848
Net current-period other comprehensive income (loss)	2,536	—	2,536
End of year	\$ (17,077)	\$ —	\$ (17,077)

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	Fiscal Year Ended March 31, 2016		
	Post-retirement plans	Derivatives designated as cash flow hedges	Totals
Beginning of year	\$ (22,159)	\$ —	\$ (22,159)
Other comprehensive income (loss) before reclassifications	404	—	404
Amounts reclassified from accumulated other comprehensive loss	2,142	—	2,142
Net current-period other comprehensive income (loss)	2,546	—	2,546
End of year	\$ (19,613)	\$ —	\$ (19,613)

The following table presents the reclassifications out of accumulated other comprehensive loss to net income:

	March 31,		
	2018	2017	2016
Amortization of net actuarial loss included in net periodic benefit cost (See Note 14)			
Total before tax	\$ 2,387	\$ 3,050	\$ 3,536
Tax benefit	(860)	(1,202)	(1,394)
Net of tax	\$ 1,527	\$ 1,848	\$ 2,142

## 16. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following:

	March 31,	
	2018	2017
Deferred rent	\$ 79,913	\$ 63,854
Postretirement benefit obligations	131,526	123,492
Other (1)	29,382	28,946
Total other long-term liabilities	\$ 240,821	\$ 216,292

(1) Balances at March 31, 2018 and 2017 include the Company's long-term disability obligation of \$22.8 million and \$22.5 million, respectively, as well as contingent consideration of \$3.6 million as discussed in Note 4.

## 17. STOCKHOLDERS' EQUITY

### *Common Stock*

Holders of Class A Common Stock and Class E Special Voting Common Stock are entitled to one vote for each share as a holder. The holders of the Voting Common Stock shall vote together as a single class.

Class E Special Voting Common Stock represents the voting rights that accompany the Rollover Options. Rollover Options have a fixed vesting and exercise schedule to comply with IRS Section 409A. Upon exercise, the option will convert to Class A Common Stock, and the corresponding Class E Special Voting Common Stock will be repurchased by the Company and retired. On September 30, 2015, the Company purchased, at par value, all issued and outstanding shares of Class E special voting common stock in connection with the exercise of the final tranche of rollover options during the second quarter of fiscal 2016.

Each share of common stock, except for Class E Special Voting Common Stock, is entitled to participate equally in dividends, when and if declared by the Board of Directors from time to time, such dividends and other distributions in cash, stock, or property from the Company's assets or funds become legally available for such purposes subject to any dividend preferences that may be attributable to preferred stock that may be authorized. The Company's ability to pay dividends to stockholders is limited as a practical matter by restrictions in the credit agreements governing the Senior Credit Facilities.

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The authorized and unissued Class A Common Stock shares are available for future issuance upon share option exercises, without additional stockholder approval.

***Employee Stock Purchase Plan***

In connection with the Company's initial public offering in November 2010, the Company established a tax qualified Employee Stock Purchase Plan, or ESPP, which is designed to enable eligible employees to periodically purchase shares of the Company's Class A Common Stock up to an aggregate of 10,000,000 shares at a five percent discount from the fair market value of the Company's common stock. The ESPP provides for quarterly offering periods, the first of which commenced on April 1, 2011. For the year ended March 31, 2018, 254,380 Class A Common Stock shares were purchased by employees under the ESPP. Since the program's inception, 2,189,287 shares have been purchased by employees.

***Share Repurchase Program***

On December 12, 2011, the Board of Directors approved a \$30.0 million share repurchase program, to be funded from cash on hand. A special committee of the Board of Directors was appointed to evaluate market conditions and other relevant factors and initiate repurchases under the program from time to time. On January 27, 2015, January 25, 2017, and November 2, 2017, the Board of Directors approved increases to the share repurchase authorization to \$180.0 million, \$410.0 million and \$610.0 million, respectively. The share repurchase program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. During fiscal 2018, the Company purchased 7.2 million shares of the Company's Class A Common Stock in a series of open market transactions for \$257.6 million. During fiscal 2017, the Company purchased 1.3 million shares of the Company's Class A Common Stock in a series of open market transactions for \$46.4 million. As of March 31, 2018, the Company had \$197.9 million remaining under the repurchase program.

***Dividends***

The following table summarizes the cash distributions recognized in the consolidated statement of cash flows:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Recurring dividends (1)	\$ 103,411	\$ 92,925	\$ 80,015
Dividend equivalents (2)	951	2,254	31,802
Total distributions	<u>\$ 104,362</u>	<u>\$ 95,179</u>	<u>\$ 111,817</u>

(1) Amounts represent recurring quarterly dividends that were declared and paid for during each quarter of fiscal 2018, 2017, and 2016.

(2) Dividend equivalents are distributions made to option holders equal to the special dividends declared and paid.

The total payout of the dividend and the dividend equivalents have been presented as a financing activity within the consolidated statement of cash flows.

**18. STOCK-BASED COMPENSATION**

The following table summarizes stock-based compensation expense recognized in the consolidated statements of operations:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Cost of revenue	\$ 7,771	\$ 5,756	\$ 7,001
General and administrative expenses	15,547	15,493	17,991
Total	<u>\$ 23,318</u>	<u>\$ 21,249</u>	<u>\$ 24,992</u>



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The following table summarizes the total stock-based compensation expense recognized in the consolidated statements of operations by the following types of equity awards:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Equity Incentive Plan Options	\$ 2,036	\$ 2,523	\$ 3,702
Restricted Stock Awards	21,282	18,726	21,290
<b>Total</b>	<b>\$ 23,318</b>	<b>\$ 21,249</b>	<b>\$ 24,992</b>

As of March 31, 2018 and 2017, there was \$17.3 million and \$12.8 million, respectively, of total unrecognized compensation cost related to unvested stock-based compensation agreements. The unrecognized compensation cost as of March 31, 2018 is expected to be fully amortized over the next 4 years. Absent the effect of accelerating stock compensation cost for any departures of employees who may continue to vest in their equity awards, the following tables summarize the unrecognized compensation cost, the weighted average period the cost is expected to be amortized, and the estimated annual compensation cost for the future periods indicated below (excludes any future awards):

	Unrecognized Compensation Cost		Weighted Average Remaining Period to be Recognized	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
	Equity Incentive Plan Options	\$ 2,809	\$ 1,777	3.60
Restricted Stock Awards	14,512	11,007	1.87	1.75
<b>Total</b>	<b>\$ 17,321</b>	<b>\$ 12,784</b>		

	Total Unrecognized Compensation Cost					
	Total	2019	2020	2021	2022	2023
Equity Incentive Plan Options	\$ 2,809	\$ 1,417	\$ 812	\$ 404	\$ 176	\$ —
Restricted Stock Awards	14,512	9,910	4,589	13	—	—
<b>Total</b>	<b>\$ 17,321</b>	<b>\$ 11,327</b>	<b>\$ 5,401</b>	<b>\$ 417</b>	<b>\$ 176</b>	<b>\$ —</b>

***Equity Incentive Plan***

The Company's Equity Incentive Plan, or EIP, was adopted in connection with the Merger Agreement for employees and directors of Holding. The EIP was amended and restated in 2010 in connection with the Company's initial public offering, and was again amended and restated on May 22, 2014. Awards under the EIP may be made in the form of stock options; stock purchase rights; restricted stock; restricted stock units; performance shares; performance units; stock appreciation rights; dividend equivalents; deferred share units; dividend equivalents; and other stock-based awards.

***Stock Options***

Stock options under the EIP are granted at the discretion of the Board of Directors or its Compensation Committee and expire ten years from the grant date. Stock options generally vest in equal installments over a five-year period subject to the grantee's continued service on each applicable vesting. All options under the EIP are exercisable, upon vesting, for shares of Class A common stock of Holding. The Company calculates the pool of additional paid-in capital associated with excess tax benefits using the "simplified method."

On May 17, 2017, 211,822 options were granted under the EIP. The estimated fair value of the per-option grant was \$9.32, resulting in a total fair value of \$2.0 million.

On May 19, 2017, 158,283 options were granted under the EIP. The estimated fair value of the per-option grant was \$9.48, resulting in a total fair value of \$1.5 million.

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On August 2, 2017, 5,631 options were granted under the EIP. The estimated fair value of the per-option grant was \$8.88, resulting in a total fair value of \$0.05 million.

On January 31, 2018, 17,274 options were granted under the EIP. The estimated fair value of the per-option grant was \$8.68, resulting in a total fair value of \$0.1 million.

The aggregate grant date fair value of the EIP Options issued during fiscal 2018 and 2017, was \$3.7 million and \$0.4 million, respectively, and is being recorded as expense over the vesting period. The total fair value of EIP Options vested during fiscal 2018 and 2017 was \$2.7 million and \$11.8 million, respectively. The total intrinsic value of EIP options exercised during fiscal 2018 and 2017 was \$36.7 million and \$49.0 million, respectively. As of March 31, 2018 and 2017, there were 11,433,883 and 12,026,970 options, respectively, available for future grant under the EIP.

*Annual Incentive Plans*

On October 1, 2010, the Board of Directors adopted an Annual Incentive Plan (or "AIP") in connection with the initial public offering to more appropriately align the Company's compensation programs with those of similarly situated companies. The amount of the annual incentive payment is determined based on performance targets established by the Board of Directors and a portion of the bonus may be paid in the form of equity (including stock and other awards under the EIP). For bonus periods prior to the 2018 fiscal year, if the Board of Directors elected to make a portion of the payments in equity, the value of the portion of the AIP award paid in equity was increased by 20%. Such equity awards vest over a three-year period subject to the employee's continued service to the Company. The portion paid in the form of equity was recognized in the accompanying consolidated statements of operations based on grant date fair value over the vesting period of three years. The portion paid in cash was accrued ratably during the fiscal year in which the employees provide service and paid out during the first quarter of the subsequent fiscal year.

During fiscal 2018, the Company implemented a new annual incentive program for officers. The equity compensation would be issued in the form of restricted stock units of which a portion would vest based on the passage of time, and the other portion would vest based on specified performance conditions to be achieved over a specified time period. A restricted stock unit represents a contingent right to receive one share of Class A Common Stock upon vesting. Service-based restricted stock units vest in equal installments over a three-year period subject to the grantee's continued service on each applicable vesting date and are settled for shares of the Company's common stock. Dividend equivalents are paid in respect of the service-based restricted stock units when dividends are paid on the Company's common stock. Performance-based awards vest at the end of a three-year period subject to certain specified financial performance criteria and the grantee's continued service through the period. These awards are settled for Company Class A Common Stock and dividend equivalents. Compensation expense for performance-based awards during the performance period is estimated at each reporting date using management's expectation of the probable achievement of the specified performance criteria.

*Grants of Class A Restricted Common Stock and Restricted Stock Units*

During fiscal 2018, the Board of Directors granted an aggregate of 786,350 Restricted Stock Units with service-based and performance-based vesting conditions to existing officers and vice presidents of the Company, as well as to newly promoted and hired partners and vice presidents. A portion of these awards were issued in conjunction with the Annual Incentive Plan, whereby a portion of the incentive payment was paid in the form of Restricted Stock Units. The awards issued to newly hired and promoted employees will vest over a three-year period subject to the employees' continued employment with the Company.

The Board of Directors also granted 58,735 shares of Class A Restricted Common Stock to members of the Board of Directors during fiscal 2018. These awards generally vest over one year.

The aggregate fair value of all awards issued during fiscal 2018 was \$29.3 million and was based on the grant date stock price, which ranged from \$32.55 to \$39.18. This amount will be recognized in the accompanying consolidated statements of operations over the applicable vesting period of the awards.

The total fair value of restricted stock shares vested during fiscal 2018 and 2017 was \$26.7 million and \$30.2 million, respectively.

As permitted under the terms of the EIP, the Compensation Committee, as Administrator of the Plan, authorized the withholding of taxes not to exceed the minimum statutory withholding amount, through the surrender of shares of Class A common stock issuable upon the vesting or accelerated vesting of Restricted Stock. As a result of these transactions, the

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Company repurchased 140,534 shares on June 30, 2017 and 190,295 shares on March 31, 2018 and recorded them as treasury shares at a total cost of \$11.9 million in fiscal 2018.

***Methodology***

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value for stock-based awards. The fair value of the Company's stock is based on the closing price on the New York Stock Exchange.

During fiscal 2018, the Company's Board of Directors authorized and declared three regular quarterly cash dividends of \$0.17 per share and one quarterly cash dividend of \$0.19 per share. Therefore, an annualized dividend yield between 1.89% and 2.00% was used in the Black-Scholes option-pricing model for all grants issued during the fiscal year. The Company plans to continue paying recurring dividends in the near term and assessing its excess cash resources to determine the best way to utilize its excess cash flow to meet its objectives. One way the Company may utilize excess cash includes the payment of special dividends. The Company does not anticipate or forecast the payment of special dividends and therefore does not include special dividends in the annual dividend yield that the company uses to calculate the fair value of stock options, as the Company does not pay these special dividends on a regular basis.

Implied volatility is calculated as of each grant date based on our historical volatility. Other than the expected life of the option, volatility is the most sensitive input to our option grants.

The risk-free interest rate is determined by reference to the U.S. Treasury yield curve rates with the remaining term equal to the expected life assumed at the date of grant. The average expected life is calculated based on the Company's historical experience with respect to its stock plan activity in combination with an estimate of when vested and unexercised option shares will be exercised. Forfeitures were estimated based on the Company's historical analysis of officer and vice-president attrition levels and actual forfeiture rates by grant date.

The weighted average assumptions used in the Black-Scholes option-pricing model for stock option awards were as follows:

	<b>For The Fiscal Year Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Dividend yield	1.9%	1.94%	1.83%
Expected volatility	33.04%	29.65%	29.85%
Risk-free interest rate	1.81%	1.38%	1.33%
Expected life (in years)	5.00	5.00	5.08
Weighted-average grant date fair value	\$9.35	\$7.16	\$6.67

***Special Dividends***

The Compensation Committee, acting as the Administrator of the EIP, has discretion in how to effect the required adjustment to keep option holders whole in the event of a distribution of dividends that trigger certain anti-dilution clauses within the respective plans. In the event the Compensation Committee elects to grant option holders a cash payment equal to the amount of the special dividend, the Company accrues a stock-based compensation liability as the EIP options are scheduled to be vested. The obligation will be settled on the later of the date the dividend is paid or the vesting date of the EIP options. The stock-based compensation liability includes all special dividends declared for which eligible EIP option holders have not yet received a distribution.

On June 30, 2017, vested EIP option holders received a payment of \$0.9 million related to the special dividends declared in fiscal years, 2014, and 2015. On March 31, 2018, vested EIP option holders received a payment of \$0.06 million related to the special dividends declared in fiscal years 2014 and 2015. Payment of the dividend equivalents were accounted for as modifications resulting in incremental benefit to the option holders resulting in additional compensation expense. Total compensation expense recorded in conjunction with the payment of all dividend equivalents to holders of unvested EIP options for the fiscal year ended March 31, 2018 was \$0.03 million.

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The following table summarizes unvested restricted stock activity for the periods presented:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
<b><i>Unvested Restricted Stock Awards</i></b>		
Unvested at March 31, 2017	1,277,508	25.71
Granted	845,085	34.70
Vested	1,007,214	26.46
Forfeited	158,273	28.66
Unvested at March 31, 2018	<u>957,106</u>	32.36

The following table summarizes stock option activity for the periods presented:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
<b><i>Equity Incentive Plan Options</i></b>		
Options outstanding at March 31, 2017	3,824,237	\$ 13.99 *
Granted	393,010	35.89
Forfeited	108,369	23.17
Expired	47,835	22.70
Exercised	1,261,089	9.59
Options outstanding at March 31, 2018	<u>2,799,954</u>	\$ 18.55 *

\* Reflects exercise price adjustment of \$6.36 per grant for the \$6.50 dividend per share issued July 30, 2012.

The following table summarizes unvested stock options for the periods presented:

	<u>Number of Options</u>	<u>Weighted Average Grant Date Fair Value</u>
<b><i>Equity Incentive Plan Options</i></b>		
Unvested at March 31, 2017	812,561	\$ 5.61
Granted	393,010	9.35
Vested	459,335	5.95
Forfeited	108,369	5.59
Unvested at March 31, 2018	<u>637,867</u>	\$ 7.68

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The following table summarizes stock options outstanding at March 31, 2018:

Range of exercise prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Intrinsic Value	Stock Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Intrinsic Value
<b>Equity Incentive Plan</b>								
\$4.28 - \$39.18	2,799,954	\$18.55	(1) 4.99	\$ 56,477	2,162,087	\$14.96	4.13	\$51,372

(1) Reflects exercise price adjustment of \$6.36 per grant for the \$6.50 dividend per share issued July 30, 2012.

### 19. FAIR VALUE MEASUREMENTS

The accounting standard for fair value measurements establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: observable inputs such as quoted prices in active markets (Level 1); inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2); and unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions (Level 3).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The financial instruments measured at fair value in the accompanying consolidated balance sheets consist of the following:

	<b>Recurring Fair Value Measurements as of March 31, 2018</b>			
	Level 1	Level 2	Level 3	Total
<b>Cash and cash equivalents:</b>				
Cash and cash equivalents	\$ 51,870	\$ —	\$ —	\$ 51,870
Money market funds (1)	207,618	27,470	—	235,088
<b>Total cash and cash equivalents</b>	<b>\$ 259,488</b>	<b>\$ 27,470</b>	<b>\$ —</b>	<b>\$ 286,958</b>
<b>Other Assets:</b>				
Current derivative instruments (3)	\$ —	\$ 700	\$ —	\$ 700
Long-term derivative instruments (3)	—	7,225	—	7,225
<b>Total Other Assets</b>	<b>\$ —</b>	<b>\$ 7,925</b>	<b>\$ —</b>	<b>\$ 7,925</b>
<b>Liabilities:</b>				
Contingent consideration liability (2)	\$ —	\$ —	\$ 3,576	\$ 3,576
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,576</b>	<b>\$ 3,576</b>

	<b>Recurring Fair Value Measurements as of March 31, 2017</b>			
	Level 1	Level 2	Level 3	Total
<b>Cash and cash equivalents:</b>				
Cash and cash equivalents	\$ 59,825	\$ —	\$ —	\$ 59,825
Money market funds (1)	—	157,592	—	157,592
<b>Total cash and cash equivalents</b>	<b>\$ 59,825</b>	<b>\$ 157,592</b>	<b>\$ —</b>	<b>\$ 217,417</b>
<b>Liabilities:</b>				
Contingent consideration liability (2)	—	—	\$ 3,576	3,576
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,576</b>	<b>\$ 3,576</b>

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
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(1) Level 2 cash and cash equivalents are invested in money market funds that are intended to maintain a stable net asset value of \$1.00 per share by investing in liquid, high quality U.S. dollar-denominated money market instruments. Therefore, the fair value approximates the carrying value. Depending on our short-term liquidity needs, we make regular transfers between money market funds and other cash equivalents.

(2) As discussed in Note 4, the Company recognized a contingent consideration liability in connection with the acquisition of Aquilent. As of March 31, 2018 and 2017, the estimated fair value of the contingent consideration liability was \$3.6 million and was valued using probability-weighted cash flows, which is based on the use of Level 3 fair value measurement inputs. The liability is recorded in other long-term liabilities in the consolidated balance sheet.

(3) The Company's interest rate swaps are considered over-the-counter derivatives and fair value is estimated based on the present value of future cash flows using a model-derived valuation that uses Level 2 observable inputs such as interest rate yield curves. See Note 12 to our consolidated financial statements for further discussion on the Company's derivative instruments designated as cash flow hedges.

The fair value of the Company's debt instruments approximated its carrying value at March 31, 2018 and 2017. The fair value of debt is determined using quoted prices or other market information obtained from recent trading activity of each debt tranche in markets that are not active (Level 2 inputs). The fair value is corroborated by prices derived from the interest rate spreads of recently completed leveraged loan transactions of a similar credit profile, industry, and terms to that of the Company. The fair value of Senior Notes is determined using quoted prices or other market information from recent trading activity in the high-yield bond market (Level 2 inputs).

## **20. RELATED-PARTY TRANSACTIONS**

In March 2017, the Company supported the formation of the Booz Allen Foundation, a nonprofit corporation organized and operated exclusively for charitable, scientific and educational purposes within the meaning of Section 501(c)(3) of the Code. The Company is the sole member of the foundation, which gives it the authority to appoint two out of five of the Booz Allen Foundation's directors and consent rights regarding certain extraordinary corporate actions approved by the board of directors. The Company has made a binding and irrevocable pledge of \$5.0 million to the Booz Allen Foundation and recorded the pledge obligation in other current liabilities on the consolidated balance sheet of the Company in March 2017. As of March 31, 2018, \$1.7 million of the pledge has been paid to the Booz Allen Foundation and is classified within operating activities in the consolidated statement of cash flows.

## **21. COMMITMENTS AND CONTINGENCIES**

### *Leases*

The Company leases office space under noncancelable operating leases that expire at various dates through 2031. The terms for the facility leases generally provide for rental payments on a graduated scale, which are recognized on a straight-line basis over the terms of the leases, including reasonably assured renewal periods, from the time the Company controls the leased property. Sometimes lease payments include payments for insurance, maintenance, and property taxes. There are no purchase options on operating leases at terms favorable to market rents. Lease incentives are recorded as a deferred credit and recognized as a reduction to rent expense on a straight-line basis over the lease term. Rent expense was approximately \$81.2 million, net of \$0.6 million of sublease income, \$81.6 million, net of \$0.5 million of sublease income, and \$88.5 million, net of \$0.5 million of sublease income, for fiscal 2018, 2017, and 2016, respectively.

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Future minimum operating lease payments for noncancelable operating leases and future minimum income for noncancelable sublease rentals are summarized as follows:

For the Fiscal Year Ending March 31,	Operating Lease Payments	Operating Sublease Income
2019	\$ 71,013	\$ 276
2020	66,879	24
2021	56,153	—
2022	45,800	—
2023	41,773	—
Thereafter	141,889	—
	<u>\$ 423,507</u>	<u>\$ 300</u>

Rent expense is included in occupancy costs, a component of general and administrative expenses, as shown on the consolidated statements of operations, and includes rent, sublease income from third parties, real estate taxes, utilities, parking, security, repairs and maintenance, and storage costs.

***Letters of Credit and Third-Party Guarantees***

As of March 31, 2018 and 2017, the Company was contingently liable under open standby letters of credit and bank guarantees issued by our banks in favor of third parties that totaled \$6.3 million and \$8.6 million, respectively. These letters of credit and bank guarantees primarily support insurance and bid and performance obligations. At March 31, 2018 and 2017, approximately \$1.4 million and \$1.7 million, respectively, of these instruments reduce the available borrowings under the Revolving Credit Facility. The remainder is guaranteed under a separate \$15.0 million facility established in fiscal 2015 of which \$10.1 million and \$3.1 million, respectively, was available to the Company at March 31, 2018 and 2017.

***Government Contracting Matters***

For fiscal 2018, 2017, and 2016, approximately 97%, 97%, and 97%, respectively, of the Company's revenue was generated from contracts where the end user was an agency or department of the U.S. government, including contracts where the Company performed in either as a prime contractor or subcontractor, and regardless of the geographic location in which the work was performed. U.S. government contracts and subcontracts are subject to extensive legal and regulatory requirements. From time to time and in the ordinary course of business, agencies of the U.S. government audit our contract costs and conduct inquiries and investigations of our business practices with respect to government contracts to determine whether the Company's operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government agencies, including the Defense Contract Audit Agency, routinely audit our contract costs, including allocated indirect costs for compliance with the Cost Accounting Standards and the Federal Acquisition Regulation. These agencies also conduct reviews and investigations and make inquiries regarding our accounting and other systems in connection with our performance and business practices with respect to our government contracts. U.S. government audits, inquiries, or investigations of the Company, whether related to the Company's U.S. government contracts or subcontracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including withholding of payments, suspension of payments, repayments, fines, or penalties being imposed upon the Company, or could lead to suspension or debarment from future U.S. government contracting. Management believes it has recorded the appropriate provision for any such audit, inquiry, or investigation of which it is aware. Management believes it has recorded the appropriate provision for the estimated losses that may be experienced from any such reductions and/or penalties. As of March 31, 2018 and 2017, the Company has recorded a liability of approximately \$168.6 million and \$175.7 million, respectively, for its current best estimate of amounts to be refunded to customers for potential adjustments from audits or reviews of contract costs incurred subsequent to fiscal year 2011, and for contracts not yet closed that are impacted by settlement of audits or reviews of contract costs incurred in prior fiscal years.

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***Litigation***

The Company is involved in legal proceedings and investigations arising in the ordinary course of business, including those relating to employment matters, relationships with clients and contractors, intellectual property disputes, and other business matters. These legal proceedings seek various remedies, including claims for monetary damages in varying amounts, none of which are considered material, or are unspecified as to amount. Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, management does not expect any of the currently ongoing audits, reviews, investigations, or litigation to have a material adverse effect on the Company's financial condition and results of operations. As of March 31, 2018 and 2017, there were no material amounts accrued in the consolidated financial statements related to these proceedings.

Six former officers and stockholders who had departed the company prior to the acquisition of the Company by the Carlyle Group (the "Carlyle Acquisition") have filed a total of nine suits in various jurisdictions, with original filing dates ranging from July 3, 2008 through December 15, 2009, against us and certain of our current and former directors and officers. Three of these suits were amended on July 2, 2010 and then further amended into one consolidated complaint on September 7, 2010. Another two of the original nine suits were consolidated into one complaint on September 24, 2014. Each of the suits arises out of the Carlyle Acquisition and alleges that the former stockholders are entitled to certain payments that they would have received if they had held their stock at the time of the Carlyle Acquisition. Some of the suits also allege that the acquisition price paid to stockholders was insufficient. The various suits assert claims for breach of contract, tortious interference with contract, breach of fiduciary duty, civil Racketeer Influenced and Corrupt Organizations Act, or RICO, violations, violations of the ERISA, and/or securities and common law fraud. Three of these suits have been dismissed with all appeals exhausted. The two suits that were consolidated into one action on September 24, 2014 were settled on April 16, 2015. One of the remaining suits has been dismissed by the United States District Court for the Southern District of California and such dismissal was upheld by the United States Court of Appeals for the Ninth Circuit. The plaintiff in this suit subsequently filed a Petition for Writ of Certiorari to the United States Supreme Court, which was denied by the United States Supreme Court on January 9, 2017. The other three remaining suits that were previously consolidated on September 7, 2010 have been dismissed by the United States District Court for the Southern District of New York and were on appeal before the United States Court of Appeals for the Second Circuit. On July 13, 2017, the United States Court of Appeals for the Second Circuit affirmed the ruling of the United States District Court for the Southern District of New York, except for one plaintiff's securities fraud claim, which was remanded to the United States District Court for the Southern District of New York to give the plaintiff, Paul Kocourek, leave to file another amended complaint to attempt to plead a securities fraud claim. On April 6, 2018, the plaintiff filed an amended complaint in which Mr. Kocourek, individually, as Trustee of the Paul Kocourek Trust and on behalf of the putative class, alleges that the Company and certain former officers and directors violated Sections 10(b), 20(a) and 14(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On April 25, 2018, the court entered an order postponing the deadline within which the defendants must answer or move to dismiss the amended complaint. A lead plaintiff has not been appointed.

As of March 31, 2018, the aggregate alleged damages that will be sought in the remaining suit is unknown. As of March 31, 2018, although the outcome of any of these cases is inherently uncertain and may be materially adverse, based on current information, management does not expect them to have a material adverse effect on our financial condition and results of operations.

On June 7, 2017, Booz Allen Hamilton Inc. was informed that the U.S. Department of Justice (DOJ) is conducting a civil and criminal investigation of the Company. In connection with the investigation, the DOJ has requested information from the Company relating to certain elements of the Company's cost accounting and indirect cost charging practices with the U.S. government. Since learning of the investigation, the Company has engaged a law firm experienced in these matters to represent the Company in connection with this matter and respond to the government's requests. As is commonly the case with this type of matter, the Company has also been in contact with other regulatory agencies and bodies, including the Securities and Exchange Commission, which notified the Company that it is conducting an investigation that the Company believes relates to matters that are also the subject of the DOJ's investigation. The Company may receive additional regulatory or governmental inquiries related to the matters that are the subject of the DOJ's investigation. In accordance with the Company's practice, the company is cooperating with all relevant government parties. The total cost associated with these matters will depend on many factors, including the duration of these matters and any related findings. At this stage, the Company is not able to reasonably estimate the expected amount or range of cost or any loss associated with these matters.

On June 19, 2017, a purported stockholder of the Company filed a putative class action lawsuit in the United States District Court for the Eastern District of Virginia styled *Langley v. Booz Allen Hamilton Holding Corp.*, No. 17-cv-00696



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naming the Company, its Chief Executive Officer and its Chief Financial Officer as defendants purportedly on behalf of all purchasers of the Company's securities from May 19, 2016 through June 15, 2017. On September 5, 2017, the court named two lead plaintiffs and on October 20, 2017, the lead plaintiffs filed a consolidated amended complaint. The complaint asserts claims under Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, alleging misrepresentations or omissions by the Company purporting to relate to matters that are the subject of the DOJ investigation described above. The plaintiffs seek to recover from the Company and the individual defendants an unspecified amount of damages. The Company believes the suit lacks merit and intends to defend against the lawsuit. Motions to dismiss were argued on January 12, 2018, and on February 8, 2018, the court dismissed the amended complaint in its entirety without prejudice. At this stage of the lawsuit, the Company is not able to reasonably estimate the expected amount or range of cost or any loss associated with the lawsuit.

On November 13, 2017, a Verified Shareholder Derivative Complaint was filed in the United States District Court for the District of Delaware styled Celine Thum v. Rozanski et. al., C.A. No. 17-cv-01638, naming the Company as a nominal defendant and numerous current and former officers and directors as defendants. The complaint asserts claims for breach of fiduciary duties, unjust enrichment, waste of corporate assets, abuse of control, gross mismanagement, and violations of Sections 14(a), 10(b) and 20(a) of the Exchange Act, purportedly relating to matters that are the subject of the DOJ investigation described above. The parties have stipulated to a stay of the proceedings pending the outcome of the securities litigation (described above), which the court so ordered on January 24, 2018. At this stage of the lawsuit, the Company is not able to reasonably estimate the expected amount or range of cost or any loss associated with the lawsuit.

## 22. BUSINESS SEGMENT INFORMATION

The Company reports operating results and financial data in one operating and reportable segment. The Company manages its business as a single profit center in order to promote collaboration, provide comprehensive functional service offerings across its entire client base, and provide incentives to employees based on the success of the organization as a whole. Although certain information regarding served markets and functional capabilities is discussed for purposes of promoting an understanding of the Company's complex business, the Company manages its business and allocates resources at the consolidated level of a single operating segment.

## 23. UNAUDITED QUARTERLY FINANCIAL DATA

	2018 Quarters			
	First	Second	Third	Fourth
Revenue	\$ 1,493,570	\$ 1,542,085	\$ 1,499,914	\$ 1,636,284
Operating income	139,464	126,486	118,087	136,048
Income before income taxes	121,478	106,091	98,013	112,422
Net income	79,540	70,913	69,773	84,885
Earnings per common share:				
Basic (1)	\$ 0.53	\$ 0.48	\$ 0.48	\$ 0.59
Diluted (1)	\$ 0.53	\$ 0.47	\$ 0.47	\$ 0.58

	2017 Quarters			
	First	Second	Third	Fourth
Revenue	\$ 1,422,722	\$ 1,394,853	\$ 1,404,638	\$ 1,582,071
Operating income	129,301	117,661	108,124	129,161
Income before income taxes	113,364	97,747	92,615	108,174
Net income	67,817	62,830	55,590	66,253
Earnings per common share:				
Basic (1)	\$ 0.46	\$ 0.42	\$ 0.37	\$ 0.44
Diluted (1)	\$ 0.45	\$ 0.41	\$ 0.37	\$ 0.44

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(1) Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the fiscal year.

**24. SUPPLEMENTAL FINANCIAL INFORMATION**

The following schedule summarizes valuation and qualifying accounts for the periods presented:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Allowance for doubtful accounts:			
Beginning balance	\$ —	\$ 656	\$ 357
Provision for doubtful accounts	706	(135)	352
Charges against allowance	(629)	(521)	(53)
Ending balance	<u>\$ 77</u>	<u>\$ —</u>	<u>\$ 656</u>
Tax valuation allowance			
Beginning balance	—	—	—
Deductions and other adjustments	(1,373)	—	—
Ending balance	<u>\$ (1,373)</u>	<u>—</u>	<u>—</u>

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
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**25. SUBSEQUENT EVENTS**

*Shares repurchased and withheld to cover taxes*

The Company paid \$1.8 million and \$7.3 million during the first quarter of fiscal 2019, respectively, for 46,300 shares repurchased and 190,295 shares withheld to cover taxes related to Restricted Stock vesting during the fourth quarter of fiscal 2018 that had not settled in cash by March 31, 2018.

*Dividend Declared*

On May 29, 2018, the Company announced that its Board of Directors had declared a quarterly cash dividend of \$0.19 per share. Payment of the dividend will be made on June 29, 2018 to stockholders of record at the close of business on June 14, 2018.

*Share Repurchase Authorization*

On May 24, 2018, the Board of Directors approved an increase to our share repurchase authorization from \$610.0 million to up to \$910.0 million. As of May 24, 2018, taking into effect the increase in the share repurchase authorization, the Company may repurchase up to approximately \$493.7 million of additional shares of common stock under its share repurchase program.

**Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *Controls and Procedures***

**Disclosure Controls and Procedures**

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this Annual Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective as of March 31, 2018.

**Management's Annual Report on Internal Control over Financial Reporting and Attestation Report of the Registered Public Accounting Firm**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2018. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013 framework)*. Based on this assessment, management has concluded that, as of March 31, 2018, our internal control over financial reporting was effective.

Our independent registered public accounting firm has issued a report on the effectiveness of our internal control over financial reporting, which is below.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, that occurred in the fourth fiscal quarter of the period covered by this Annual Report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Report of Ernst & Young LLP,  
Independent Registered Public Accounting Firm,  
Regarding Internal Control over Financial Reporting**

To the Shareholders and Board of Directors of  
Booz Allen Hamilton Holding Corporation

**Opinion on Internal Control over Financial Reporting**

We have audited Booz Allen Hamilton Holding Corporation's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Booz Allen Hamilton Holding Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Booz Allen Hamilton Holding Corporation as of March 31, 2018 and March 31, 2017 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2018 and related notes, of Booz Allen Hamilton Holding Corporation and our report dated May 29, 2018 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia  
May 29, 2018

**Item 9B. *Other Information.***

On May 23, 2018, the Company's compensation committee approved for the 2019 fiscal year certain changes to the incentive compensation opportunities for Horacio D. Rozanski, the Company's President and Chief Executive Officer. Effective for fiscal year 2019, Mr. Rozanski's target annual cash bonus and target annual equity grant value will be increased to \$1.125 million and \$4.0 million, respectively. His base salary will remain the same.

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance.***

Information related to our directors is set forth under the caption "Election of Directors" of our Proxy Statement for our Annual Meeting of Stockholders scheduled for July 26, 2018 (the "2018 Proxy Statement"). Such information is incorporated herein by reference.

Information relating to our Executive Officers is included in Part I of this Annual Report under the caption "Executive Officers of the Registrant."

Information relating to compliance with Section 16(a) of the Exchange Act is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2018 Proxy Statement. Such information is incorporated herein by reference.

Information related to our code of ethics is set forth under the caption "Corporate Governance and General Information Concerning the Board of Directors and its Committees" of our 2018 Proxy Statement. Such information is incorporated herein by reference.

Information relating to the Audit Committee and Board of Directors determinations concerning whether a member of the Audit Committee is a "financial expert" as that term is defined under Item 407(d)(5) of Regulation S-K is set forth under the caption "Corporate Governance and General Information Concerning the Board of Directors and its Committees" of our 2018 Proxy Statement. Such information is incorporated herein by reference.

**Item 11. *Executive Compensation.***

Information relating to this item is set forth under the captions "Compensation Discussion and Analysis," "Director Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report on Executive Compensation" of our 2018 Proxy Statement. Such information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

**Equity Compensation Plans**

The following table presents information concerning the securities authorized for issuance pursuant to our equity compensation plans as of March 31, 2018:

<b>Plan Category</b>	<b>Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>(1)(2)</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</b>
Equity compensation plans approved by securityholders	3,731,116	(1)(2)	\$ 18.55	11,433,883
Equity compensation plans not approved by securityholders	—		N/A	—
<b>Total</b>	<b>3,731,116</b>	<b>(1)(2)</b>	<b>\$ 18.55</b>	<b>11,433,883</b>

(1) Column (a) includes: 931,162 shares that have been granted as restricted stock units (RSUs) and 2,799,954 shares granted as options under our equity compensation plans. The weighted average price in column (b) does not take into account shares issued pursuant to RSUs.

Information relating to the security ownership of certain beneficial owners and management is included in our 2018 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management” and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information relating to this item is set forth under the captions “Certain Relationships and Related Party Transactions” and “Corporate Governance and General Information Concerning the Board of Directors and its Committees” of our 2018 Proxy Statement. Such information is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

Information relating to this item is set forth under the caption “Independent Registered Public Accounting Firm Fees” of our 2018 Proxy Statement. Such information is incorporated herein by reference.

**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of this Annual Report:

- (1) Financial Statements

Our consolidated financial statements filed herewith are set forth in Item 8 of this Annual Report.

- (2) Financial Statement Schedules

Consolidated financial statement schedules have been omitted because either they are not applicable or the required information is included in the consolidated financial statements or the notes thereto.

- (3) Exhibits

## Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
2.1	<a href="#"><u>Agreement and Plan of Merger, dated as of May 15, 2008, by and among Booz Allen Hamilton Inc., Booz Allen Hamilton Holding Corporation (formerly known as Explorer Holding Corporation), Booz Allen Hamilton Investor Corporation (formerly known as Explorer Investor Corporation), Explorer Merger Sub Corporation and Booz &amp; Company Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 (File No. 333-167645))</u></a>
2.2	<a href="#"><u>Spin Off Agreement, dated as of May 15, 2008, by and among Booz Allen Hamilton Inc., Booz &amp; Company Holdings, LLC, Booz &amp; Company Inc., Booz &amp; Company Intermediate I Inc. and Booz &amp; Company Intermediate II Inc. (Incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 (File No. 333-167645))</u></a>
2.3	<a href="#"><u>Amendment to the Agreement and Plan of Merger and the Spin Off Agreement, dated as of July 30, 2008, by and among Booz Allen Hamilton Inc., Booz Allen Hamilton Holding Corporation (formerly known as Explorer Holding Corporation), Booz Allen Hamilton Investor Corporation (formerly known as Explorer Investor Corporation), Explorer Merger Sub Corporation, Booz &amp; Company Holdings, LLC, Booz &amp; Company Inc., Booz &amp; Company Intermediate I Inc. and Booz &amp; Company Intermediate II Inc. (Incorporated by reference to Exhibit 2.3 to the Company's Registration Statement on Form S-1 (File No. 333-167645))</u></a>
3.1	<a href="#"><u>Third Amended and Restated Certificate of Incorporation of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report for the period ended September 30, 2014 on Form 10-Q (File No. 001-34972))</u></a>
3.2	<a href="#"><u>Third Amended and Restated Bylaws of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report for the period ended December 31, 2017 on Form 10-Q (File No. 001-34972))</u></a>
4.1	<a href="#"><u>Form of Stock Certificate (Incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-1 (File No. 333-167645))</u></a>
4.2	<a href="#"><u>Indenture, dated April 25, 2017, among Booz Allen Hamilton Inc., the Subsidiary Guarantors party thereto and Wilmington Trust, National Association (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 25, 2017 (File No. 001-34972))</u></a>
4.3	<a href="#"><u>First Supplemental Indenture, dated April 25, 2017, among Booz Allen Hamilton Inc., the Subsidiary Guarantors party thereto and Wilmington Trust, National Association (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 25, 2017 (File No. 001-34972))</u></a>
4.4	<a href="#"><u>Form of 5.125% Senior Note due 2025 (Incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on April 25, 2017 (File No. 001-34972) (included in Exhibit 4.1 thereto))</u></a>
10.1†	<a href="#"><u>Second Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report for the period ended September 30, 2014 on Form 10-Q (File No. 001-34972))</u></a>
10.2†	<a href="#"><u>Form of Stock Option Agreement under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-167645))</u></a>
10.3†	<a href="#"><u>Form of Stock Option Agreement under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-167645))</u></a>
10.4†	<a href="#"><u>Form of Subscription Agreement (Incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-167645))</u></a>
10.5†	<a href="#"><u>Amended and Restated Booz Allen Hamilton Holding Corporation Annual Incentive Plan (Incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report for the period ended September 30, 2014 on Form 10-Q (File No. 001-34972))</u></a>
10.6†	<a href="#"><u>Booz Allen Hamilton Holding Corporation Officers' Retirement Plan*</u></a>
10.7†	<a href="#"><u>Officer's Comprehensive Medical and Dental Choice Plans*</u></a>



- 10.8† [Retired Officer's Comprehensive Medical and Dental Choice Plans\\*](#)
- 10.9† [Group Variable Universal Life Insurance \(Incorporated by reference to Exhibit 10.14 to the Company's Annual Report for the year ended March 31, 2015 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.10† [Group Personal Excess Liability Insurance\\*](#)
- 10.11† [Officer Annual Performance Bonus Policy\\*](#)
- 10.12† [Form of Booz Allen Hamilton Holding Corporation Director and Officer Indemnification Agreement \(Incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 \(File No. 333-167645\)\)](#)
- 10.13† [Form of Stock Option Agreement under the Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.23 to the Company's Annual Report for the year ended March 31, 2011 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.14† [Officer Transition Policy\\*](#)
- 10.15† [Form of Stock Option Agreement under the Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report for the period ended December 31, 2011 on Form 10-Q \(File No. 001-34972\)\)](#)
- 10.16 [Credit Agreement among Booz Allen Hamilton Inc., as the Borrower, the several lenders from time to time parties thereto, Bank of America, N.A., as Administrative Agent, Collateral Agent and Issuing Lender, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities \(USA\) LLC, as Joint Lead Arrangers, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities \(USA\) LLC, Barclays Bank PLC, Citigroup Global Markets Inc., HSBC Securities \(USA\) Inc., J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc. and Sumimoto Mitsui Banking Corporation, as Joint Bookrunners, Credit Suisse Securities \(USA\) LLC, as Syndication Agent, Barclays Bank PLC, Citigroup Global Markets Inc., HSBC Securities \(USA\) Inc., J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc., Sumimoto Mitsui Banking Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Co-Documentation Agents, dated as of July 31, 2012 \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 1, 2012 \(File No. 001-34972\)\)](#)
- 10.17 [Guarantee and Collateral Agreement, among Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Inc., ASE, Inc. and Booz Allen Hamilton International, Inc., in favor of Bank of America, N.A., as Collateral Agent, dated as of July 31, 2012 \(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 1, 2012 \(File No. 001-34972\)\)](#)
- 10.18 [First Amendment to Credit Agreement, dated as of August 16, 2013, among Booz Allen Hamilton Inc., as Borrower, Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Engineering Holding Co., LLC, Booz Allen Hamilton Engineering Services, LLC, SDI Technology Corporation, and Booz Allen Hamilton International, Inc., as Guarantors, Bank of America, N.A., as Administrative Agent, Collateral Agent and New Refinancing Tranche B Term Lender, and the other Lenders and financial institutions from time to time party thereto. \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 20, 2013 \(File No. 001-34972\)\)](#)
- 10.19† [Form of Employment Agreement \(Incorporated by reference to Exhibit 10.27 to the Company's Annual Report for the year ended March 31, 2014 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.20† [Form of Restricted Stock Agreement under the Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.28 to the Company's Annual Report for the year ended March 31, 2014 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.21† [Form of Restricted Stock Unit Agreement under the Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.29 to the Company's Annual Report for the year ended March 31, 2014 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.22 [Second Amendment to Credit Agreement, dated as of May 7, 2014, among Booz Allen Hamilton Inc., as Borrower, Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Engineering Holding Co., LLC, Booz Allen Hamilton Engineering Services, LLC, SDI Technology Corporation, ASE, Inc. and Booz Allen Hamilton International, Inc., as Guarantors, Bank of America, N.A., as Administrative Agent, Collateral Agent and Issuing Lender, and the other Lenders and financial institutions from time to time party thereto \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 13, 2014 \(File No. 001-34972\)\)](#)
- 10.23 [Third Amendment to Credit Agreement, dated as of July 13, 2016, among Booz Allen Hamilton Inc., as Borrower, Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Engineering Holding Co., LLC, Booz Allen Hamilton Engineering Services, LLC, SDI Technology Corporation, ASE, Inc. and Booz Allen Hamilton International, Inc., as Guarantors, Bank of America, N.A., as Administrative Agent, Collateral Agent and New Refinancing Tranche B Term Lender, and the other Lenders and financial institutions from time to time party thereto \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 18, 2016 \(File No. 001-34972\)\)](#)

- 10.24 [Fourth Amendment to Credit Agreement, dated as of February 6, 2017, among Booz Allen Hamilton Inc., as Borrower, Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Engineering Holding Co., LLC, Booz Allen Hamilton Engineering Services, LLC and SDI Technology Corporation, as Guarantors, Bank of America, N.A., as Administrative Agent, Collateral Agent and New Refinancing Tranche B Term Lender, and the other Lenders and financial institutions from time to time party thereto \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2017 \(File No. 001-34972\)\)](#)
- 10.25 [Fifth Amendment to Credit Agreement, dated as of March 7, 2018, among Booz Allen Hamilton Inc., as Borrower, Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Engineering Holding Co., LLC, Booz Allen Hamilton Engineering Services, LLC, SDI Technology Corporation, eGov Holdings, Inc. and Aquilent, Inc., as Guarantors, Bank of America, N.A., as Administrative Agent, Collateral Agent, Exchanging Lender and New Refinancing Tranche B Term Lender, and the other Lenders and financial institutions from time to time party thereto \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 7, 2018 \(File No. 001-34972\)\)](#)
- 10.26 [ISDA 2002 Master Agreement, by and between Booz Allen Hamilton Inc. and Bank of America, N.A., dated as of December 17, 2014 \(the "Bank of America Master Agreement"\), and the Amended and Restated Schedule to the Bank of America Master Agreement, dated as of February 6, 2017 \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 11, 2017 \(File No. 001-34972\)\)](#)
- 10.27 [ISDA 2002 Master Agreement, by and between Booz Allen Hamilton Inc. and JPMorgan Chase Bank, N.A., dated as of December 17, 2014 \(the "JPM Master Agreement"\), and the Amended and Restated Schedule to the JPM Master Agreement, dated as of February 8, 2017 \(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 11, 2017 \(File No. 001-34972\)\)](#)
- 10.28 [ISDA 2002 Master Agreement, by and between Booz Allen Hamilton Inc. and Fifth Third Bank, dated as of December 16, 2014 \(the "Fifth Third Master Agreement"\), and the Amended and Restated Schedule to the Fifth Third Master Agreement, dated as of February 7, 2017 \(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 11, 2017 \(File No. 001-34972\)\)](#)
- 10.29 [ISDA Master Agreement, by and between Booz Allen Hamilton Inc. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. dated as of January 13, 2015 \(the "Bank of Tokyo-Mitsubishi Master Agreement"\), and the Amendment to the Bank of Tokyo-Mitsubishi Master Agreement, dated as of April 18, 2017 \(including the Schedule thereto\) \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 31, 2017 \(File No. 001-34972\)\)](#)
- 10.30 [ISDA Master Agreement, by and between Booz Allen Hamilton Inc. and Barclays Bank Plc, dated as of December 11, 2014 \(the "Barclays Master Agreement"\), and the Amendment to the Barclays Master Agreement, dated as of May 18, 2017 \(including the Amended and Restated Schedule thereto\) \(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 31, 2017 \(File No. 001-34972\)\)](#)
- 10.31 [ISDA Master Agreement, by and between Booz Allen Hamilton Inc. and Wells Fargo Bank, N.A., dated as of February 13, 2017 \(the "Wells Fargo Master Agreement"\), including the Schedule thereto \(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 31, 2017 \(File No. 001-34972\)\)](#)
- 10.32 [Confirmation of transaction, by and between Booz Allen Hamilton Inc. and Bank of America, N.A., dated as of April 6, 2017 \(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 11, 2017 \(File No. 001-34972\)\)](#)
- 10.33 [Confirmation of transaction, by and between Booz Allen Hamilton Inc. and JPMorgan Chase Bank, N.A., dated as of April 6, 2017 \(Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 11, 2017 \(File No. 001-34972\)\)](#)
- 10.34 [Confirmation of transaction, by and between Booz Allen Hamilton Inc. and Fifth Third Bank, dated as of April 6, 2017 \(Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on April 11, 2017 \(File No. 001-34972\)\)](#)
- 10.35 [Confirmation of transaction, by and between Booz Allen Hamilton Inc. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., dated as of May 26, 2017 \(Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 31, 2017 \(File No. 001-34972\)\)](#)
- 10.36 [Confirmation of transaction, by and between Booz Allen Hamilton Inc. and Barclays Bank Plc, dated as of May 30, 2017 \(Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on May 31, 2017 \(File No. 001-34972\)\)](#)
- 10.37 [Confirmation of transaction, by and between Booz Allen Hamilton Inc. and Wells Fargo Bank, N.A., dated as of May 25, 2017 \(Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on May 31, 2017 \(File No. 001-34972\)\)](#)

- 10.38 [Assumption Agreement, dated as of April 14, 2017, by eGov Holdings, Inc. and Aquilent, Inc. in favor of Bank of America, N.A., as collateral agent for the banks and other financial institutions or entities party to the Credit Agreement, as amended \(Incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report for the period ended June 30, 2017 on Form 10-Q \(File No. 001-34972\)\)](#)
- 10.39† [Booz Allen Hamilton Inc. Nonqualified Deferred Compensation Plan \(Incorporated by reference to Exhibit 10.35 to the Company's Annual Report for the year ended March 31, 2017 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.40† [Form of Stock Option Agreement under the Second Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.36 to the Company's Annual Report for the year ended March 31, 2017 of Form 10-K \(File No. 001-34972\)\)](#)
- 10.41† [Form of Performance Restricted Stock Unit Agreement under the Second Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.37 to the Company's Annual Report for the year ended March 31, 2017 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.42† [Form of Restricted Stock Unit Agreement under the Second Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.38 to the Company's Annual Report for the year ended March 31, 2017 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.43† [Form of Restricted Stock Unit Agreement under the Second Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation \(Incorporated by reference to Exhibit 10.39 to the Company's Annual Report for the year ended March 31, 2017 on Form 10-K \(File No. 001-34972\)\)](#)
- 10.44† [Form of Restricted Stock Agreement for Directors under the Second Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation\\*](#)
- 10.45† [Officer Perquisites Policy\\*](#)
- 21 [Subsidiaries of the registrant\\*](#)
- 23 [Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm\\*](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of the Chief Executive Officer\\*](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of the Chief Financial Officer\\*](#)
- 32.1 [Certification of the Chief Executive Officer required by Rule 13a-14\(b\) or Rule 15d-14\(b\) and Section 1350 of Chapter 63 of Title 18 of the United States Code \(18 U.S.C. 1350\)\\*](#)
- 32.2 [Certification of the Chief Financial Officer required by Rule 13a-14\(b\) or Rule 15d-14\(b\) and Section 1350 of Chapter 63 of Title 18 of the United States Code \(18 U.S.C. 1350\)\\*](#)
- 101 The following materials from Booz Allen Hamilton Holding Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of March 31, 2018 and 2017; (ii) Consolidated Statements of Operations for the fiscal years ended March 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the fiscal years ended March 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Cash Flows for the fiscal years ended March 31, 2018, 2017 and 2016; (v) Consolidated Statements of Stockholders' Equity for the fiscal years ended March 31, 2018, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements.

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\* Filed electronically herewith.

† Management contract or compensatory arrangement.

**Item 16. *Form 10-K Summary.***

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 29th day of May, 2018.

BOOZ ALLEN HAMILTON HOLDING CORPORATION  
(Registrant)

By: /s/ Horacio D. Rozanski  
Name: Horacio D. Rozanski  
Title: President and Chief Executive Officer

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Horacio D. Rozanski</u> Horacio D. Rozanski	President, Chief Executive Officer and Director (Principal Executive Officer)	May 29, 2018
<u>/s/ Lloyd W. Howell, Jr.</u> Lloyd W. Howell, Jr.	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	May 29, 2018
<u>/s/ Laura S. Adams</u> Laura S. Adams	Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	May 29, 2018
<u>/s/ Ralph W. Shrader</u> Ralph W. Shrader	Chairman of the Board	May 29, 2018
<u>/s/ Joan Lordi C. Amble</u> Joan Lordi C. Amble	Director	May 29, 2018
<u>/s/ Melody C. Barnes</u> Melody C. Barnes	Director	May 29, 2018
<u>/s/ Peter Clare</u> Peter Clare	Director	May 29, 2018
<u>/s/ Ian Fujiyama</u> Ian Fujiyama	Director	May 29, 2018
<u>/s/ Mark Gaumond</u> Mark Gaumond	Director	May 29, 2018
<u>/s/ Arthur E. Johnson</u> Arthur E. Johnson	Director	May 29, 2018

/s/ Gretchen W. McClain  
Gretchen W. McClain

Director

May 29, 2018

/s/ Philip A. Odeen  
Philip A. Odeen

Director

May 29, 2018

/s/ Charles O. Rossotti  
Charles O. Rossotti

Director

May 29, 2018

## BOARD OF DIRECTORS

Ralph W. Shrader  
*Chairman*

Joan Lordi C. Amble

Melody C. Barnes

Peter Clare

Ian Fujiyama

Mark Gaumond

Arthur E. Johnson

Gretchen W. McClain

Philip A. Odeen

Charles O. Rossotti

Horacio D. Rozanski

## LEADERSHIP TEAM

Horacio D. Rozanski

Kristine M. Anderson

Karen M. Dahut

Lloyd W. Howell, Jr.

Nancy J. Laben

Gary D. Labovich

Christopher C.J. Ling

Joseph W. Mahaffee

Angela M. Messer

Susan L. Penfield

Elizabeth M. Thompson

## STOCK EXCHANGE

Booz Allen Hamilton Holding Corporation common stock is listed on the New York Stock Exchange under the ticker symbol BAH.

## TRANSFER AGENT AND REGISTRAR

Computershare  
P.O. BOX 30170  
College Station, TX 77842-3170  
1-866-390-3908  
[www.computershare.com/investor](http://www.computershare.com/investor)

## INDEPENDENT ACCOUNTANTS

Ernst & Young LLP  
Tysons, VA

## COMPANY NEWS

Information about Booz Allen Hamilton Holding Corporation and our operating company Booz Allen Hamilton Inc., including archived news releases and SEC filings, is available from the company's website at [www.boozallen.com](http://www.boozallen.com). Booz Allen's quarterly earnings conference calls and other significant investor events are posted when they occur.

Inquiries from securities analysts, portfolio managers, and other representatives of institutional investors about Booz Allen should be directed to:

Nick Veasey  
Director of Investor Relations  
Phone: 703-377-5332  
E-mail: [Veasey\\_Nicholas@bah.com](mailto:Veasey_Nicholas@bah.com)

