

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2019

**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)

26-2634160

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

8283 Greensboro Drive, McLean, Virginia

(Address of principal executive offices)

22102

(Zip Code)

(703) 902-5000

Registrant's telephone number, including area code  
(Former name, former address, and former fiscal year if changed since last report.)

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	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

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

**Shares Outstanding  
as of January 28, 2020**

Class A Common Stock

140,214,612

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<b>December 31, 2019</b>	<b>March 31, 2019</b>
	<b>(Unaudited)</b>	
	<b>(Amounts in thousands, except share and per share data)</b>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 696,821	\$ 283,990
Accounts receivable, net of allowance	1,427,816	1,330,364
Prepaid expenses and other current assets	98,126	84,986
Total current assets	2,222,763	1,699,340
Property and equipment, net of accumulated depreciation	195,392	172,453
Operating lease right-of-use assets	243,342	—
Intangible assets, net of accumulated amortization	298,269	287,051
Goodwill	1,581,160	1,581,160
Other long-term assets	89,701	91,837
Total assets	\$ 4,630,627	\$ 3,831,841
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 77,865	\$ 57,924
Accounts payable and other accrued expenses	671,600	664,948
Accrued compensation and benefits	320,791	325,553
Operating lease liabilities	38,053	—
Other current liabilities	45,523	130,814
Total current liabilities	1,153,832	1,179,239
Long-term debt, net of current portion	2,026,645	1,701,837
Operating lease liabilities, net of current portion	273,435	—
Other long-term liabilities	261,678	275,399
Total liabilities	3,715,590	3,156,475
Commitments and contingencies (Note 19)		
<b>Stockholders' equity:</b>		
Common stock, Class A — \$0.01 par value — authorized, 600,000,000 shares; issued, 160,658,781 shares at December 31, 2019 and 159,924,825 shares at March 31, 2019; outstanding, 140,318,046 shares at December 31, 2019 and 140,027,853 shares at March 31, 2019	1,606	1,599
Treasury stock, at cost — 20,340,735 shares at December 31, 2019 and 19,896,972 shares at March 31, 2019	(742,335)	(711,450)
Additional paid-in capital	446,318	401,596
Retained earnings	1,235,605	994,811
Accumulated other comprehensive loss	(26,157)	(11,190)
Total stockholders' equity	915,037	675,366
Total liabilities and stockholders' equity	\$ 4,630,627	\$ 3,831,841

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

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
	(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)	
Revenue	\$ 1,849,441	\$ 1,663,112	\$ 5,494,194	\$ 4,923,957
Operating costs and expenses:				
Cost of revenue	813,500	750,680	2,498,096	2,285,062
Billable expenses	600,522	510,047	1,691,543	1,465,831
General and administrative expenses	245,719	222,673	724,121	655,410
Depreciation and amortization	20,655	17,780	60,308	50,359
Total operating costs and expenses	<u>1,680,396</u>	<u>1,501,180</u>	<u>4,974,068</u>	<u>4,456,662</u>
Operating income	169,045	161,932	520,126	467,295
Interest expense	(24,231)	(22,036)	(75,281)	(67,357)
Other income (expense), net	1,909	373	5,885	(2,415)
Income before income taxes	<u>146,723</u>	<u>140,269</u>	<u>450,730</u>	<u>397,523</u>
Income tax expense	34,697	8,232	106,993	68,569
Net income	<u>\$ 112,026</u>	<u>\$ 132,037</u>	<u>\$ 343,737</u>	<u>\$ 328,954</u>
Earnings per common share (Note 4):				
Basic	<u>\$ 0.79</u>	<u>\$ 0.92</u>	<u>\$ 2.44</u>	<u>\$ 2.29</u>
Diluted	<u>\$ 0.79</u>	<u>\$ 0.92</u>	<u>\$ 2.42</u>	<u>\$ 2.27</u>

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

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
	(Amounts in thousands)		(Amounts in thousands)	
Net income	\$ 112,026	\$ 132,037	\$ 343,737	\$ 328,954
Other comprehensive income, net of tax:				
Change in unrealized (loss) gain on derivatives designated as cash flow hedges	4,945	(7,058)	(15,034)	(4,100)
Change in postretirement plan costs	17	447	67	1,278
Total other comprehensive income (loss), net of tax	4,962	(6,611)	(14,967)	(2,822)
Comprehensive income	\$ 116,988	\$ 125,426	\$ 328,770	\$ 326,132

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

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Nine Months Ended December 31,	
	2019	2018
(Amounts in thousands)		
<b>Cash flows from operating activities</b>		
Net income	\$ 343,737	\$ 328,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60,308	50,359
Noncash lease expense	41,846	—
Stock-based compensation expense	26,796	23,231
Amortization of debt issuance costs and loss on extinguishment	5,083	8,150
Losses on dispositions	1,160	408
Changes in assets and liabilities:		
Accounts receivable, net of allowance	(97,452)	(188,392)
Deferred income taxes and income taxes receivable / payable	(751)	(8,736)
Prepaid expenses and other current assets	(14,597)	(7,236)
Other long-term assets	(60)	(14,067)
Accrued compensation and benefits	1,203	22,670
Accounts payable and other accrued expenses	21,849	58,059
Other current liabilities	9,053	14,903
Operating lease liabilities	(35,420)	—
Other long-term liabilities	3,704	(5,100)
Net cash provided by operating activities	<u>366,459</u>	<u>283,203</u>
<b>Cash flows from investing activities</b>		
Purchases of property, equipment, and software	(90,712)	(58,076)
Payments for business acquisitions, net of cash acquired	—	(20)
Net cash used in investing activities	<u>(90,712)</u>	<u>(58,096)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock	10,843	8,104
Stock option exercises	7,440	9,371
Repurchases of common stock	(37,199)	(181,413)
Cash dividends paid	(102,943)	(81,807)
Repayment of debt	(57,456)	(116,031)
Proceeds from debt issuance	397,892	62,072
Payment of deferred payment obligation	(80,000)	—
Other financing activities	(1,493)	(502)
Net cash provided by (used in) financing activities	<u>137,084</u>	<u>(300,206)</u>
Net increase (decrease) in cash and cash equivalents	412,831	(75,099)
Cash and cash equivalents—beginning of period	283,990	286,958
Cash and cash equivalents—end of period	<u>\$ 696,821</u>	<u>\$ 211,859</u>
<b>Supplemental disclosures of cash flow information</b>		
Net cash paid during the period for:		
Interest	\$ 69,627	\$ 62,067
Income taxes	\$ 107,149	\$ 77,475
<b>Supplemental disclosures of non-cash investing and financing activities</b>		
Noncash financing activities	\$ 4,501	\$ 3,033

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

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)**

(Amounts in thousands, except share data)	Class A Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balance at September 30, 2019</b>	160,400,357	\$1,604	(20,026,907)	\$(719,793)	\$427,817	\$1,161,674	\$ (31,119)	\$ 840,183
Issuance of common stock	59,549	—	—	—	3,794	—	—	3,794
Stock options exercised	198,875	2	—	—	3,751	—	—	3,753
Repurchase of common stock	—	—	(313,828)	(22,542)	—	—	—	(22,542)
Recognition of liability related to future restricted stock units vesting	—	—	—	—	(32)	—	—	(32)
Net income	—	—	—	—	—	112,026	—	112,026
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	4,962	4,962
Dividends paid of \$0.27 per common share	—	—	—	—	—	(38,095)	—	(38,095)
Stock-based compensation expense	—	—	—	—	10,988	—	—	10,988
<b>Balance at December 31, 2019</b>	160,658,781	\$1,606	(20,340,735)	\$(742,335)	\$446,318	\$1,235,605	\$ (26,157)	\$ 915,037
<b>Balance at March 31, 2019</b>	159,924,825	\$1,599	(19,896,972)	\$(711,450)	\$401,596	\$ 994,811	\$ (11,190)	\$ 675,366
Issuance of common stock	305,782	3	—	—	10,840	—	—	10,843
Stock options exercised	428,174	4	—	—	7,436	—	—	7,440
Repurchase of common stock (1)	—	—	(443,763)	(30,885)	—	—	—	(30,885)
Recognition of liability related to future restricted stock units vesting	—	—	—	—	(350)	—	—	(350)
Net income	—	—	—	—	—	343,737	—	343,737
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(14,967)	(14,967)
Dividends paid of \$0.73 per common share	—	—	—	—	—	(102,943)	—	(102,943)
Stock-based compensation expense	—	—	—	—	26,796	—	—	26,796
<b>Balance at December 31, 2019</b>	160,658,781	\$1,606	(20,340,735)	\$(742,335)	\$446,318	\$1,235,605	\$ (26,157)	\$ 915,037

(1) During the nine months ended December 31, 2019, the Company purchased 0.4 million shares of the Company's Class A Common Stock in a series of open market transactions for \$28.4 million. Additionally, the Company repurchased shares during the first, second, and third quarters of fiscal 2020 to cover the minimum statutory withholding taxes on restricted stock units that vested on various dates during the period.

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

**BOOZ ALLEN HAMILTON HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED) [CONTINUED]**

(Amounts in thousands, except share data)	Class A Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balance at September 30, 2018</b>	159,124,212	\$1,591	(16,573,433)	\$(550,688)	\$373,980	\$ 832,774	\$ (11,317)	\$ 646,340
Issuance of common stock	72,019	1	—	—	2,876	—	—	2,877
Stock options exercised	77,121	1	—	—	829	—	—	830
Repurchase of common stock	—	—	(1,728,045)	(83,036)	—	—	—	(83,036)
Net income	—	—	—	—	—	132,037	—	132,037
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(6,611)	(6,611)
Dividends paid of \$0.19 per common share	—	—	—	—	—	(27,148)	—	(27,148)
Stock-based compensation expense	—	—	—	—	9,966	—	—	9,966
<b>Balance at December 31, 2018</b>	159,273,352	\$1,593	(18,301,478)	\$(633,724)	\$387,651	\$ 937,663	\$ (17,928)	\$ 675,255
<b>Balance at March 31, 2018</b>	158,028,673	\$1,580	(14,582,134)	\$(461,457)	\$346,958	\$ 690,516	\$ (15,106)	\$ 562,491
Issuance of common stock	489,385	6	—	—	8,098	—	—	8,104
Stock options exercised	755,294	7	—	—	9,364	—	—	9,371
Repurchase of common stock (2)	—	—	(3,719,344)	(172,267)	—	—	—	(172,267)
Net income	—	—	—	—	—	328,954	—	328,954
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(2,822)	(2,822)
Dividends paid of \$0.57 per common share	—	—	—	—	—	(81,807)	—	(81,807)
Stock-based compensation expense	—	—	—	—	23,231	—	—	23,231
<b>Balance at December 31, 2018</b>	159,273,352	\$1,593	(18,301,478)	\$(633,724)	\$387,651	\$ 937,663	\$ (17,928)	\$ 675,255

(2) During the nine months ended December 31, 2018, the Company purchased 3.6 million shares of the Company's Class A Common Stock in a series of open market transactions for \$168.4 million. Additionally, the Company repurchased shares during the first quarter of fiscal 2019 to cover the minimum statutory withholding taxes on restricted stock units that vested on June 30, 2018.

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

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

**1. BUSINESS OVERVIEW**

***Organization***

Booz Allen Hamilton Holding Corporation, including its wholly owned subsidiaries, or the Company, we, us, and our, was incorporated in Delaware in May 2008. The Company provides management and technology consulting, analytics, engineering, 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 27,200 employees as of December 31, 2019.

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, or SEC, and should be read in conjunction with the information contained in the Company's Annual Report on Form 10-K for the year ended March 31, 2019. The interim period unaudited condensed consolidated financial statements are presented as described below. Certain information and disclosures normally required for annual financial statements have been condensed or omitted pursuant to GAAP and SEC rules and regulations. In the opinion of management, all adjustments considered necessary for fair presentation of the results of the interim period presented have been included. 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 results of operations for the nine months ended December 31, 2019 are not necessarily indicative of results to be expected for the full fiscal year.

The condensed 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.

Effective April 1, 2019, the Company adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), using the modified retrospective transition approach and, as a result, comparative information for the prior fiscal year has not been retrospectively adjusted.

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

***Accounting Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Areas of the financial statements where estimates may have the most significant effect include the provision for claimed indirect costs, valuation and lives of tangible and intangible assets, contingent consideration related to business acquisitions, impairment of long-lived assets, accrued liabilities, revenue recognition, including the accrual of indirect costs, bonus and other incentive compensation, lease incremental borrowing rates, 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.

***Recently Adopted Accounting Standards***

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 greater than 12 months. Topic 842 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB provided an alternative transition method of adoption through ASU 2018-11, *Targeted Improvements*, which permits the recognition of a cumulative-effect adjustment to retained earnings on the date of adoption.

The Company adopted the standard on April 1, 2019 using the modified retrospective transition approach provided by ASU 2018-11, and, as a result, did not recast comparative prior period information. In addition, the Company elected certain practical expedients permitted under Topic 842, including the option not to apply lease recognition for short-term leases; an

election to not separate lease from non-lease components; and a package of practical expedients such that, upon the initial adoption of Topic 842, the Company did not reassess whether expired or existing contracts contain leases, nor did the Company reassess the lease classification for expired or existing leases. The Company did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of right-of-use (ROU) assets.

Upon the adoption of Topic 842, the Company recognized ROU assets of \$268.8 million and lease liabilities of \$330.6 million on the condensed consolidated balance sheets, inclusive of required conforming balance sheet reclassifications pertaining to accounts such as deferred rent, tenant allowances, and lease receivables. As required under Topic 842 transition guidance, the lease liabilities recognized were measured at the present value of remaining minimum rental payments pursuant to Topic 840 which include executory costs.

The impact to the condensed consolidated balance sheet at April 1 for the adoption of Topic 842 is as follows:

	Balance at March 31, 2019	Adoption adjustments for Topic 842	Balance at April 1, 2019
<b>Current assets:</b>			
Prepaid expenses and other current assets	\$ 84,986	\$ (27,515)	\$ 57,471
<b>Non-current assets:</b>			
Operating lease right-of-use assets	\$ —	\$ 268,840	\$ 268,840
Other long-term assets	91,837	(4,619)	87,218
<b>Current liabilities:</b>			
Accounts payable and other accrued expenses	\$ 664,948	\$ (15,197)	\$ 649,751
Operating lease liabilities	—	34,645	34,645
<b>Non-current liabilities:</b>			
Operating lease liabilities, net of current portion	\$ —	\$ 295,915	\$ 295,915
Other long-term liabilities	275,399	(78,657)	196,742

Further, at the adoption of Topic 842, the Company recognized a deferred tax liability corresponding to the operating lease right-of-use assets of \$69 million and a deferred tax asset corresponding to the operating lease liabilities of \$93 million, inclusive of a decrease to deferred tax assets for the deferred rent and tenant allowances of \$24 million as of March 31, 2019. There was no cumulative impact to retained earnings and the April 1, 2019 adoption of Topic 842 did not have a material impact to either of the condensed consolidated statements of operations or cash flows.

In March 2019, the SEC issued Final Rule Release No. 33-10618, *FAST Act Modernization and Simplification of Regulation S-K*, amending certain disclosure requirements in Regulation S-K, with the intent of improving the readability of filed documents and simplifying registrants' compliance efforts. The Company adopted certain aspects of this final rule in the fourth quarter of fiscal 2019 which did not have a material impact on the condensed consolidated financial statements. Other aspects not yet adopted are still being evaluated but are not expected to be material.

In August 2018, the SEC issued Final Rule Release No. 33-10532, *Disclosure Update and Simplification*, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. This analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The amendments became effective on November 5, 2018; however the SEC allows the filer's first presentation of the changes in stockholders' equity to be included in its Form 10-Q for the quarter that begins after the effective date of the amendments. Accordingly, the Company first presented the condensed consolidated statement of stockholders' equity in the Form 10-Q in the first quarter of fiscal 2020. The Company's adoption of this final rule did not have a material effect on the condensed consolidated financial statements.

### **Recent Accounting Pronouncements Not Yet Adopted**

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance requires a customer in a cloud computing arrangement that is a service contract to follow existing internal-use software guidance to determine which implementation costs to defer and recognize as an asset. ASU 2018-15 generally aligns the guidance on capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with that of implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. ASU 2018-15 is effective for interim reporting periods for fiscal years beginning after December 15, 2019. Early adoption is permitted. The standard may be adopted either retrospectively or prospectively. The Company does not expect the adoption of this standard to have a material impact on the condensed consolidated financial statements.

Other accounting and reporting pronouncements effective after December 31, 2019 and issued through the filing date are not expected to have a material impact on the Company's condensed consolidated financial statements.

### **3. REVENUE**

The Company's revenues from contracts with customers (clients) are derived from offerings that include consulting, analytics, digital solutions, engineering, and cyber services, substantially with the U.S. government and its agencies and, to a lesser extent, subcontractors. The Company also serves foreign governments, as well as domestic and international commercial clients. The Company performs under various types of contracts, which include cost-reimbursable contracts, time-and-materials contracts, and fixed-price contracts.

#### **Contract Estimates**

Many of our contracts recognize revenue under a contract cost-based input method and require an Estimate-at-Completion (EAC) process, which management uses to review and monitor the progress towards the completion of our performance obligations. Under this process, management considers various inputs and assumptions related to the EAC, including, but not limited to, progress towards completion, labor costs and productivity, material and subcontractor costs, and identified risks. Estimating the total cost at completion of performance obligations is subjective and requires management to make assumptions about future activity and cost drivers under the contract. Changes in these estimates can occur for a variety of reasons and, if significant, may impact the profitability of the Company's contracts. Changes in estimates related to contracts accounted for under the EAC process are recognized on a cumulative catch-up basis in the period when such changes are determinable and reasonably estimable. If the estimate of contract profitability indicates an anticipated loss on a contract, the Company recognizes the total loss at the time it is identified. For each of the three and nine months ended December 31, 2019 and 2018, the aggregate impact of adjustments in contract estimates was not material.

#### **Disaggregation of Revenue**

We disaggregate our revenue from contracts with customers by contract type, customer, as well as whether the Company acts as prime contractor or subcontractor, as we believe these categories best depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. The following series of tables presents our revenue disaggregated by these categories.

#### **Revenue by Contract Type:**

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 fixed fee or award fee.
- **Time-and-Materials Contracts:** Under contracts in this category, 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. We assume the financial risk on time-and-materials contracts because our costs of performance may exceed negotiated hourly rates.
- **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.

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

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2019		2018		2019		2018	
Cost-reimbursable	\$ 1,052,313	57%	\$ 901,660	54%	\$ 3,104,961	57%	\$ 2,612,938	53%
Time-and-materials	428,081	23%	376,368	23%	1,272,281	23%	1,172,461	24%
Fixed-price	369,047	20%	385,084	23%	1,116,952	20%	1,138,558	23%
Total Revenue	\$ 1,849,441	100%	\$ 1,663,112	100%	\$ 5,494,194	100%	\$ 4,923,957	100%

*Revenue by Customer Type:*

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2019		2018		2019		2018	
U.S. government:								
Defense Clients	\$ 904,389	49%	\$ 767,340	46%	\$ 2,608,595	48%	\$ 2,280,892	46%
Intelligence Clients	383,422	21%	378,043	23%	1,207,709	22%	1,161,256	24%
Civil Clients	485,506	26%	444,661	27%	1,488,551	27%	1,297,823	26%
Total U.S. government	1,773,317	96%	1,590,044	96%	5,304,855	97%	4,739,971	96%
Global Commercial Clients	76,124	4%	73,068	4%	189,339	3%	183,986	4%
Total Revenue	\$ 1,849,441	100%	\$ 1,663,112	100%	\$ 5,494,194	100%	\$ 4,923,957	100%

*Revenue by Whether the Company Acts as a Prime Contractor or a Sub-Contractor:*

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2019		2018		2019		2018	
Prime Contractor	\$ 1,714,705	93%	\$ 1,534,912	92%	\$ 5,064,657	92%	\$ 4,524,247	92%
Sub-contractor	134,736	7%	128,200	8%	429,537	8%	399,710	8%
Total Revenue	\$ 1,849,441	100%	\$ 1,663,112	100%	\$ 5,494,194	100%	\$ 4,923,957	100%

**Performance Obligations**

Remaining performance obligations represent the transaction price of exercised contracts for which work has not yet been performed, irrespective of whether funding has or has not been authorized and appropriated as of the date of exercise. Remaining performance obligations do not include negotiated but unexercised options or the unfunded value of expired contracts.

As of December 31, 2019 and March 31, 2019, the Company had \$6.7 billion and \$5.8 billion, respectively, of remaining performance obligations and we expect to recognize more than half of the remaining performance obligations as revenue over the next 12 months, and approximately three quarters over the next 24 months. The remainder is expected to be recognized thereafter.

**Contract Balances**

The Company's performance obligations are typically satisfied over time and revenue is generally recognized using a cost-based input method. Fixed-price contracts are typically billed to the customer using milestone or fixed monthly payments, while cost-reimbursable-plus-fee and time-and-material contracts are typically billed to the customer at periodic intervals (e.g. monthly or weekly) as indicated by the terms of the contract. Disparities between the timing of revenue recognition and customer billings and cash collections results in net contract assets or liabilities being recognized at the end of each reporting period.

Contract assets primarily consist of unbilled receivables typically resulting from revenue recognized exceeding the amount billed to the customer and right to payment is not just subject to the passage of time. Contract liabilities primarily consist of advance payments, billings in excess of costs incurred and deferred revenue. Contract assets and liabilities are reported on a net contract basis at the end of each reporting period. The Company maintains an allowance for doubtful accounts to provide for an estimate of uncollected receivables. Refer to Note 5 for more information on receivables recognized from contracts accounted for under Accounting Standards Codification (ASC) No. 606, *Revenue from Contracts with Customers* (Topic 606).

The following table summarizes the contract balances recognized on the Company's condensed consolidated balance sheets:

Balance Sheet line item	December 31, 2019	March 31, 2019	
<b>Contract assets:</b>			
Current	Accounts receivable, net of allowance	\$ 928,056	\$ 846,372
Long-term	Other long-term assets	61,892	61,391
Total		\$ 989,948	\$ 907,763
<b>Contract liabilities:</b>			
Advance payments, billings in excess of costs incurred and deferred revenue	Other current liabilities	\$ 30,585	\$ 21,316

Changes in contract assets and contract liabilities are primarily due to the timing difference between the Company's performance of services and payments from customers. For the three months ended December 31, 2019 and 2018, we recognized revenue of \$36 thousand and \$1.9 million, respectively, and for the nine months ended December 31, 2019 and 2018, we recognized revenue of \$18.5 million and \$23.8 million related to our contract liabilities on April 1, 2019 and 2018, respectively. To determine revenue recognized from contract liabilities during the reporting periods, the Company allocates revenue to individual contract liability balances and applies revenue recognized during the reporting periods first to the beginning balances of contract liabilities until the revenue exceeds the balances.

#### 4. 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 were paid in the first, second, and third quarters of fiscal 2020 and 2019. 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:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Earnings for basic computations (1)	\$ 111,435	\$ 131,190	\$ 341,922	\$ 326,863
Weighted-average common shares outstanding for basic computations	140,297,795	141,890,875	140,183,418	142,539,656
Earnings for diluted computations (1)	\$ 111,438	\$ 131,195	\$ 341,932	\$ 326,877
Dilutive stock options and restricted stock	1,260,632	1,166,025	1,165,217	1,293,230
Weighted-average common shares outstanding for diluted computations	141,558,427	143,056,900	141,348,635	143,832,886
<b>Earnings per common share</b>				
Basic	\$ 0.79	\$ 0.92	\$ 2.44	\$ 2.29
Diluted	\$ 0.79	\$ 0.92	\$ 2.42	\$ 2.27

(1) During the three months ended December 31, 2019 and 2018, approximately 0.7 million and 0.9 million participating securities, respectively, were paid dividends totaling \$0.2 million in both periods. During the nine months ended December 31, 2019 and 2018, approximately 0.7 million and 0.9 million participating securities, respectively, were paid dividends totaling \$0.5 million in both periods. For the three months ended December 31, 2019 and 2018, there were undistributed earnings of \$0.4 million and \$0.7 million, respectively, allocated to the participating class of securities in both basic and diluted EPS. For the nine months ended December 31, 2019 and 2018, there were undistributed earnings of \$1.3 million and \$1.6 million, respectively, allocated to the participating class of securities in both basic and diluted EPS. The allocated undistributed earnings and the dividends paid comprise the difference between net income presented

on the condensed consolidated statements of operations and earnings for basic and diluted computations for the three and nine months ended December 31, 2019 and 2018.

The EPS calculation for the three months ended December 31, 2019 and 2018 excludes 0.2 million and 0.1 million options, respectively, as their impact was anti-dilutive. The EPS calculation for the nine months ended December 31, 2019 and 2018 excludes 0.2 million options in both periods as their impact was anti-dilutive.

## 5. ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Accounts receivable, net of allowance consisted of the following:

	December 31, 2019	March 31, 2019
<b>Current assets</b>		
Accounts receivable–billed	\$ 503,549	\$ 494,671
Accounts receivable–unbilled	928,056	846,372
Allowance for doubtful accounts	(3,789)	(10,679)
Accounts receivable, net of allowance	1,427,816	1,330,364
<b>Other long-term assets</b>		
Accounts receivable–unbilled	61,892	61,391
Total accounts receivable, net	\$ 1,489,708	\$ 1,391,755

Unbilled amounts represent revenues for which billings have not been presented to customers at quarter-end or year-end. These amounts are generally billed and collected within one year subject to various conditions including, without limitation, appropriated and available funding. 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 condensed consolidated balance sheets. The Company recognized a (benefit) provision for doubtful accounts (including certain unbilled reserves) of \$(9.2) million and \$0.5 million for the three months ended December 31, 2019 and 2018, respectively, and \$(7.9) million and \$11.2 million for the nine months ended December 31, 2019 and 2018, respectively.

The primary financial instruments, other than derivatives, that potentially subject the Company to concentrations of credit risk are accounts receivable. The Company's primary customers are U.S. federal government agencies and prime contractors under contracts with the U.S. government. The Company continuously reviews its accounts receivable and records provisions for doubtful accounts as needed.

## 6. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES

Accounts payable and other accrued expenses consisted of the following:

	December 31, 2019	March 31, 2019
Vendor payables	\$ 398,525	\$ 417,648
Accrued expenses	273,075	247,300
Total accounts payable and other accrued expenses	\$ 671,600	\$ 664,948

Accrued expenses consisted primarily of the Company's provision for claimed indirect costs, which was approximately \$217.6 million and \$195.3 million as of December 31, 2019 and March 31, 2019. See Note 19 for further discussion of this provision.

## 7. ACCRUED COMPENSATION AND BENEFITS

Accrued compensation and benefits consisted of the following:

	December 31, 2019	March 31, 2019
Bonus	\$ 83,147	\$ 117,604
Retirement	84,780	37,678
Vacation	126,720	141,953
Other	26,144	28,318
Total accrued compensation and benefits	<u>\$ 320,791</u>	<u>\$ 325,553</u>

## 8. 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 of the transaction, 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 balance, which was recorded in other current liabilities, was available to indemnify the Company for certain pre-acquisition tax contingencies, related interest and penalties, and other matters pursuant to the Merger Agreement. All remaining potential claims outstanding that were able to be indemnified under the DPO related to former officers and stockholders' suits which were all settled as of December 31, 2019. See Note 19 to the accompanying condensed consolidated financial statements. Any amounts remaining after the settlement of all claims were to be paid out to the selling shareholders. On December 18, 2019, the Company paid approximately \$83.0 million to the selling shareholders, of which \$80.0 million was the repayment of the remaining DPO balance, with \$3.0 million representing accrued interest.

## 9. DEBT

Debt consisted of the following:

	December 31, 2019		March 31, 2019	
	Interest Rate	Outstanding Balance	Interest Rate	Outstanding Balance
Term Loan A	3.30%	\$ 1,382,232	4.00%	\$ 1,037,713
Term Loan B	3.55%	389,075	4.50%	391,050
Senior Notes	5.13%	350,000	5.13%	350,000
Less: Unamortized debt issuance costs and discount on debt		(16,797)		(19,002)
Total		<u>2,104,510</u>		<u>1,759,761</u>
Less: Current portion of long-term debt		(77,865)		(57,924)
Long-term debt, net of current portion		<u>\$ 2,026,645</u>		<u>\$ 1,701,837</u>

### Term Loans and Revolving Credit Facility

On November 26, 2019 (the "Amendment Effective Date"), Booz Allen Hamilton Inc. ("Booz Allen Hamilton") and Booz Allen Hamilton Investor Corporation ("Investor"), and certain wholly-owned subsidiaries of Booz Allen Hamilton, entered into the Seventh Amendment (the "Seventh Amendment") to the Credit Agreement (as amended, 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 and Collateral Agent and the other lenders and financial institutions from time to time party thereto (as previously amended by the First Amendment to the Credit Agreement, dated as of August 16, 2013, the Second

Amendment to the Credit Agreement, dated as of May 7, 2014, the Third Amendment to the Credit Agreement, dated as of July 13, 2016, the Fourth Amendment to the Credit Agreement, dated as of February 6, 2017, the Fifth Amendment to the Credit Agreement, dated as of March 7, 2018, and the Sixth Amendment to the Credit Agreement, dated July 23, 2018). Pursuant to the Seventh Amendment, the Company reduced the applicable margin applicable to the Term Loan B ("Term Loan B" and, together with the Term Loan A, the "Term Loans") from 2.00% to 1.75% for LIBOR loans and from 1.00% to 0.75% for base rate loans and extended the maturity of the Term Loan B to November 26, 2026. The applicable margin and maturity date applicable to the Term Loan A (the "Term Loan A") remained unchanged.

Prior to the Seventh Amendment, approximately \$389.0 million was outstanding under Term Loan B. Pursuant to the Seventh 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 \$389.0 million (the "New Refinancing Tranche B Term Loans"). The proceeds from the new lenders were used to prepay in full all of the existing Term Loan B loans that were not converted into the new Term Loan B tranche. Voluntary prepayments of the New Refinancing Tranche B Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty, subject to a 1.00% premium payable in connection with certain repricing transactions within the first six months after the Seventh Amendment. The other terms of the New Refinancing Tranche B Term Loans are generally the same as the existing Term Loan B prior to the Seventh Amendment.

As of December 31, 2019, the Credit Agreement provided Booz Allen Hamilton with a \$1,382.2 million Term Loan A, a \$389.1 million Term Loan B, and \$500.0 million in New Revolving Commitments with a sub-limit for letters of credit of \$100.0 million. As of December 31, 2019, the maturity date of Term Loan A and the termination date for the Revolving Credit Facility was July 23, 2023 and the maturity date of Term Loan B was November 26, 2026. Booz Allen Hamilton's obligations and the guarantors' guarantees under the Credit Agreement 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 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 the 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) the greater of (x) \$627 million and (y) 100% of consolidated EBITDA of Booz Allen Hamilton, as of the end of the most recently ended four quarter period for which financial statements have been delivered pursuant to the Credit Agreement 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 the Secured 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 1.25% to 2.00% for LIBOR loans and 0.25% to 1.00% 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 1.75% for LIBOR loans and 0.75% for base rate loans. Unused commitments under the Revolving Credit Facility are subject to a quarterly fee ranging from 0.20% to 0.35% based on Booz Allen Hamilton's consolidated total net leverage ratio.

Booz Allen Hamilton occasionally borrows under the Revolving Credit Facility in anticipation of cash demands. During the first, second and third quarters of fiscal 2020, Booz Allen Hamilton accessed no amounts of its \$500.0 million Revolving Credit Facility. During the first, second and third quarters of fiscal 2019, Booz Allen Hamilton accessed a total of \$70.0 million of its \$500.0 million Revolving Credit Facility. As of December 31, 2019 and March 31, 2019, there were no amounts outstanding under the Revolving Credit Facility.

The Credit Agreement 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 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) change in fiscal periods; (viii) negative pledges; (ix) restrictive agreements; (x) line of business; and (xi) 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 December 31, 2019 and March 31, 2019, Booz Allen Hamilton was in compliance with all financial covenants associated with its debt and debt-like instruments.

For the three months ended December 31, 2019 and 2018, interest payments of \$12.0 million and \$10.5 million were made for Term Loan A and \$3.7 million and \$4.4 million were made for Term Loan B, respectively. For the nine months ended December 31, 2019 and 2018, interest payments of \$39.2 million and \$31.6 million were made for Term Loan A and \$12.5 million and \$12.4 million were made for Term Loan B, respectively.

#### Senior Notes

On April 25, 2017, Booz Allen Hamilton issued \$350 million aggregate principal amount of its 5.125% Senior Notes (the "Senior Notes") due 2025, under an Indenture, dated as of 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. 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. For both the three months ended December 31, 2019 and 2018, Booz Allen Hamilton made interest payments of \$8.9 million for the Senior Notes. For both the nine months ended December 31, 2019 and 2018, Booz Allen Hamilton made interest payments of \$17.9 million for the Senior Notes.

Borrowings under the Term Loans and, if used, the Revolving Credit Facility, incur interest at a variable rate. In accordance with Booz Allen Hamilton's risk management strategy, between April 6, 2017 and April 4, 2019, Booz Allen Hamilton executed a series of interest rate swaps. As of December 31, 2019, Booz Allen Hamilton had interest rate swaps with an aggregate notional amount of \$1 billion. These instruments hedge the variability of cash outflows for interest payments on the floating portion of the Company's 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 10 to our condensed consolidated financial statements).

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Term Loan A Interest Expense	\$ 11,956	\$ 10,336	\$ 38,990	\$ 31,523
Term Loan B Interest Expense	3,719	4,318	12,371	12,350
Interest on Revolving Credit Facility	—	—	—	61
Senior Notes Interest Expense	4,484	4,484	13,453	13,453
Deferred Payment Obligation Interest <sup>(1)</sup>	1,718	2,000	5,740	6,015
Amortization of Debt Issuance Cost (DIC) and Original Issue Discount (OID) <sup>(2)</sup>	1,174	1,230	3,632	3,848
Other	1,180	(332)	1,095	107
<b>Total Interest Expense</b>	<b>\$ 24,231</b>	<b>\$ 22,036</b>	<b>\$ 75,281</b>	<b>\$ 67,357</b>

<sup>(1)</sup> Interest payments on the deferred payment obligation are made twice a year in January and July. The final payment was made on December 18, 2019. See Note 8 to the condensed consolidated financial statements.

<sup>(2)</sup> DIC and OID on the Term Loans and Senior Notes are recorded as a reduction of long-term debt in the condensed consolidated balance sheet and are amortized ratably over the life of the related debt using the effective rate method. DIC on

the Revolving Credit Facility is recorded as a long-term asset on the condensed consolidated balance sheet and amortized ratably over the term of the Revolving Credit Facility.

## 10. 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 of interest expense. During the first quarter of fiscal 2020, the Company entered into eight floating-to-fixed interest rate swap agreements with six financial institutions with a start date of April 30, 2019 with an aggregate notional amount of \$400 million. The aggregate notional amount of all interest rate swap agreements was \$1 billion as of December 31, 2019. The swaps have staggered maturities, ranging from June 30, 2021 to June 30, 2025.

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 convert a portion of the variable rate debt into fixed interest rate debt.

Derivative instruments are recorded in the condensed consolidated balance sheet on a gross basis at estimated fair value. As of December 31, 2019, \$6.5 million and \$16.7 million were classified as other current liabilities and other long-term liabilities, respectively, on the condensed consolidated balance sheet. As of March 31, 2019, \$1.8 million, \$0.6 million, \$0.9 million, and \$4.3 million were classified as other current assets, other long-term assets, other current liabilities, and other long-term liabilities, respectively, on the condensed consolidated balance sheet.

For interest rate swaps designated as cash flow hedges, the changes in the fair value of derivatives is recorded in Accumulated Other Comprehensive Loss, or AOCL, 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. The effect of derivative instruments on the accompanying condensed consolidated financial statements for the three and nine months ended December 31, 2019 and 2018 is as follows:

Derivatives in Cash Flow Hedging Relationships	Location of Gain or Loss Recognized in Income on Derivatives	Three Months Ended December 31,					
		Amount of Gain or (Loss) Recognized in AOCL on Derivatives		Amount of Gain or (Loss) Reclassified from AOCL into Income		Interest Expense on Condensed Consolidated Statements of Operations	
		2019	2018	2019	2018	2019	2018
Interest rate swaps	Interest expense	\$ 5,617	\$ (9,202)	\$ 1,081	\$ (359)	\$ (24,231)	\$ (22,036)

Derivatives in Cash Flow Hedging Relationships	Location of Gain or Loss Recognized in Income on Derivatives	Nine Months Ended December 31,					
		Amount of Gain or (Loss) Recognized in AOCL on Derivatives		Amount of Gain or (Loss) Reclassified from AOCL into Income		Interest Expense on Condensed Consolidated Statements of Operations	
		2019	2018	2019	2018	2019	2018
Interest rate swaps	Interest expense	\$ (20,968)	\$ (5,112)	\$ 604	\$ (442)	\$ (75,281)	\$ (67,357)

Over the next 12 months, the Company estimates that \$6.6 million will be reclassified as an increase to interest expense. Cash flows associated with periodic settlements of interest rate swaps will be classified as operating activities in the condensed 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.

## 11. LEASES

Under Topic 842, the Company determines whether the contract is, or contains, a lease, which exists when the contract conveys the right to control the use of identified property or equipment for a period of time in exchange for consideration. Operating leases are included in operating lease ROU assets, operating lease liabilities, and operating lease liabilities, net of current portion in our condensed consolidated balance sheets. Cash payments arising from operating leases are classified within

operating activities in the condensed consolidated statement of cash flows. As of December 31, 2019, the Company had no finance leases.

The Company's leases are generally for facilities and office space and the Company recognizes operating lease ROU assets and operating lease liabilities at lease commencement date for those arrangements. The initial lease liability is equal to the present value of the future minimum lease payments over the lease term. The initial measurement of the ROU asset is equal to the initial lease liability plus any initial direct costs and prepaid lease payments, less any lease incentives. At the lease commencement date the Company estimates its collateralized incremental borrowing rate based on publicly available yields adjusted for Company-specific considerations and the Company's varying lease terms in determining the present value of future payments. Certain of the Company's leases contain options to renew or to terminate the lease which are included in the determination of the ROU assets and lease liabilities when it is reasonably certain that the Company will exercise the option. The Company's leases may also include variable lease payments, such as maintenance costs, utilities, or other variable lease-related payments which are not included in measuring ROU assets and lease liabilities and are recorded as lease expense in the period incurred.

As permitted under Topic 842, the Company elected not to recognize ROU assets and lease liabilities for leases with an initial term of 12 months or less; lease expense from these leases are recognized on a straight-line basis over the lease term. As further permitted under Topic 842, the Company elected to not separate lease components from non-lease components, accounting for both components as a single lease component.

The Company's total lease cost is recorded primarily within general and administrative expenses on the condensed consolidated statement of operations and consisted of the following:

	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2019
Operating lease cost	\$ 18,187	\$ 53,907
Short-term lease cost	2,504	7,254
Variable lease cost	3,103	8,681
Total operating lease costs	<u>\$ 23,794</u>	<u>\$ 69,842</u>

Future minimum operating lease payments for noncancelable operating leases as of December 31, 2019 are as follows:

For the Fiscal Year Ending March 31,	Operating Lease Payments
Remainder of 2020	\$ 7,882
2021	59,212
2022	62,936
2023	56,975
2024	49,172
Thereafter	131,299
Total future lease payments	<u>367,476</u>
Less: imputed interest	(55,988)
Total lease liabilities	<u>\$ 311,488</u>

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	\$ 47,538
Operating lease liabilities arising from obtaining ROU assets <sup>(1)</sup>	16,348

(1) Includes all noncash increases and decreases arising from new or remeasured operating lease arrangements

Other information related to leases was as follows:

As of December 31,  
2019

Weighted average remaining lease term (in years)	6.13
Weighted average discount rate	4.66%

## 12. INCOME TAXES

The Company's effective income tax rates were 23.6% and 5.9% for the three months ended December 31, 2019 and 2018, respectively, and 23.7% and 17.2% for the nine months ended December 31, 2019 and 2018, respectively. The increase in the effective tax rate as compared to the same period last fiscal year was primarily due to a net tax benefit of \$29.0 million related to the re-measurement of the related deferred tax balance associated with the Tax Cuts and Jobs Act (the "2017 Tax Act") recognized in the third quarter of fiscal 2019. The effective tax rates of 23.6% and 23.7% for the three and nine months ended December 31, 2019 differ from the federal statutory rate of 21.0% primarily due to the inclusion of state and foreign income taxes and permanent rate differences, which are predominantly related to meals and entertainment and certain executive compensation, partially offset by discrete tax items.

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 \$11.4 million, net of associated federal tax benefits as of December 31, 2019. The Company has taken similar tax positions with respect to subsequent fiscal years, totaling in aggregate \$33.5 million. As of December 31, 2019, the Company does not maintain reserves for any uncertain tax positions related to the contested tax benefits or the similar tax positions taken in the subsequent fiscal years. Given the recoverable nature of the state tax expense, the Company does not believe that the resolution of these matters will have a material adverse effect on its results of operations, cash flows or financial condition.

The Company maintained a reserve of \$10.2 million as of December 31, 2019 relating to the acquisition of eGov Holdings, Inc. (d/b/a Aquilent) in the fourth quarter of fiscal 2017 for pre-acquisition period tax return uncertain tax positions.

## 13. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following:

	December 31, 2019	March 31, 2019
Deferred rent (1)	\$ —	\$ 78,658
Postretirement benefit obligations	129,567	124,925
Other (2)	132,111	71,816
Total other long-term liabilities	<u>\$ 261,678</u>	<u>\$ 275,399</u>

(1) Deferred rent balance was reclassified to operating lease right-of-use assets on the condensed consolidated balance sheet as a result of the adoption of Topic 842. See Notes 2 and 11, respectively, to the condensed consolidated financial statements.

(2) Because of condensed financial statement presentation, components of other long-term liabilities at December 31, 2019 and March 31, 2019 primarily include the Company's long-term disability obligation, the long-term liability portion of the Company's derivative instruments, income tax reserves and deferred tax liabilities.

## 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. The Company has 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 was \$36.7 million and \$32.3 million for the three months ended December 31, 2019 and 2018, respectively, and \$109.8 million and \$98.5 million for the nine months ended December 31, 2019 and 2018, respectively. The Company-paid contributions were \$20.4 million and \$17.3 million for the three months ended December 31, 2019 and 2018, respectively, and \$62.4 million and \$51.7 million for the nine months ended December 31, 2019 and 2018, 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 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 components of net postretirement medical expense for the Officer Medical Plan were as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Service cost	\$ 1,238	\$ 1,488	\$ 3,716	\$ 4,464
Interest cost	1,214	1,283	3,644	3,847
Net actuarial loss	—	527	—	1,581
Total postretirement medical expense	<u>\$ 2,452</u>	<u>\$ 3,298</u>	<u>\$ 7,360</u>	<u>\$ 9,892</u>

The service cost component of net periodic benefit cost is included in cost of revenue and general and administrative expenses, and the non-service cost components of net periodic benefit cost (interest cost and net actuarial loss) is included as part of other income (expense), net in the accompanying condensed consolidated statements of operations.

As of December 31, 2019 and March 31, 2019, the unfunded status of the post-retirement medical plan was \$124.9 million and \$120.3 million, respectively, which is included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

### ***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 \$11.6 million at both December 31, 2019 and March 31, 2019, and is presented in other long-term liabilities in the accompanying condensed consolidated balance sheets.

### ***Deferred Compensation Plan***

The Company established a non-qualified deferred compensation plan (the "Plan") for certain executives and other highly compensated employees that was effective in fiscal 2018. Pursuant to the Plan, participants are eligible to defer up to 100% of their incentive cash compensation on a tax deferred basis in excess of the IRS limits imposed on 401(k) plans. The assets of the plan are held in a consolidated trust and are subject to the claims of the Company's general creditors under federal and state laws in the event of insolvency. Consequently, the trust qualifies as a Rabbi trust for income tax purposes.

The fair values of plan investments and obligations at December 31, 2019 and March 31, 2019 were \$7.0 million and \$3.2 million, respectively, and were recorded in other long term assets and in other long term liabilities, respectively, in the condensed consolidated balance sheets. Adjustments to the fair value of the plan investments and obligations are recorded in operating expenses.

## 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:

	Three Months Ended December 31, 2019			Nine Months Ended December 31, 2019		
	Post-retirement plans	Derivatives designated as cash flow hedges	Totals	Post-retirement plans	Derivatives designated as cash flow hedges	Totals
Beginning of period	\$ (9,018)	\$ (22,101)	\$ (31,119)	\$ (9,068)	\$ (2,122)	\$ (11,190)
Other comprehensive income (loss) before reclassifications (1)	—	4,147	4,147	—	(15,480)	(15,480)
Amounts reclassified from accumulated other comprehensive loss	17	798	815	67	446	513
Net current-period other comprehensive income (loss)	17	4,945	4,962	67	(15,034)	(14,967)
End of period	\$ (9,001)	\$ (17,156)	\$ (26,157)	\$ (9,001)	\$ (17,156)	\$ (26,157)

(1) Changes in other comprehensive income (loss) before reclassification for derivatives designated as cash flow hedges are recorded net of tax expense of \$1.5 million and income tax benefit of \$5.5 million for the three and nine months ended December 31, 2019, respectively.

	Three Months Ended December 31, 2018			Nine Months Ended December 31, 2018		
	Post-retirement plans	Derivatives designated as cash flow hedges	Totals	Post-retirement plans	Derivatives designated as cash flow hedges	Totals
Beginning of period	\$ (20,124)	\$ 8,807	\$ (11,317)	\$ (20,955)	\$ 5,849	\$ (15,106)
Other comprehensive loss before reclassifications (2)	—	(6,792)	(6,792)	—	(3,773)	(3,773)
Amounts reclassified from accumulated other comprehensive loss	447	(266)	181	1,278	(327)	951
Net current-period other comprehensive income (loss)	447	(7,058)	(6,611)	1,278	(4,100)	(2,822)
End of period	\$ (19,677)	\$ 1,749	\$ (17,928)	\$ (19,677)	\$ 1,749	\$ (17,928)

(2) Changes in other comprehensive loss before reclassification for derivatives designated as cash flow hedges are recorded net of tax benefits of \$2.4 million and \$1.3 million for the three and nine months ended December 31, 2018, respectively.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Amounts reclassified from accumulated other comprehensive loss:				
Post-retirement plans (Note 14):				
Amortization of net actuarial loss included in net periodic benefit cost	\$ 22	\$ 551	\$ 88	\$ 1,652
Tax benefit (expense)	(5)	(104)	(21)	(374)
Net of tax	\$ 17	\$ 447	\$ 67	\$ 1,278
Derivatives designated as cash flow hedges (Note 10):				
Reclassification of hedge (loss) gain	\$ 1,081	\$ (359)	\$ 604	\$ (442)
Tax benefit (expense)	(283)	93	(158)	115
Net of tax	\$ 798	\$ (266)	\$ 446	\$ (327)

## 16. STOCK-BASED COMPENSATION

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Cost of revenue	\$ 3,018	\$ 2,198	\$ 7,490	\$ 6,176
General and administrative expenses	7,970	7,768	19,306	17,055
Total	\$ 10,988	\$ 9,966	\$ 26,796	\$ 23,231

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Equity Incentive Plan Options	\$ 762	\$ 675	\$ 1,968	\$ 1,594
Class A Restricted Common Stock	10,226	9,291	24,828	21,637
Total	\$ 10,988	\$ 9,966	\$ 26,796	\$ 23,231

As of December 31, 2019, there was \$40.5 million of total unrecognized compensation cost related to unvested stock-based compensation agreements. The unrecognized compensation cost as of December 31, 2019 is expected to be fully amortized over the next 4.25 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 table summarizes the unrecognized compensation cost and the weighted-average period the cost is expected to be amortized.

	December 31, 2019	
	Unrecognized Compensation Cost	Weighted Average Remaining Period to be Recognized (in years)
Equity Incentive Plan Options	\$ 4,244	3.62
Class A Restricted Common Stock	36,302	1.89
<b>Total</b>	<b>\$ 40,546</b>	

### **Equity Incentive Plan**

As of December 31, 2019, there were 1,874,971 Equity Incentive Plan options outstanding, of which 820,403 were unvested.

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

During the three months ended December 31, 2019, the Board of Directors granted 17,929 restricted stock units to certain employees of the Company. The aggregate value of these awards was \$1.3 million based on the grant date stock price, which ranged from \$69.94 to \$70.86.

### **Employee Stock Purchase Plan**

For the quarterly offering period that closed on December 31, 2019, 56,149 Class A Common Stock shares were purchased by employees under the Company's Employee Stock Purchase Plan, or ESPP. Since the program's inception, 2,596,252 shares have been purchased by employees.

## **17. 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 condensed consolidated balance sheets consist of the following:

	Recurring Fair Value Measurements as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Long term deferred compensation costs (2)	6,977	—	—	6,977
<b>Total Assets</b>	<b>\$ 6,977</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6,977</b>
<b>Liabilities:</b>				
Contingent consideration liability (3)	\$ —	\$ —	\$ 1,224	1,224
Current derivative instruments (1)	—	6,533	—	6,533
Long term derivative instruments (1)	—	16,703	—	16,703
Long term deferred compensation costs (2)	6,977	—	—	6,977
<b>Total Liabilities</b>	<b>\$ 6,977</b>	<b>\$ 23,236</b>	<b>\$ 1,224</b>	<b>\$ 31,437</b>

**Recurring Fair Value Measurements  
as of March 31, 2019**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Current derivative instruments (1)	\$ —	\$ 1,790	\$ —	\$ 1,790
Long term derivative instruments (1)	—	614	—	614
Long term deferred compensation costs (2)	3,169	—	—	3,169
<b>Total Assets</b>	<b>\$ 3,169</b>	<b>\$ 2,404</b>	<b>\$ —</b>	<b>\$ 5,573</b>
<b>Liabilities:</b>				
Contingent consideration liability (3)	\$ —	\$ —	\$ 1,224	\$ 1,224
Current derivative instruments (1)	—	929	—	929
Long term derivative instruments (1)	—	4,347	—	4,347
Long term deferred compensation costs (2)	3,169	—	—	3,169
<b>Total Liabilities</b>	<b>\$ 3,169</b>	<b>\$ 5,276</b>	<b>\$ 1,224</b>	<b>\$ 9,669</b>

(1) 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 10 to the condensed consolidated financial statements for further discussion on the Company's derivative instruments designated as cash flow hedges.

(2) Investments in this category consist primarily of mutual funds whose fair values are determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. These assets represent investments held in a consolidated trust to fund the Company's non-qualified deferred compensation plan and are recorded in other long-term assets and other long-term liabilities on our condensed consolidated balance sheets.

(3) The Company recognized a contingent consideration liability of \$3.6 million in connection with its acquisition of Aquilent in fiscal 2017. As of both December 31, 2019 and March 31, 2019, the estimated fair value of the contingent consideration liability was \$1.2 million, and was valued using probability-weighted cash flows, which is based on the use of Level 3 fair value measurement inputs.

The fair value of the Company's cash and cash equivalents, which are Level 1 inputs, approximated its carrying values at December 31, 2019 and March 31, 2019. The fair value of the Company's debt instruments approximated its carrying value at December 31, 2019 and March 31, 2019. 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 the Senior Notes is determined using quoted prices or other market information obtained from recent trading activity in the high-yield bond market (Level 2 inputs).

## 18. RELATED-PARTY TRANSACTIONS

Two of our directors currently serve on the board of directors of a subcontractor to which the Company subcontracted \$21.5 million and \$61.3 million of services for the three and nine months ended December 31, 2019, respectively.

## 19. COMMITMENTS AND CONTINGENCIES

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

As of December 31, 2019 and March 31, 2019, 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 \$10.6 million and \$9.5 million, respectively. These letters of credit and bank guarantees primarily support insurance and bid and performance obligations. At December 31, 2019 and March 31, 2019, approximately \$0.9 million and \$1.0 million, respectively, of these instruments reduced 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 \$5.3 million and \$6.5 million were available to the Company at December 31, 2019 and March 31, 2019, respectively.

### ***Government Contracting Matters - Provision for Claimed Indirect Costs***

For both the three months ended December 31, 2019 and 2018, approximately 96% 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 either as a prime contractor or subcontractor, and regardless of the geographic location in which the work was performed. For the nine months ended December 31, 2019 and 2018, approximately 97% and 96% of the Company's revenue, respectively, was generated from such contracts. 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 claimed indirect 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 (DCAA), routinely audit our claimed 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 and subcontracts. 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 claimed indirect costs for any audit, inquiry, or investigation of which it is aware that may be subject to any reductions and/or penalties. As of December 31, 2019 and March 31, 2019, the Company had recorded liabilities of approximately \$217.6 million and \$195.3 million, respectively, for estimated adjustments to claimed indirect costs based on its historical DCAA audit results, including the final resolution of such audits with the Defense Contract Management Agency, for claimed indirect costs incurred subsequent to fiscal 2011, and for contracts not yet closed that are subject to audit and final resolution.

### ***Litigation***

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 December 31, 2019 and March 31, 2019, there were no material amounts accrued in the condensed 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 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 Securities Exchange Act of 1934, as amended, or the Exchange Act. On June 2, 2019, the United States District Court for the Southern District of New York granted defendants' motion to dismiss the amended complaint in its entirety. On July 11, 2019, the plaintiff filed a notice to appeal the ruling. On October 17, 2019, the plaintiff and the defendants reached an agreement to settle this matter. Pursuant to that agreement, the plaintiff was obligated to dismiss his appeal. On November 12, 2019, the parties filed a stipulation withdrawing the appeal, which was ordered by the court the same day.

On June 7, 2017, Booz Allen Hamilton 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 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 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 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 a status conference on October 31, 2019, the court ordered the parties to meet and confer and submit a status report by November 29, 2019. On December 12, 2019, the court ordered that the stay remain in effect. 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 2. 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 our condensed consolidated financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q, or Quarterly 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 our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 filed with the Securities and Exchange*

Commission on May 28, 2019, or Annual Report, and under Part II, “Item 1A. Risk Factors,” and “—Special Note Regarding Forward Looking Statements” of this Quarterly Report. 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, analytics, digital solutions, engineering, 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 27,200 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 Southeast Asia.

## Financial and Other Highlights

Effective April 1, 2019, the Company adopted Accounting Standard Codification (ASC) No. 842 Leases (Topic 842), using the modified retrospective transition approach and, as a result, comparative information for the prior fiscal year has not been retrospectively adjusted. See Note 2 to our accompanying condensed consolidated financial statements for more information on the impact of the adoption of this accounting standard.

During the third quarter of fiscal 2020, the Company generated year over year revenue growth, delivered improved earnings over the prior year period, and increased client staff headcount.

Revenue increased 11.2% from the three months ended December 31, 2018 to the three months ended December 31, 2019 and increased 11.6% from the nine months ended December 31, 2018 to the nine months ended December 31, 2019 primarily driven by sustained strength in client demand and headcount growth. Revenue also benefited from higher billable expenses as compared to the prior year period.

Operating income increased 4.4% to \$169.0 million in the three months ended December 31, 2019 from \$161.9 million in the three months ended December 31, 2018, while operating margin decreased to 9.1% from 9.7% in the comparable period. Operating income increased \$52.8 million to \$520.1 million in the nine months ended December 31, 2019 from \$467.3 million in the nine months ended December 31, 2018, while operating margin was 9.5% for both periods. The increase in the current quarter operating income was primarily driven by the same factors as growth in revenue as well as improved contract performance compared to the prior year period. The Company also benefited from an \$11.2 million reduction in expense in the prior year period as a result of an amendment and associated revaluation of our long term disability plan liability. The Company also incurred incremental legal costs during the three and nine months ended December 31, 2019 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 EPS, 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 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) transaction costs, fees, losses, and expenses, including fees associated with debt prepayments, (ii) amortization or write-off of debt issuance costs and write-off of original issue discount, (iii) release of income tax reserves, and (iv) re-measurement of deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act (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 condensed consolidated financial statements.
- "Free Cash Flow" represents the net cash generated from operating activities less the impact of purchases of property, equipment and software.

Below is a reconciliation of 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 to the most directly comparable financial measure calculated and presented in accordance with GAAP.

(In thousands, except share and per share data)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
<b>Revenue, Excluding Billable Expenses</b>				
Revenue	\$ 1,849,441	\$ 1,663,112	\$ 5,494,194	\$ 4,923,957
Billable expenses	600,522	510,047	1,691,543	1,465,831
Revenue, Excluding Billable Expenses	\$ 1,248,919	\$ 1,153,065	\$ 3,802,651	\$ 3,458,126
<b>Adjusted Operating Income</b>				
Operating Income	\$ 169,045	\$ 161,932	\$ 520,126	\$ 467,295
Transaction expenses (a)	1,069	—	1,069	3,660
Adjusted Operating Income	\$ 170,114	\$ 161,932	\$ 521,195	\$ 470,955
<b>EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin on Revenue &amp; Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses</b>				
Net income	\$ 112,026	\$ 132,037	\$ 343,737	\$ 328,954
Income tax expense	34,697	8,232	106,993	68,569
Interest and other, net (b)	22,322	21,663	69,396	69,772
Depreciation and amortization	20,655	17,780	60,308	50,359
EBITDA	189,700	179,712	580,434	517,654
Transaction expenses (a)	1,069	—	1,069	3,660
Adjusted EBITDA	\$ 190,769	\$ 179,712	\$ 581,503	\$ 521,314
Adjusted EBITDA Margin on Revenue	10.3%	10.8%	10.6%	10.6%
Adjusted EBITDA Margin on Revenue, Excluding Billable Expenses	15.3%	15.6%	15.3%	15.1%
<b>Adjusted Net Income</b>				
Net income	\$ 112,026	\$ 132,037	\$ 343,737	\$ 328,954
Transaction expenses (a)	1,069	—	1,069	3,660
Release of income tax reserves (c)	—	(462)	—	(462)
Re-measurement of deferred tax assets/liabilities (d)	—	(28,972)	—	(27,908)
Amortization or write-off of debt issuance costs and write-off of original issue discount	886	533	1,945	2,401
Adjustments for tax effect (e)	(509)	(139)	(784)	(1,576)
Adjusted Net Income	\$ 113,472	\$ 102,997	\$ 345,967	\$ 305,069
<b>Adjusted Diluted Earnings Per Share</b>				
Weighted-average number of diluted shares outstanding	141,558,427	143,056,900	141,348,635	143,832,886
Adjusted Net Income Per Diluted Share (f)	\$ 0.80	\$ 0.72	\$ 2.45	\$ 2.12
<b>Free Cash Flow</b>				
Net cash provided by operating activities	\$ 99,780	\$ 8,636	\$ 366,459	\$ 283,203
Less: Purchases of property, equipment and software	(30,734)	(18,404)	(90,712)	(58,076)
Free Cash Flow	\$ 69,046	\$ (9,768)	\$ 275,747	\$ 225,127

(a) Fiscal 2020 and fiscal 2019 reflect debt refinancing costs incurred in connection with the refinancing transactions consummated on November 26, 2019 and July 23, 2018, respectively.

- (b) Reflects the combination of Interest expense and Other income (expense), net from the condensed consolidated statement of operations.
- (c) Release of pre-acquisition income tax reserves assumed by the Company in connection with the Carlyle Acquisition.
- (d) Reflects the adjustments made to 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.
- (e) Reflects the tax effect of adjustments at an assumed effective tax rate of 26%, which approximates the blended federal and state tax rates and consistently excludes the impact of other tax credits and incentive benefits realized.
- (f) Excludes adjustments of approximately \$0.6 million and \$1.8 million of net earnings for the three and nine months ended December 31, 2019, respectively, and excludes adjustments of approximately \$0.8 million and \$2.1 million of net earnings for the three and nine months ended December 31, 2018 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 ("BCA") and subsequently adjusted by the American Tax Payer Relief Act of 2012, the Bipartisan Budget Act of 2013, the Bipartisan Budget Act of 2015, the Bipartisan Budget Act of 2018, and the Bipartisan Budget Act of 2019 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 current 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 lower spending on homeland security, intelligence, defense-related programs as certain overseas operations end and continued increased spending on cybersecurity, Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR), advanced analytics, technology integration and healthcare;
- legislative and regulatory changes to limitations on the amount of allowable executive compensation permitted under flexibly priced contracts following implementation of interim rules adopted by federal agencies pursuant to 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;
- 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 an 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, whereby 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 BCA (as amended by the American Taxpayer Relief Act of 2012, the Bipartisan Budget Act of 2013, the Bipartisan Budget Act of 2015, the Bipartisan Budget Act of 2018 and the Bipartisan Budget Act of 2019), 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 2019 raised BCA spending caps on defense spending by \$90 billion for government fiscal 2020, and \$81 billion for government fiscal 2021. For non-defense funding, the Bipartisan Budget Act of 2019 raised BCA spending caps by \$78 billion for government fiscal 2020 and \$72 billion for government fiscal 2021. While the American Taxpayer Relief Act of 2012, the Bipartisan Budget Act of 2013, the Bipartisan Budget Act of 2015, the Bipartisan Budget Act of 2018 and the Bipartisan Budget Act of 2019 all negated and raised budget limits put in place by the BCA for both defense and non-defense spending, there can be no assurance that any spending cuts implemented in the future would be similarly negated. This could result in a commensurate reduction in the amount of services that we are contracted to provide to the U.S. government and could have a material adverse effect on our business and results of operations.

### **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 fixed fee or award 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 contracts in this category, 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. We assume the financial risk on time-and-materials contracts because our costs of performance may exceed negotiated hourly rates. 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:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Cost-reimbursable	57%	54%	57%	53%
Time-and-materials	23%	23%	23%	24%
Fixed-price	20%	23%	20%	23%

#### *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.

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. 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 December 31, 2019 and 2018, we employed approximately 27,200 and 25,800 people, respectively, of which approximately 24,300 and 23,100, 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.

Our backlog does not include contracts that have been awarded but are currently under protest and also 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:

	As of December 31,	
	2019	2018
	(In millions)	
Backlog:		
Funded	\$ 3,521	\$ 3,545
Unfunded	5,308	4,501
Priced options	13,128	12,408
Total backlog	<u>\$ 21,957</u>	<u>\$ 20,454</u>

Our total backlog consists of remaining performance obligations, certain orders under contracts for which the period of performance has expired, and unexercised option periods and other unexercised optional orders. As of December 31, 2019, the Company had \$6.7 billion of remaining performance obligations and we expect to recognize more than half of the remaining performance obligations as revenue over the next 12 months, and approximately three quarters over the next 24 months. The remainder is expected to be recognized thereafter. However, given the uncertainties discussed below, as well as the risks described in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended March 31, 2019, we can give no assurance that we will be able to convert our backlog into revenue in any particular period, if at all. 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 7.3% from December 31, 2018 to December 31, 2019. Additions to funded backlog during the twelve months ended December 31, 2019 totaled \$7.3 billion in comparison to \$7.2 billion for the comparable period, as a result of the conversion of unfunded backlog to funded backlog, the award of new contracts and task orders under which funding was appropriated, and the exercise and 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, contract 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 contract backlog that has not been recognized as revenue due to period of performance expirations has not exceeded approximately 5.2% of total backlog as of December 31, 2019 and any of the four preceding fiscal quarters.

### ***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. It is also common for the expiration of periods of performance under U.S. government contracts to correspond to the end of the U.S. government's fiscal year, which may result in us not recognizing revenue for such associated backlog thereafter. 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.

## Critical Accounting Estimates and Policies

Our critical accounting estimates and policies are disclosed in the Critical Accounting Estimates and Policies section in Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended March 31, 2019. Effective April 1, 2019, we adopted Topic 842 using the modified retrospective transition approach. Refer to Note 2 and Note 11 to our accompanying condensed consolidated financial statements for information related to our adoption of new accounting standards and for additional information related to leases. There were no other material changes to our critical accounting policies, estimates or judgments that occurred in the quarterly period covered by this report.

### Recent Accounting Pronouncements

See Note 2 to our accompanying condensed 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.

## Results of Operations

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

	Three Months Ended December 31,		Percent Change	Nine Months Ended December 31,		Percent Change
	2019	2018		2019	2018	
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
	(In thousands)			(In thousands)		
Revenue	\$ 1,849,441	\$ 1,663,112	11.2 %	\$ 5,494,194	\$ 4,923,957	11.6%
Operating costs and expenses:						
Cost of revenue	813,500	750,680	8.4 %	2,498,096	2,285,062	9.3%
Billable expenses	600,522	510,047	17.7 %	1,691,543	1,465,831	15.4%
General and administrative expenses	245,719	222,673	10.3 %	724,121	655,410	10.5%
Depreciation and amortization	20,655	17,780	16.2 %	60,308	50,359	19.8%
Total operating costs and expenses	1,680,396	1,501,180	11.9 %	4,974,068	4,456,662	11.6%
Operating income	169,045	161,932	4.4 %	520,126	467,295	11.3%
Interest expense	(24,231)	(22,036)	10.0 %	(75,281)	(67,357)	11.8%
Other income (expense), net	1,909	373	NM	5,885	(2,415)	NM
Income before income taxes	146,723	140,269	4.6 %	450,730	397,523	13.4%
Income tax expense	34,697	8,232	NM	106,993	68,569	56.0%
Net income	\$ 112,026	\$ 132,037	(15.2)%	\$ 343,737	\$ 328,954	4.5%

NM - Not meaningful.

### Three Months Ended December 31, 2019 Compared to Three Months Ended December 31, 2018

#### Revenue

Revenue increased to \$1,849.4 million from \$1,663.1 million, or an 11.2% increase, primarily driven by sustained strength in client demand and headcount growth. Revenue also benefited from higher billable expenses as compared to the prior year period. Total headcount as of December 31, 2019 increased approximately 1,400 compared to December 31, 2018.

#### Cost of Revenue

Cost of revenue increased to \$813.5 million from \$750.7 million, or an 8.4% increase. The increase was primarily due to increases in salaries and salary-related benefits of \$65.9 million. The increase in salaries and salary-related benefits was driven by increased headcount and annual base salary increases. Cost of revenue as a percentage of revenue was 44.0% and 45.1% for the three months ended December 31, 2019 and 2018, respectively.

### *Billable Expenses*

Billable expenses increased to \$600.5 million from \$510.0 million, or a 17.7% increase, primarily attributable to an increase in the use of subcontractors in the current quarter driven by client demand and an increase in contracts which require the Company to incur direct expenses on behalf of clients over the prior year period. Billable expenses as a percentage of revenue were 32.5% and 30.7% for the three months ended December 31, 2019 and 2018, respectively.

### *General and Administrative Expenses*

General and administrative expenses increased to \$245.7 million from \$222.7 million, or a 10.3% increase, primarily due to increases in salaries and salary-related benefits of \$7.6 million, driven by an increase in headcount growth as well as annual base salary increases and an increase in other business expenses and professional fees of \$14.7 million. General and administrative expenses as a percentage of revenue were 13.3% and 13.4% for the three months ended December 31, 2019 and 2018, respectively.

### *Depreciation and Amortization*

Depreciation and amortization increased to \$20.7 million from \$17.8 million, or a 16.2% increase, primarily due to increases in depreciation expense resulting from the effects of higher capital expenditures in fiscal 2019.

### *Interest Expense*

Interest expense increased to \$24.2 million from \$22.0 million, or a 10.0% increase, primarily as a result of increases in interest expense related to the \$400 million Delayed Draw Facility (as defined below), which the Company drew down in April 2019.

### *Income Tax Expense*

Income tax expense increased to \$34.7 million from \$8.2 million, primarily due to an increase in pre-tax income as compared to the prior year period and the re-measurement of deferred income taxes in the third quarter of fiscal 2019. The effective tax rate increased to 23.6% for the three months ended December 31, 2019 from 5.9% for the three months ended December 31, 2018.

## ***Nine Months Ended December 31, 2019 Compared to Nine Months Ended December 31, 2018***

### *Revenue*

Revenue increased to \$5,494.2 million from \$4,924.0 million, or an 11.6% increase, primarily driven by sustained strength in client demand and headcount growth. Revenue also benefited from higher billable expenses as compared to the prior year period.

### *Cost of Revenue*

Cost of revenue increased to \$2,498.1 million from \$2,285.1 million or a 9.3% increase. The increase was primarily due to increases in salaries and salary-related benefits of \$188.1 million driven by increased headcount and annual base salary increases, and higher incentive compensation and retirement plan contributions of \$21.0 million. Cost of revenue as a percentage of revenue was 45.5% and 46.4% for the nine months ended December 31, 2019 and 2018, respectively.

### *Billable Expenses*

Billable expenses increased to \$1,691.5 million from \$1,465.8 million or a 15.4% increase, primarily attributable to an increase in the use of subcontractors in the current year driven by client demand and an increase in contracts which require the Company to incur direct expenses on behalf of clients over the prior year period. Billable expenses as a percentage of revenue were 30.8% and 29.8% for the nine months ended December 31, 2019 and 2018, respectively.

### *General and Administrative Expenses*

General and administrative expenses increased to \$724.1 million from \$655.4 million, or a 10.5% increase, primarily due to increases in salaries and salary-related benefits of \$36.3 million, driven by an increase in headcount growth as well as annual base salary increases, and an increase in other business expenses and professional fees of \$29.1 million. General and administrative expenses as a percentage of revenue were 13.2% and 13.3% for the nine months ended December 31, 2019 and 2018, respectively.

### *Depreciation and Amortization*

Depreciation and amortization increased to \$60.3 million from \$50.4 million, or a 19.8% increase, primarily due to increases in depreciation expense resulting from the effects of higher capital expenditures in fiscal 2019 and fiscal 2020.

### Interest Expense

Interest expense increased to \$75.3 million from \$67.4 million, or an 11.8% increase, primarily as a result of increases in interest expense related to the \$400 million Delayed Draw Facility which the Company drew down in April 2019.

### Income Tax Expense

Income tax expense increased to \$107.0 million from \$68.6 million, or a 56.0% increase, primarily due to an increase in pre-tax income as compared to the prior year period and the re-measurement of deferred income taxes in fiscal 2019. The effective tax rate increased to 23.7% from 17.2% for the nine months ended December 31, 2019 and 2018, respectively.

We have been engaged in a project to review and improve the method by which we identify expenditures that qualify for the research and development tax credit. This project is ongoing; however, we expect to complete the review and implement changes in our methodology in the fourth quarter of fiscal 2020. After completion, we expect to record a tax benefit in our tax provision, which could potentially have a material impact on our condensed consolidated financial statements. Assuming adequate levels of taxable income, our improved methodology for identifying expenditures that qualify for the research and development tax credit could provide tax benefits in future years that are expected to lower our future effective tax rate.

### Liquidity and Indebtedness

The following table presents selected financial information as of December 31, 2019 and March 31, 2019 and for the first nine months of fiscal 2020 and 2019:

	December 31, 2019	March 31, 2019
	(Unaudited)	(Unaudited)
	(In thousands)	
Cash and cash equivalents	\$ 696,821	\$ 283,990
Total debt	2,104,510	1,759,761

  

	Nine Months Ended December 31,	
	2019	2018
	(Unaudited)	(Unaudited)
	(In thousands)	
Net cash provided by operating activities	\$ 366,459	\$ 283,203
Net cash used in investing activities	(90,712)	(58,096)
Net cash provided by (used in) financing activities	137,084	(300,206)
Total increase (decrease) in cash and cash equivalents	\$ 412,831	\$ (75,099)

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, quarterly 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 shutdowns, 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 the 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;
- the design, build-out, testing, and potential implementation and operation of new financial management systems;
- 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, although we experience a longer billing and collection cycle with our global commercial customers. 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 and customer mix.

### ***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, our ability to manage our vendor payments and the timing of cash paid for income taxes. 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 \$366.5 million in the nine months ended December 31, 2019 compared to \$283.2 million in the prior year period, or a 29.4% increase. The increase in operating cash flows was primarily due to the collection of our revenue and net income growth.

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

Net cash used in investing activities was \$90.7 million in the nine months ended December 31, 2019 compared to \$58.1 million in the prior year period, or a 56.1% increase. The increase in net cash used in investing activities was primarily due to an increase in capital expenditures over the prior period primarily related to investments in our facilities and infrastructure and information technology.

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

Net cash provided by financing activities was \$137.1 million in the nine months ended December 31, 2019 compared to \$300.2 million in net cash used in financing activities in the prior year period. The increase in net cash provided by financing activities was primarily due to proceeds of \$400 million from drawing down on our Delayed Draw Facility and a \$144.2 million decrease in share repurchases compared to the prior year period, partially offset by the repayment of the remaining deferred payment obligation balance of \$80.0 million.

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

On January 31, 2020, the Company announced a regular quarterly cash dividend in the amount of \$0.31 per share. The quarterly dividend is payable on February 28, 2020 to stockholders of record on February 14, 2020.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Quarterly dividends (1)	\$ 38,095	\$ 27,148	\$ 102,943	\$ 81,807
Dividend equivalents (2)	—	—	—	268
Total distributions	\$ 38,095	\$ 27,148	\$ 102,943	\$ 82,075

(1) For fiscal 2020, amounts represent quarterly dividends that were declared and paid during the third quarter of \$0.27 per share, and \$0.23 per share for both the first and second quarters. For fiscal 2019, amounts represent quarterly dividends that were declared and paid of \$0.19 per share.

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

On December 12, 2011, the Board of Directors approved a \$30.0 million share repurchase program, which was further increased by the Board of Directors on (i) January 27, 2015 to \$180.0 million, (ii) January 25, 2017 to \$410.0 million, (iii) November 2, 2017 to \$610.0 million, (iv) May 24, 2018 to \$910.0 million, and (v) May 23, 2019 to \$1,310.0 million. The Company may repurchase shares pursuant to the program by means of open market repurchases, directly negotiated repurchases or through agents acting pursuant to negotiated repurchase agreements. During fiscal 2020, the Company purchased 0.4 million shares of the Company's Class A Common Stock for an aggregate of \$28.4 million. Following the aforementioned repurchases, as of December 31, 2019, the Company had \$629.8 million remaining under the 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**

On November 26, 2019 (the "Amendment Effective Date"), Booz Allen Hamilton Inc. ("Booz Allen Hamilton") and Booz Allen Hamilton Investor Corporation ("Investor"), and certain wholly-owned subsidiaries of Booz Allen Hamilton, entered into the Seventh Amendment (the "Seventh Amendment") to the Credit Agreement (as amended, 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 and Collateral Agent and the other lenders and financial institutions from time to time party thereto (as previously amended by the First Amendment to the Credit Agreement, dated as of August 16, 2013, the Second Amendment to the Credit Agreement, dated as of May 7, 2014, the Third Amendment to the Credit Agreement, dated as of July 13, 2016, the Fourth Amendment to the Credit Agreement, dated as of February 6, 2017, the Fifth Amendment to the Credit Agreement, dated as of March 7, 2018, and the Sixth Amendment to the Credit agreement, dated July 23, 2018). Pursuant to the Seventh Amendment, the Company reduced the applicable margin applicable to the Term Loan B ("Term Loan B" and, together with the Term Loan A, the "Term Loans") from 2.00% to 1.75% for LIBOR loans and from 1.00% to 0.75% for base rate loans and extended the maturity of the Term Loan B to November 26, 2026. The applicable margin and maturity date applicable to the Term Loan A (the "Term Loan A") remained unchanged.

Prior to the Seventh Amendment, approximately \$389.0 million was outstanding under Term Loan B. Pursuant to the Seventh 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, \$389.0 million (the "New Refinancing Tranche B Term Loans"). The proceeds from the new lenders were used to prepay in full all of the existing Term Loan B loans that were not converted into the new Term Loan B tranche. Voluntary prepayments of the New Refinancing Tranche B Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty, subject to a 1.00% premium payable in connection with certain repricing transactions within the first six months after the Seventh Amendment. The other terms of the New Refinancing Tranche B Term Loans are generally the same as the existing Term Loan B prior to the Seventh Amendment.

As of December 31, 2019, the Credit Agreement provided Booz Allen Hamilton with a \$1,382.2 million Term Loan A, a \$389.1 million Term Loan B, and \$500.0 million in New Revolving Commitments with a sub-limit for letters of credit of \$100.0 million. As of December 31, 2019, the maturity date of Term Loan A and the termination date for the Revolving Credit Facility was July 23, 2023 and the maturity date of Term Loan B was November 26, 2026. Booz Allen Hamilton's obligations and the guarantors' guarantees under the Credit Agreement 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 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 the 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) the greater of (x) \$627 million and (y) 100% of consolidated EBITDA of Booz Allen Hamilton, as of the end of the most recently ended four quarter period for which financial statements have been delivered pursuant to the Credit Agreement 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 the Secured 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 1.25% to 2.00% for LIBOR loans and 0.25% to 1.00% 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 1.75% for LIBOR loans and 0.75% for base rate loans. Unused commitments under the Revolving Credit Facility are subject to a quarterly fee ranging from 0.20% to 0.35% based on Booz Allen Hamilton's consolidated total net leverage ratio.

Booz Allen Hamilton occasionally borrows under the Revolving Credit Facility in anticipation of cash demands. During the first, second and third quarters of fiscal 2020, Booz Allen Hamilton accessed no amounts of its \$500.0 million Revolving Credit Facility. During the first, second and third quarters of fiscal 2019, Booz Allen Hamilton accessed a total of \$70.0 million of its \$500.0 million Revolving Credit Facility. As of December 31, 2019 and March 31, 2019, there were no amounts outstanding under the Revolving Credit Facility.

The Credit Agreement 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.

Booz Allen Hamilton also has agreed to pay customary letter of credit and agency fees. As of December 31, 2019 and March 31, 2019, Booz Allen Hamilton was contingently liable under open standby letters of credit and bank guarantees issued by its banks in favor of third parties that totaled \$10.6 million and \$9.5 million, respectively. These letters of credit and bank guarantees primarily support insurance and bid and performance obligations. At December 31, 2019 and March 31, 2019, approximately \$0.9 million and \$1.0 million, respectively, of these instruments reduced 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 \$5.3 million and \$6.5 million, respectively, was available to Booz Allen Hamilton at December 31, 2019 and March 31, 2019. As of December 31, 2019, Booz Allen Hamilton had \$499.0 million of capacity available for additional borrowings under the Revolving Credit Facility.

The Credit Agreement 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) change in fiscal periods; (viii) negative pledges; (ix) restrictive agreements; (x) line of business; and (xi) 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. 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 December 31, 2019 and March 31, 2019, we were compliant with these covenants. In addition, from time to time we evaluate, and we currently are evaluating, conditions in the financing markets for opportunities to improve the terms of indebtedness, including indebtedness under the Credit Agreement. Such improvements could include a reduction of the effective interest, an extension of our maturity, or improvements to the covenants and other provisions governing our outstanding indebtedness.

For the three months ended December 31, 2019 and 2018, interest payments of \$12.0 million and \$10.5 million were made for Term Loan A and \$3.7 million and \$4.4 million were made for Term Loan B, respectively. For the nine months ended December 31, 2019 and 2018, interest payments of \$39.2 million and \$31.6 million were made for Term Loan A and \$12.5 million and \$12.4 million were made for Term Loan B, respectively.

#### **Senior Notes**

On April 25, 2017, Booz Allen Hamilton issued \$350 million aggregate principal amount of its 5.125% Senior Notes (the "Senior Notes") due 2025 under an Indenture, dated as of 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. For both the three months ended December 31, 2019 and 2018, Booz Allen Hamilton made interest payments of \$8.9 million for the Senior Notes. For both the nine months ended December 31, 2019 and 2018, Booz Allen Hamilton made interest payments of \$17.9 million for the Senior Notes.

Borrowings under the Term Loans and, if used, the Revolving Credit Facility, incur interest at a variable rate. In accordance with Booz Allen Hamilton's risk management strategy, between April 6, 2017 and April 4, 2019, Booz Allen Hamilton executed a series of interest rate swaps. As of December 31, 2019, Booz Allen Hamilton had interest rate swaps with an aggregate notional amount of \$1 billion. These instruments hedge the variability of cash outflows for interest payments on the floating portion of the Company's 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 10 to our condensed consolidated financial statements).

#### **Capital Structure and Resources**

Our stockholders' equity amounted to \$915.0 million as of December 31, 2019, an increase of \$239.6 million compared to stockholders' equity of \$675.4 million as of March 31, 2019. The increase was primarily due to net income of \$343.7 million for the nine months ended December 31, 2019, stock-based compensation expense of \$26.8 million, and issuance of common stock of \$10.8 million, partially offset by \$102.9 million in quarterly dividend payments and \$30.9 million in treasury stock resulting from the repurchase of shares of our Class A Common Stock during the nine months ended December 31, 2019.

#### **Off-Balance Sheet Arrangements**

As of December 31, 2019, we did not have any material off-balance sheet arrangements.

#### **Capital Expenditures**

Since we do not own any of our facilities, our capital expenditure requirements primarily relate to the purchase of computers, management 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 the nine months ended December 31, 2019 and 2018 were \$90.7 million and \$58.1 million, respectively. The increase in capital expenditures over the prior year primarily relates to investments in our facilities and infrastructure, and information technology. We expect capital expenditures for fiscal 2020 to increase from fiscal 2019 as a result of continuing investments in these areas.

#### **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 19 to our condensed consolidated financial statements.

#### **Special Note Regarding Forward Looking Statements**

Certain statements contained or incorporated in this Quarterly Report on Form 10-Q, or Quarterly 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:

- efforts by Congress and other U.S. government bodies to reduce U.S. government spending and address budgetary constraints, including automatic sequestration required by the Budget Control Act of 2011 (as subsequently amended) and the U.S. deficit, as well as associated uncertainty around the timing, extent, nature and effect of such efforts;

- delayed funding of our contracts due to uncertainty relating to funding of the U.S. government and a possible failure of Congressional efforts to approve such funding 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);
- 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, as a result of the 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 costs and other expenses or otherwise limit such reimbursements, 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 realize the full value of and replenish our backlog, generate revenue under certain of our contracts, 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 and experience;
- an inability to timely hire, assimilate and effectively utilize our employees, ensure that employees obtain and maintain necessary security clearances and/or effectively manage our cost structure;
- 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 or internal cyber attacks on our network and internal systems;
- risks related to the potential implementation and operation of new financial management systems;
- risks inherent in the government contracting environment;

- 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 increased competition, 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 utilize existing or future tax benefits for any reason, including as a result of a change in laws or regulations;
- variable purchasing patterns under U.S. government GSA schedules, blanket purchase agreements and indefinite delivery, indefinite quantity, or IDIQ, contracts;
- the impact of changes in accounting rules and regulations, or interpretations thereof, that may affect the way we recognize and report our financial results, including changes in accounting rules governing recognition of revenue; and
- other risks and factors listed under “Item 1A. Risk Factors” and elsewhere in this Quarterly 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the information disclosed in the Quantitative and Qualitative Disclosures About Market Risk section in Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 filed with the Securities and Exchange Commission on May 28, 2019.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

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 amended, or Exchange Act, as of the end of the period covered by this Quarterly 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 Quarterly Report, our disclosure controls and procedures were effective.

#### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. 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 December 31, 2019 and March 31, 2019, there were no material amounts accrued in the condensed 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 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 June 2, 2019, the United States District Court for the Southern District of New York granted defendants' motion to dismiss the amended complaint in its entirety. On July 11, 2019, the plaintiff filed a notice to appeal the ruling. On October 17, 2019, the plaintiff and the defendants reached an agreement to settle this matter. Pursuant to that agreement, the plaintiff was obligated to dismiss his appeal. On November 12, 2019, the parties filed a stipulation withdrawing the appeal which was ordered by the court the same day.

On June 7, 2017, Booz Allen Hamilton 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 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 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 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 a status conference on October 31, 2019, the court ordered the parties to meet and confer and submit a status report by November 29, 2019. On December 12, 2019, the court ordered that the stay remain in effect. 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 1A. Risk Factors

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 filed with the Securities and Exchange Commission on May 28, 2019.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

##### Issuer Purchases of Equity Securities

The following table shows the share repurchase activity during the three months ended December 31, 2019:

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)
October 2019	—	\$—	—	\$ 652,314,007
November 2019	139,135	\$71.87	139,135	\$ 642,314,058
December 2019	174,450	\$71.76	174,450	\$ 629,795,751
Total	313,585		313,585	

- (1) On December 12, 2011, the Board of Directors approved a \$30.0 million share repurchase program, which was further increased by the Board of Directors on (i) January 27, 2015 to \$180.0 million, (ii) January 25, 2017 to \$410.0 million, (iii) November 2, 2017 to \$610.0 million, (iv) May 24, 2018 to \$910.0 million, and (v) May 23, 2019 to \$1,310.0 million. 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.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
10.1	<a href="#"><u>Seventh Amendment to the Credit Agreement, dated as of November 26, 2019, 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 November 26, 2019 (File No. 001-34972)).</u></a>
10.2 †	<a href="#"><u>Third Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation*</u></a>
10.3 †	<a href="#"><u>Second Amended and Restated Booz Allen Hamilton Holding Corporation Annual Incentive Plan*</u></a>
31.1	<a href="#"><u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer*</u></a>
31.2	<a href="#"><u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer*</u></a>
32.1	<a href="#"><u>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)*</u></a>
32.2	<a href="#"><u>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)*</u></a>
101	The following materials from Booz Allen Hamilton Holding Corporation's Quarterly Report on Form 10-Q for the three and nine months ended December 31, 2019 formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at December 31, 2019 and March 31, 2019; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2019 and 2018; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2019 and 2018; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2019 and 2018; and (v) Notes to Condensed Consolidated Financial Statements.

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\* Filed electronically herewith.

† Management contract or compensatory arrangement.

## SIGNATURES

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

Booz Allen Hamilton Holding Corporation

Registrant

Date: January 31, 2020

By: /s/ Lloyd W. Howell, Jr.

Lloyd W. Howell, Jr.

Executive Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

**THIRD AMENDED AND RESTATED EQUITY INCENTIVE PLAN****OF****BOOZ ALLEN HAMILTON HOLDING CORPORATION**

Booz Allen Hamilton Holding Corporation (the “Company”) hereby adopts this Third Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation, which amends and restates the Second Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (as amended and restated, the “Plan”). The purposes of this Plan are as follows:

(1) To further the growth, development and financial success of the Company and its Subsidiaries (as defined herein), by providing additional incentives to employees, consultants and directors of the Company and its Subsidiaries, who have been or will be given responsibility for the management or administration of the Company’s (or one of its Subsidiaries’) business affairs, by assisting them to become owners of Company Common Stock, thereby benefiting directly from the growth, development and financial success of the Company and its Subsidiaries.

(2) To enable the Company (and its Subsidiaries) to obtain and retain the services of the type of professional, technical and managerial employees, consultants and directors considered essential to the long-term success of the Company (and its Subsidiaries) by providing and offering them an opportunity to become owners of Company Common Stock pursuant to the exercise of Options, the grant of Restricted Stock or Restricted Stock Units, the grant of Performance Awards, the grant of other Stock-Based Awards or an offer to purchase shares of Company Common Stock.

**ARTICLE I.****DEFINITIONS**

Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary. The singular pronoun shall include the plural where the context so indicates.

Section 1.1 “Administrator” shall mean the Board or any committee of the Board designated by the Board to administer the Plan; provided, that, with respect to (i) Awards intended to qualify as performance-based compensation under Section 162(m) of the Code, the Administrator shall mean the compensation committee of the Board or such other committee or subcommittee of the Board or the compensation committee as the Board or the compensation committee shall designate, consisting of two or more members, each of whom is an “outside director” within the meaning of Section 162(m) of the Code and (ii) Awards intended to qualify for the exemption contained in Rule 16b-3 promulgated under the Exchange Act, the Administrator shall mean the compensation committee of the Board or such other committee or subcommittee of the Board or the compensation committee as the Board or the compensation committee shall designate, consisting of two or more members, each of whom is a “non-employee directors” within the meaning of such rule, or, in the alternative, the entire Board.

Section 1.2 “Affiliate” shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with, such Person where “control” shall have the meaning given such term under Rule 405 of the Securities Act. For the purposes of this Plan, Affiliates of the Company shall include all Principal Stockholders.

Section 1.3 “Alternative Award” shall have the meaning set forth in Section 13.2.

Section 1.4 “Applicable Laws” shall mean the requirements relating to the administration of stock option, restricted stock, restricted stock unit and other equity-based compensation plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Company Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where Awards are granted under the Plan.

Section 1.5 “Award” shall mean any Option, Stock Purchase Right, Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, Stock Appreciation Right, Dividend Equivalent, Deferred Share Unit or other Stock-Based Award granted to a Participant pursuant to the Plan, including an Award combining two or more types in a single grant.

Section 1.6 “Award Agreement” shall mean any written agreement, contract or other instrument or document evidencing an Award, including through an electronic medium.

Section 1.7 “Base Price” shall have the meaning set forth in Section 1.57.

Section 1.8 “Board” shall mean the Board of Directors of the Company.

Section 1.9 “Cause” shall mean any of the following: (i) the Participant’s commission of a material act of fraud, embezzlement, misappropriation, misconduct against the Company or any of its Affiliates, or the conviction of, or plea of no contest to, or imposition of unadjudicated probation for any crime that is a felony (or a comparable classification in a jurisdiction that does not use these terms) other than as a result of a traffic violation (unless such traffic violation results in a formal sentencing of the Participant to prison time), or the Participant’s commission of a crime or other material act of misconduct that results in such Participant’s loss of any government security clearance that is reasonably necessary to perform his or her material employment-related duties; (ii) the Participant’s willful failure to substantially perform his or her material employment-related duties (other than any such failure resulting from the Participant’s Disability) or the Participant’s willful failure to carry out, or comply with, any lawful and reasonable directive of the Board or the Participant’s immediate supervisor; (iii) the Participant’s material violation of any material Company policy as in effect from time to time or material breach of the Participant’s fiduciary duties to the Company or any of its Affiliates; (iv) the Participant’s material breach of the Stockholders Agreement, the Plan, or any exchange agreement, Award Agreement, or employment, non-competition, nondisclosure or non-solicitation agreement between the Company or any of its Subsidiaries and the Participant or (v) the Participant’s unlawful use (including being under the influence) or possession of illegal drugs on the Company’s (or any Affiliate’s) premises or while performing the Participant’s duties and responsibilities; provided that, in the case of clauses (ii), (iii) or (iv), prior to October 1, 2010, such events shall only constitute Cause if not remedied within ten (10) business days (or such longer period as provided below) after receipt of written notice from

the Company specifying such failure, violation or breach, as the case may be. The determination as to whether “Cause” has occurred shall be made by the Board, acting in good faith, which shall have the authority to waive the consequences under the Plan in the event of the existence or occurrence of any of the events, acts or omissions constituting “Cause.” The Company must notify a Participant of any event alleged to constitute “Cause” within six months following the Board’s knowledge of its existence or such event shall not constitute “Cause” for purposes of the Plan. A termination for Cause shall be deemed to include a determination following a Participant’s termination of employment for any reason if the circumstances existing prior to such termination would have entitled the Company or one of its Subsidiaries to have terminated such Participant’s employment for Cause; provided, however, that this proviso shall not apply if, prior to termination of employment, the Board determined, following conclusion of an investigation, that such termination was not for Cause unless new facts regarding the Participant’s conduct are revealed to the Board following termination of employment that result in a change in the Board’s determination. The ten (10) business day period described above with respect to awards granted prior to October 1, 2010 may be extended for such longer period as the Chief Personnel Officer or, with respect to the Chief Personnel Officer, the Chief Executive Officer shall determine, in his sole discretion.

Section 1.10 “Change in Control” shall mean the occurrence of any of the following events:

(a) The acquisition, directly or indirectly, by any person, entity or “group” (as defined in Section 13(d) of the Exchange Act) (other than the Company, any Subsidiary, any Principal Stockholder or any Affiliate thereof, an employee benefit plan maintained by the Company, or a Person that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) of fifty (50) percent or more of the total combined voting power of the Company’s then outstanding voting securities;

(b) The merger or consolidation of the Company, as a result of which persons who were shareholders of the Company immediately prior to such merger or consolidation, together with the Principal Stockholders, do not, immediately thereafter, own, directly or indirectly, more than fifty (50) percent of the combined voting power entitled to vote generally in the election of directors of the merged or consolidated company;

(c) The liquidation or dissolution of the Company other than a liquidation or dissolution of the Company into a Subsidiary or for the purposes of effecting a corporate restructuring or reorganization as a result of which persons who were shareholders of the Company immediately prior to such liquidation or dissolution, together with the Principal Stockholders, continue to own immediately thereafter, directly or indirectly, more than fifty (50) percent of the combined voting power entitled to vote generally in the election of directors of the entity that owns, directly or indirectly, substantially all of the assets of the Company following such transaction; or

(d) The sale, transfer or other disposition of all or substantially all of the assets of the Company to one or more persons or entities that are not, immediately prior to such transaction, Affiliates of the Company, or any employee benefit plan of the Company (other than by way of a transaction that would not be deemed a Change in Control pursuant to clauses (a) or (b) above);

in each case, provided that such event constitutes a “change in control” within the meaning of Section 409A of the Code.

Notwithstanding the foregoing, a “Change in Control” shall not be deemed to occur if the Company files for bankruptcy, liquidation or reorganization under the United States Bankruptcy Code or as a result of any restructuring that occurs as a result of any such proceeding.

Section 1.11 “Change in Control Price” shall mean the highest price per share of Company Common Stock offered in conjunction with any transaction resulting in a Change in Control.

Section 1.12 “Code” shall mean the Internal Revenue Code of 1986, as amended.

Section 1.13 “Company” shall mean Booz Allen Hamilton Holding Corporation, a Delaware corporation, and any successor.

Section 1.14 “Company Common Stock” shall mean the class A common stock, par value \$0.01 per share, of the Company and such other class of stock into which such common stock is hereafter converted or exchanged.

Section 1.15 “Competitive Activity” shall mean (a) directly or indirectly engaging in or providing, or owning, investing in, managing, joining, operating or controlling, or participating in the ownership, management, operation or control of, or being connected as a director, officer, employee, partner, member, consultant or otherwise with, any business enterprise (whether for profit or not for profit) that is engaged in the business of providing consulting services, either management or technical, staff augmentation, or any related services for any U.S. governmental entity or any other business activities that, as of the date of the Participant’s termination of employment, are directly competitive in any geographic area with the business activities of the Company or any of its divisions, subsidiaries or Affiliates (including any business activities that, to the knowledge of the Participant, the Company or any of its respective divisions, subsidiaries or Affiliates has been planning to engage in prior to the Participant’s termination of employment or service); (b) without the Company’s prior written consent, recruiting for employment with any entity that competes with the Company, or hiring for such entity, any employee of the Company, former employee of the Company, or independent contractor to the Company who left the Company or discontinued providing services to the Company within six (6) months of the termination of the Participant’s employment or (c) directly or indirectly using, disclosing or disseminating to any other Person or otherwise employing Confidential Information, in each case that is not approved in writing by the Administrator, it being understood that direct employment as an employee of (and not as a consultant or advisor to) any U.S. federal, state or local governmental entity shall not be considered a competitive activity. In the event any court of competent jurisdiction shall find that any provision hereof relating to Competitive Activity is not enforceable in accordance with its terms, the court shall reform such provisions such that the provisions shall be enforceable to the maximum extent permissible at law.

Section 1.16 “Confidential Information” shall mean any and all of three categories of information: (a) confidential proprietary information about the Company’s business including, but not limited to, information that is not readily available to the public, and which concerns the

Company's operations, financial results, plans and compensation structure, strategies, knowledge on-line database, clients, trade secrets, or any other proprietary information; (b) confidential information entrusted to the Company by third parties such as clients (including the U.S. government and its agencies) or vendors and (c) personally identifiable information received from employees, clients, or third parties (including, but not limited to, names, addresses, Social Security Numbers, background information, credit card or bank information, telephone or facsimile numbers, e-mail addresses and health information), which if misused could result in identity theft, credit card fraud or other serious harm.

Section 1.17 "Consultant" shall mean any natural Person who is engaged by the Company or any of its Subsidiaries to render consulting or advisory services to such entity.

Section 1.18 "Corporate Event" shall mean, as determined by the Administrator in its sole discretion, any transaction or event described in Section 14.1(a) or any unusual or nonrecurring transaction or event affecting the Company, any Subsidiary of the Company, or the financial statements of the Company or any of its Subsidiaries, or changes in applicable laws, regulations or accounting principles (including, without limitation, a recapitalization of the Company).

Section 1.19 "Covered Employee" shall have the meaning set forth in Section 162(m)(3) of the Code.

Section 1.20 "Deferred Annual Amount" shall have the meaning set forth in Section 8.1.

Section 1.21 "Deferred Share Unit" shall mean a unit credited to a Participant's account in the books of the Company under Article VIII that represents the right to receive Shares of Company Common Stock or cash equal to the Fair Market Value thereof on settlement of the account.

Section 1.22 "Director" shall mean a member of the Board or a member of the board of directors of any Subsidiary of the Company.

Section 1.23 "Disability" shall mean "disability," as such term is defined in Section 22(e)(3) of the Code.

Section 1.24 "Dividend Equivalent" shall mean the right to receive payments in cash or in Shares, based on dividends with respect to Shares.

Section 1.25 "Effective Date" shall have the meaning set forth in Section 14.9.

Section 1.26 "Elective Deferred Share Unit" shall have the meaning set forth in Section 8.1.

Section 1.27 "Eligible Representative" for a Participant shall mean such Participant's personal representative or such other person as is empowered under the deceased Participant's will or the then applicable laws of descent and distribution to represent the Participant hereunder.

Section 1.28 "Employee" shall mean any employee (as defined in accordance with the regulations and revenue rulings then applicable under Section 3401(c) of the Code) of the Company

or one of its Subsidiaries, whether such employee is so employed at the time this Plan is adopted or becomes so employed subsequent to the adoption of this Plan. A person shall not cease to be an Employee in the case of (a) any leave of absence approved by the Company or (b) transfers between locations of the Company or between the Company, any of its Subsidiaries, or any successor. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, the employment relationship shall be deemed to have terminated on the first day immediately following such three (3)-month period, and such Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Non-Qualified Stock Option on the first day immediately following a three (3)-month period from the date the employment relationship is deemed terminated.

Section 1.29 “Equity Restructuring” shall mean, as determined by the Administrator in its sole discretion, a non-reciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off or recapitalization through a large, nonrecurring cash dividend, that affects the shares of Company Common Stock (or other securities of the Company) or the share price of Company Common Stock (or other securities) and causes a change in the per share value of the Company Common Stock underlying outstanding Awards.

Section 1.30 “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

Section 1.31 “Fair Market Value” of a Share as of a given date shall be:

(a) If the Company Common Stock is listed on any established stock exchange or a national market system, the closing sales price for a Share (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or, if not so reported, such other source as the Administrator deems reliable;

(b) If the Company Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Administrator shall determine the Fair Market Value in good faith with reference to the mean between the high bid and low asked prices for a Share on the date of determination and sales prices of securities issued to investors in any recent arm’s length transactions; or

(c) In the absence of an established market for the Company Common Stock, the Fair Market Value shall be determined in good faith by the Administrator with reference to the most recent valuation of the Company Common Stock performed by an independent valuation consultant or appraiser of nationally recognized standing (which valuation shall be prepared not less frequently than annually) and sales prices of securities issued to investors in any recent arm’s length transactions.

Section 1.32 “Incentive Stock Option” shall mean an Option which qualifies under Section 422 of the Code and is designated as an Incentive Stock Option by the Administrator.

Section 1.33 “Leadership Team” shall mean the group of senior executives of the Company with policy-making functions, as designated by the Chief Executive Officer of the Company.

Section 1.34 “Non-Qualified Stock Option” shall mean an Option which is not an “incentive stock option” under Section 422 of the Code and shall include an Option which is designated as a Non-Qualified Stock Option by the Administrator.

Section 1.35 “Non-U.S. Awards” shall have the meaning set forth in Section 12.5.

Section 1.36 “Option” shall mean an option to purchase Company Common Stock granted under the Plan. The term “Option” includes both an Incentive Stock Option and a Non-Qualified Stock Option.

Section 1.37 “Option Price” shall have the meaning set forth in Section 4.3.

Section 1.38 “Optionee” shall mean a Participant to whom an Option or SAR is granted under the Plan.

Section 1.39 “Participant” shall mean any Service Provider who has been granted an Award pursuant to the Plan.

Section 1.40 “Performance Award” shall mean Performance Shares, Performance Units and all other Awards that vest (in whole or in part) upon the achievement of specified Performance Goals.

Section 1.41 “Performance Cycle” shall mean the period of time selected by the Administrator during which performance is measured for the purpose of determining the extent to which a Performance Award has been earned or vested.

Section 1.42 “Performance Goals” means the objectives established by the Administrator for a Performance Cycle pursuant to Section 7.4 for the purpose of determining the extent to which a Performance Award has been earned or vested.

Section 1.43 “Performance Share” means an Award granted pursuant to Article VII of the Plan of a contractual right to receive a Share (or the cash equivalent thereof) upon the achievement, in whole or in part, of the applicable Performance Goals.

Section 1.44 “Performance Unit” means a dollar-denominated unit (or a unit denominated in the Participant’s local currency) granted pursuant to Article VII of the Plan, payable upon the achievement, in whole or in part, of the applicable Performance Goals.

Section 1.45 “Permitted Transfer” shall have the meaning ascribed to such term in the Stockholders Agreement.

Section 1.46 “Person” shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or any other entity of whatever nature.

Section 1.47 “Plan” shall have the meaning set forth in the Preamble hereto.

Section 1.48 “Principal Stockholders” shall mean (i) the Initial Carlyle Stockholders (as defined in the Stockholders Agreement) and (ii) any of their Affiliates to which (a) any of the Principal Stockholders identified in clause (i) or any other Person transfers Company Common Stock or (b) the Company issues Company Common Stock.

Section 1.49 “Public Offering” shall mean the first day as of which (i) sales of Company Common Stock are made to the public in the United States pursuant to an underwritten public offering of the Company Common Stock led by one or more underwriters at least one of which is an underwriter of nationally recognized standing or (ii) the Administrator has determined that the Company Common Stock otherwise has become publicly traded for this purpose.

Section 1.50 “Restricted Stock” shall mean an Award granted pursuant to Section 6.1.

Section 1.51 “Restricted Stock Unit” shall mean an Award granted pursuant to Section 6.2.

Section 1.52 “Secretary” shall mean the Secretary of the Company.

Section 1.53 “Securities Act” shall mean the Securities Act of 1933, as amended.

Section 1.54 “Service Award” shall mean all Awards that vest solely based on the passage of time or continued service over a fixed period of time.

Section 1.55 “Service Provider” shall mean an Employee, Consultant or Director.

Section 1.56 “Share” shall mean a share of Company Common Stock.

Section 1.57 “Stock Appreciation Right” or “SAR” shall mean the right to receive a payment from the Company in cash and/or Shares equal to the product of (i) the excess, if any, of the Fair Market Value of one Share on the exercise date over a specified price (the “Base Price”) fixed by the Administrator on the grant date (which specified price shall not be less than the Fair Market Value of one Share on the grant date), multiplied by (ii) a stated number of Shares.

Section 1.58 “Stock-Based Award” shall have the meaning set forth in Section 9.1.

Section 1.59 “Stock Purchase Right” shall mean an Award granted pursuant to Section 3.4.

Section 1.60 “Stockholders Agreement” shall mean that certain agreement by and among each Participant, the Principal Stockholders, the Company and other parties thereto, which contains certain restrictions and limitations applicable to Awards granted under this Plan, as may be amended from time to time. Prior to a Public Offering, if the Participant is not a party to the Stockholders Agreement at the time of grant of an Award of Shares, settlement of an Award, purchase of Company Common Stock pursuant to a Stock Purchase Right or exercise of an Option or SAR (or any portion thereof), the time of grant of such Award, settlement of such Award, purchase of Company Common

Stock pursuant to a Stock Purchase Right or, as applicable, the exercise of an Option or SAR shall be subject to the condition that the Participant enter into the Stockholders Agreement with the Company in the form provided to the Participant by the Company.

Section 1.61 “Subplans” shall have the meaning set forth in Section 12.5.

Section 1.62 “Subsidiary” of any entity shall mean any corporation in an unbroken chain of corporations beginning with such entity if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.63 “Termination of employment,” “termination of service” and any similar term or terms shall mean, with respect to a director who is not an Employee of the Company or any of its Subsidiaries, the date upon which such director ceases to be a member of the Board, with respect to a Consultant who is not an Employee of the Company or any of its Subsidiaries, the date upon which such Consultant ceases to provide consulting or advisory services to the Company or any of its Subsidiaries, and, with respect to an Employee, the date the Participant ceases to be an Employee; provided, that, with respect to any Award subject to Section 409A of the Code, such terms shall mean “separation from service,” as defined in Section 409A of the Code and the rules, regulations and guidance promulgated thereunder.

Section 1.64 “Withholding Taxes” shall mean the statutory minimum of any federal, state, local or foreign income taxes, withholding taxes or employment taxes required to be withheld under Applicable Law.

## ARTICLE II.

### SHARES SUBJECT TO THE PLAN

Section 2.1 Shares Subject to Plan.

(a) Subject to Section 14.1, the aggregate number of Shares which may be issued under this Plan is 33,000,000; provided, however, that subject to Section 2.1(b), no more than 33,000,000 Shares shall be issued in the form of Options under the Plan. The Shares may be authorized but unissued, or reacquired Company Common Stock.

(b) To the extent that an Award terminates, is forfeited, is repurchased, expires, or lapses for any reason, any Shares subject to the Award shall again be available for the grant of an Award pursuant to the Plan; provided, however, that vested Shares that are repurchased after being issued from the Plan shall not be available for future issuance under the Plan. Additionally, any Shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by Applicable Law, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any of its Subsidiaries shall not be counted against Shares available for grant pursuant to this Plan.

Section 2.2 Individual Award Limitations. Subject to Section 2.1(a) and Section 14.1, the following individual Award limits shall apply for those Awards intended to qualify as performance-based compensation under Section 162(m) of the Code:

(a) No Participant may receive the right to more than 450,000 Performance Shares, shares of performance-based Restricted Stock and Restricted Stock Units and performance-based Deferred Share Units under the Plan in any one year.

(b) No Participant may receive the right to Performance Units under the Plan in any one year with a value of more than US \$5,000,000 (or the equivalent of such amount denominated in the Participant's local currency).

(c) No Participant may receive Options, SARs or any other Award based solely on the increase in value of the Shares on more than 700,000 Shares under the Plan in any one year.

Section 2.3 Prohibition Against Repricing. Except to the extent (i) approved in advance by holders of a majority of the Shares entitled to vote generally in the election of directors or (ii) as a result of any Corporate Event, the Administrator shall not have the power or authority to reduce, whether through amendment or otherwise, the exercise price of any outstanding Option or base price of any outstanding Stock Appreciation Right or to grant any new Award, or make any cash payment, in substitution for or upon the cancellation of Options or Stock Appreciation Rights previously granted.

### **ARTICLE III.**

#### **GRANTING OF OPTIONS AND SARs AND SALE OF COMPANY COMMON STOCK**

Section 3.1 Eligibility. Non-Qualified Stock Options and Stock Appreciation Rights may be granted to Service Providers. Subject to Section 3.2, Incentive Stock Options may only be granted to Employees.

Section 3.2 Qualification of Incentive Stock Options. No Employee may be granted an Incentive Stock Option under the Plan if such Employee, at the time the Incentive Stock Option is granted, owns stock possessing more than ten (10) percent of the total combined voting power of all classes of stock of the Company or any then existing Subsidiary of the Company or "parent corporation" (within the meaning of Section 424(e) of the Code) unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code.

Section 3.3 Granting of Options and Stock Appreciation Rights to Service Providers.

(a) Options and Stock Appreciation Rights. The Administrator may from time to time:

(i) Select from among the Service Providers (including those to whom Options or SARs have been previously granted under the Plan) such of them as in its opinion should be granted Options and/or SARs;

(ii) Determine the number of Shares to be subject to such Options and/or SARs granted to such Service Provider, and determine whether such Options are to be Incentive Stock Options or Non-Qualified Stock Options; and

(iii) Determine the terms and conditions of such Options and SARs, consistent with the Plan.

Stock Appreciation Rights may be granted in tandem with Options or may be granted on a freestanding basis, not related to any Option. Unless otherwise determined by the Administrator at or after the grant date, Stock Appreciation Rights granted in tandem with Options shall have substantially similar terms and conditions to such Options to the extent applicable, or may be granted on a freestanding basis, not related to any Option.

(b) Upon the selection of a Service Provider to be granted an Option or SAR under this Section 3.3, the Administrator shall instruct the Secretary or another authorized officer to issue such Option or SAR and may impose such conditions on the grant of such Option or SAR as it deems appropriate. Without limiting the generality of the preceding sentence, but subject to Section 2.3, the Administrator may, subject to applicable securities laws, require as a condition to the grant of an Option or SAR to a Service Provider that the Service Provider surrender for cancellation all or a portion of the unexercised Options or SARs which have previously been granted to him or her. An Option or SAR, the grant of which is conditioned upon such surrender, may have an Option Price or Base Price that is lower (or higher) than the Option Price or Base Price of the surrendered Option or SAR, may cover the same (or a lesser or greater) number of Shares as the surrendered Option or SAR, may contain such other terms as the Administrator deems appropriate and shall be exercisable in accordance with its terms, without regard to the number of Shares, price, period of exercisability or any other term or condition of the surrendered Option or SAR. Subject to Section 14.3 of the Plan, any Incentive Stock Option granted under the Plan may be modified by the Administrator, without the consent of the Optionee, even if such modification would result in the disqualification of such Option as an “incentive stock option” under Section 422 of the Code.

Section 3.4 Sale of Company Common Stock to Service Providers. The Administrator, acting in its sole discretion, may from time to time designate one or more Service Providers to whom an offer to sell Shares shall be made and the terms and conditions thereof, provided, however, that the price per Share shall not be less than the Fair Market Value of such Shares on the date any such offer is accepted. Each Share sold to a Service Provider under this Section 3.4 shall be evidenced by a written stock purchase agreement in a form approved by the Board, which shall contain terms consistent with the terms hereof. Any Shares sold under this Section 3.4 shall be subject to the same limitations, restrictions and administration hereunder as would apply to any Shares issued pursuant to the exercise of an Option under this Plan including, but not limited to, conditions and restrictions set forth in Section 5.6 below. Shares acquired pursuant to this Section 3.4 prior to a Public Offering shall also be subject to the terms and conditions of a Stockholders Agreement, which shall be entered into with the Participant upon the acquisition of such Shares.

#### **ARTICLE IV.**

#### **TERMS OF OPTIONS AND SARs**

#### Section 4.1 Award Agreement.

(a) Each Option and each Stock Appreciation Right shall be evidenced by a written Award Agreement, which shall be executed by the Optionee and an authorized officer and which shall contain such terms and conditions as the Administrator shall determine, consistent with the Plan. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to qualify such Options as “incentive stock options” under Section 422 of the Code.

(b) The Administrator may, at any time, and from time to time, amend the terms of any one or more existing Award Agreements, provided, however, that subject to the provisions of this Plan the rights of an Optionee under an Award Agreement shall not be adversely impaired in any material respect without the Optionee’s written consent. The Company shall provide an Optionee with written notice of any amendment made to such Optionee’s existing Award Agreement.

#### Section 4.2 Exercisability and Vesting of Options and Stock Appreciation Rights.

(a) Each Option and SAR shall vest and become exercisable according to the terms of the applicable Award Agreement; provided, however, that by a resolution adopted after an Option or SAR is granted the Administrator may, on such terms and conditions as it may determine to be appropriate, accelerate the time at which such Option or SAR or any portion thereof may be exercised.

(b) Except as otherwise provided by the Administrator or in the applicable Award Agreement, no portion of an Option or SAR which is unexercisable on the date that an Optionee incurs a termination of service as a Service Provider shall thereafter become exercisable.

(c) The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Stock Options are first exercisable by a Service Provider in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(d) Stock Appreciation Rights granted in tandem with an Option shall become vested and exercisable on the same date or dates as the Options with which such Stock Appreciation Rights are associated vest and become exercisable. Stock Appreciation Rights that are granted in tandem with an Option may only be exercised upon the surrender of the right to exercise such Option for an equivalent number of Shares, and may be exercised only with respect to the Shares for which the related Option is then exercisable.

Section 4.3 Option Price and Base Price. The per Share purchase price of the Shares subject to each Option (the “Option Price”) and the Base Price of each Stock Appreciation Right shall be set by the Administrator and shall be not less than 100% of the Fair Market Value of such Shares on the date such Option or SAR is granted.

Section 4.4 Expiration of Options and SARs. No Option or SAR may be exercised to any extent by anyone after the first to occur of the following events:

(a) The expiration of ten (10) years from the date the Option or SAR was granted; or

(b) With respect to an Incentive Stock Option in the case of an Optionee owning (within the meaning of Section 424(d) of the Code), at the time the Incentive Stock Option was granted, more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary, the expiration of five (5) years from the date the Incentive Stock Option was granted.

## ARTICLE V.

### EXERCISE OF OPTIONS AND SARs

Section 5.1 Person Eligible to Exercise. During the lifetime of the Optionee, only he or she may exercise an Option or SAR (or any portion thereof) granted to him or her; provided, however, that the Optionee's Eligible Representative may exercise his or her Option or SAR or portion thereof during the period of the Optionee's Disability. After the death of the Optionee, any exercisable portion of an Option or SAR may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Award Agreement, be exercised by his or her Eligible Representative.

Section 5.2 Partial Exercise. At any time and from time to time prior to the time when the Option or SAR becomes unexercisable under the Plan or the applicable Award Agreement, the exercisable portion of an Option or SAR may be exercised in whole or in part; provided, however, that the Company shall not be required to issue fractional Shares and the Administrator may, by the terms of the Option or SAR, require any partial exercise to exceed a specified minimum number of Shares.

Section 5.3 Manner of Exercise. An exercisable Option or SAR, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary of all of the following prior to the time when such Option or SAR or such portion becomes unexercisable under the Plan or the applicable Award Agreement:

(a) Subject to any conditions that may be imposed by the Administrator, notice in writing signed by the Optionee or his or her Eligible Representative, stating that such Option or SAR or portion is being exercised, and specifically stating the number of Shares with respect to which the Option or SAR is being exercised;

(b) If required by the Administrator, a copy of the Stockholders Agreement signed by the Optionee or Eligible Representative, if applicable;

(c) (i) With respect to the exercise of any Option, full payment (in cash (through wire transfer only) or by personal, certified, or bank cashier check) of the aggregate Option Price of the Shares with respect to which such Option (or portion thereof) is thereby exercised; or

(ii) With the consent of the Administrator, (A) Shares owned by the Optionee duly endorsed for transfer to the Company or (B) Shares issuable to the Optionee upon exercise of the Option, with a Fair Market Value on the date of Option exercise equal to the aggregate Option Price of the Shares with respect to which such Option (or portion thereof) is thereby exercised or

(iii) With the consent of the Administrator, any form of payment permitted by Applicable Laws and any combination of the foregoing methods of payment.

(d) Full payment to the Company (in cash or by personal, certified or bank cashier check or by any other means of payment approved by the Administrator) of all amounts necessary to satisfy any and all Withholding Taxes arising in connection with the exercise of the Option or SAR;

(e) Such representations and documents as the Administrator deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal or state securities laws or regulations. The Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer orders to transfer agents and registrars and

(f) In the event that the Option or SAR or portion thereof shall be exercised as permitted under Section 5.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option or SAR or portion thereof.

Section 5.4 Optionee Representations. The Administrator, in its sole discretion, may require an Optionee to make certain representations or acknowledgements, on or prior to the purchase of any Shares pursuant to any Option or SAR granted under this Plan, in respect thereof including but not limited to that the Optionee is acquiring the Shares for an investment purpose and not for resale, and, if the Optionee is an Affiliate, additional acknowledgements regarding when and to what extent any transfers of such Shares may occur.

Section 5.5 Settlement of SARs. Unless otherwise determined by the Administrator, upon exercise of a Stock Appreciation Right, the Participant shall be entitled to receive payment in the form, determined by the Administrator, of Shares, or cash, or a combination of Shares and cash having an aggregate value (based in the case of Shares on Fair Market Value) equal to the amount determined by multiplying:

(a) any increase in the Fair Market Value of one Share on the exercise date over the Base Price of such Stock Appreciation Right, by

(b) the number of Shares with respect to which the Stock Appreciation Right is exercised;

(c) provided, however, that on the grant date, the Administrator may establish, in its sole discretion, a maximum amount per Share that may be payable upon exercise of a Stock

Appreciation Right, and provided, further, that in no event shall the value of the Company Common Stock or cash delivered on exercise exceed the excess of the Fair Market Value of the Shares with respect to which the Stock Appreciation Right is exercised over the Fair Market Value of such Shares on the grant date of such Stock Appreciation Right.

Section 5.6 Conditions to Issuance of Stock Certificates. The Shares issuable and deliverable upon the exercise of an Option or SAR, or any portion thereof, may be either previously authorized but unissued Shares or issued Shares which have then been reacquired by the Company, subject to Section 2.1(b). The Company shall record shares delivered upon exercise of an Option or SAR in the books and records of the Company or a certificate of Shares will be delivered to the Optionee at the Company's principal place of business as soon as practicable after the Option or SAR is properly exercised or the Company may, in the Administrator's discretion, retain physical possession of the certificate until such time as the Administrator deems appropriate. Notwithstanding the above, the Company shall not be required to issue or deliver any certificate or certificates for Shares purchased upon the exercise of any Option or SAR or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on any and all stock exchanges on which such class of Company Common Stock is then listed;

(b) The completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator shall, in its sole discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its sole discretion, determine to be necessary or advisable and

(d) The payment to the Company (or its Subsidiary, as applicable) of all amounts which it is required to withhold under Applicable Law in connection with the exercise of the Option or SAR.

The Administrator shall not have any liability to any Optionee for any delay in the delivery of Shares to be issued upon an Optionee's exercise of an Option or SAR.

Section 5.7 Rights as Stockholders. The holder of an Option or SAR shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any Shares purchasable upon the exercise of any part of an Option or SAR unless and until such holder has, to the extent required by the Administrator, signed a Stockholders Agreement and certificates representing such Shares have been issued by the Company to such holder.

Section 5.8 Transfer Restrictions. Shares acquired upon exercise of an Option or SAR may be subject to the terms and conditions of a Stockholders Agreement. In addition, the Administrator, in its sole discretion, may impose further restrictions on the transferability of the Shares purchasable upon the exercise of an Option or SAR as it deems appropriate. Any such

restriction shall be set forth in the respective Award Agreement and may be referred to on the certificates evidencing such Shares. The Administrator may require the Employee to give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Stock Option, within two (2) years from the date of granting such Option or one (1) year after the transfer of such Shares to such Employee. The Administrator may direct that the certificates evidencing Shares acquired by exercise of an Incentive Stock Option refer to such requirement.

## ARTICLE VI.

### **RESTRICTED STOCK AWARDS AND RESTRICTED STOCK UNIT AWARDS**

#### **Section 6.1 Restricted Stock.**

(a) **Grant of Restricted Stock.** The Administrator is authorized to make Awards of Restricted Stock to any Service Provider selected by the Administrator in such amounts and subject to such terms and conditions as determined by the Administrator. All Awards of Restricted Stock shall be evidenced by an Award Agreement.

(b) **Issuance and Restrictions.** Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Administrator may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Administrator determines at the time of the grant of the Award or thereafter.

(c) **Certificates for Restricted Stock.** Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Administrator shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

**Section 6.2 Restricted Stock Units.** The Administrator is authorized to make Awards of Restricted Stock Units to any Service Provider selected by the Administrator in such amounts and subject to such terms and conditions as determined by the Administrator. At the time of grant, the Administrator shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Administrator shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall, subject to the terms of this Plan, transfer to the Participant one Share for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited. The Administrator shall specify the purchase price, if any, to be paid by the grantee to the Company for such Shares.

**Section 6.3 Rights as a Stockholder.** A Participant shall not have any rights as a stockholder in respect of Restricted Stock Units awarded pursuant to the Plan (including but not

limited to the right to vote on any matter submitted to the Company's stockholders) until such time as the Shares attributable to such Restricted Stock Units have been issued to such Participant or his or her beneficiary.

## ARTICLE VII.

### **PERFORMANCE SHARES AND PERFORMANCE UNITS**

#### Section 7.1

(a) Grant of Performance Awards. The Administrator is authorized to make Awards of Performance Shares and Performance Units to any Participant selected by the Administrator in such amounts and subject to such terms and conditions as determined by the Administrator. All Performance Shares and Performance Units shall be evidenced by an Award Agreement.

(b) Issuance and Restrictions. The Administrator shall have the authority to determine the Participants who shall receive Performance Shares and Performance Units, the number of Performance Shares and the number and value of Performance Units each Participant receives for any Performance Cycle, and the Performance Goals applicable in respect of such Performance Shares and Performance Units for each Performance Cycle. Any adjustments to such Performance Goals shall be approved by the Administrator. The Administrator shall determine the duration of each Performance Cycle (the duration of Performance Cycles may differ from one another), and there may be more than one Performance Cycle in existence at any one time. Unless otherwise determined by the Administrator, the Performance Cycle for Performance Shares and Performance Units shall be three (3) years. An Award Agreement evidencing the grant of Performance Shares or Performance Units shall specify the number of Performance Shares and the number and value of Performance Units awarded to the Participant, the Performance Goals applicable thereto, and such other terms and conditions not inconsistent with the Plan as the Administrator shall determine. No Company Common Stock will be issued at the time an Award of Performance Shares is made, and the Company shall not be required to set aside a fund for the payment of Performance Shares or Performance Units.

Section 7.2 Earned Performance Shares and Performance Units. Performance Shares and Performance Units shall become earned, in whole or in part, based upon the attainment of specified Performance Goals or the occurrence of any event or events, including a Corporate Event, as the Administrator shall determine, either at or after the grant date. In addition to the achievement of the specified Performance Goals, the Administrator may, at the grant date, condition payment of Performance Shares and Performance Units on such conditions as the Administrator shall specify. The Administrator may also require the completion of a minimum period of service (in addition to the achievement of any applicable Performance Goals) as a condition to the vesting of any Performance Share or Performance Unit Award.

Section 7.3 Rights as a Stockholder. A Participant shall not have any rights as a stockholder in respect of Performance Shares or Performance Units awarded pursuant to the Plan (including but not limited to the right to vote on any matter submitted to the Company's stockholders)

until such time as the Shares attributable to such Performance Shares or Performance Units have been issued to such Participant or his or her beneficiary.

Section 7.4 Performance Goals. The Administrator shall establish the Performance Goals that must be satisfied in order for a Participant to receive an Award for a Performance Period or for an Award of Performance Shares or Performance Units to be earned or vested. At the discretion of the Administrator, the Performance Goals may be based upon the total return to the Company's shareholders, inclusive of dividends paid, during the applicable Performance Cycle (determined either in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies), or upon the relative or comparative attainment of one or more of the following criteria, whether in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies and whether gross or net, before or after taxes and/or before or after any other adjustments: earnings before interest, taxes, depreciation and amortization, with or without adjustments for stock-option based and other equity-based compensation expenses, and/or management, transaction and/or similar fees paid to the principal stockholders or their affiliates, operating earnings, net earnings, income, earnings before interest and taxes, total shareholder return, return on the Company's assets, increase in the Company's earnings or earnings per share (basic or diluted), revenue growth, share price performance, return on invested capital, operating income, pre- or post-tax, income, net income, economic value added, profit margins, cash flow, improvement in or attainment of expense or capital expenditure levels, improvement in or attainment of working capital levels, return on equity, debt reduction, gross profit, market share, cost reductions, workforce satisfaction and diversity goals, workplace health and safety goals, employee retention, completion of key projects and strategic plan development and/or implementation, job profit or performance against a multiplier; or, in the case of persons who are not Covered Employees, such other criteria as may be determined by the Administrator. Performance Goals may be established on a Company-wide basis or with respect to one or more business units, divisions, Subsidiaries, or products. When establishing Performance Goals for a Performance Cycle, the Administrator may exclude any or all "extraordinary items" as determined under U.S. generally accepted accounting principles and as identified in the financial statements, notes to the financial statements or management's discussion and analysis in the annual report, including, without limitation, the charges or costs associated with restructurings of the Company, discontinued operations, extraordinary items, capital gains and losses, dividends, Share repurchase, other unusual or non-recurring items, and the cumulative effects of accounting changes. Except in the case of Awards to Covered Employees intended to be performance-based compensation under Section 162(m) of the Code, the Administrator may also adjust the Performance Goals for any Performance Cycle as it deems equitable in recognition of unusual or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such other factors as the Administrator may determine (including, without limitation, any adjustments that would result in the Company paying non-deductible compensation to a Participant).

Section 7.5 Special Rule for Performance Goals. If, at the time of grant, the Administrator intends a Performance Share Award, Performance Unit or other Performance Award to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, the Administrator must establish Performance Goals for the applicable Performance Cycle prior to the

91st day of the Performance Cycle (or by such other date as may be required under Section 162(m) of the Code) but not later than the date on which 25% of the Performance Cycle has lapsed.

Section 7.6 Negative Discretion. Notwithstanding anything in this Article VII to the contrary, the Administrator shall have the right, in its absolute discretion, (i) to reduce or eliminate the amount otherwise payable to any Participant under Section 7.9 based on individual performance or any other factors that the Administrator, in its discretion, shall deem appropriate and (ii) to establish rules or procedures that have the effect of limiting the amount payable to each Participant to an amount that is less than the maximum amount otherwise authorized under the Award Agreement or under the Plan.

Section 7.7 Affirmative Discretion. Notwithstanding any other provision in the Plan to the contrary, but subject to the maximum number of Shares available for issuance under Section 2.1 of the Plan, (i) the Administrator shall have the right, in its discretion, to grant an Award in cash, Shares or other Awards, or in any combination thereof, to any Participant (except for a Participant who is a Covered Employee, to the extent Section 162(m) of the Code is applicable to the Company and the Plan for the year in which the amount paid would ordinarily be deductible by the Company for federal income tax purposes in an amount up to the maximum Award payable), based on individual performance or any other criteria that the Administrator deems appropriate and (ii) in connection with the hiring of any person who is or becomes a Covered Employee, the Administrator may provide for a minimum bonus amount or Award payment in any Performance Cycle, regardless of whether the performance objectives are attained.

Section 7.8 Certification of Attainment of Performance Goals. As soon as practicable after the end of a Performance Cycle and prior to any payment or vesting in respect of such Performance Cycle, the Administrator shall certify in writing the number of Performance Shares or other Performance Awards and the number and value of Performance Units that have been earned or vested on the basis of performance in relation to the established Performance Goals.

Section 7.9 Payment of Awards. Payment or delivery of Company Common Stock with respect to earned Performance Shares and earned Performance Units shall be distributed to the Participant or, if the Participant has died, to the Participant's Eligible Representative, as soon as practicable after the expiration of the Performance Cycle and the Administrator's certification under Section 7.8 above (unless an Award Agreement sets forth one or more other dates) and in any event no later than the earlier of (i) 2 ½ months after the end of the fiscal year in which the Performance Cycle expires and (ii) ninety (90) days after the expiration of the Performance Cycle, provided that payment or delivery of Company Common Stock with respect to earned Performance Shares and earned Performance Units shall not be distributed to a Participant until any other conditions on payment of such Awards established by the Administrator have been satisfied. The Administrator shall determine whether earned Performance Shares and the value of earned Performance Units are to be distributed in the form of cash, Shares or in a combination thereof, with the value or number of Shares payable to be determined based on the Fair Market Value of the Company Common Stock on the date of the Administrator's certification under Section 7.8 above. The Administrator shall have the right to impose whatever conditions it deems appropriate with respect to the award or

delivery of Shares, including conditioning the vesting of such Shares on the performance of additional service.

Section 7.10 Newly Eligible Participants. Notwithstanding anything in this Article VII to the contrary, the Administrator shall be entitled to make such rules, determinations and adjustments as it deems appropriate with respect to any Participant who becomes eligible to receive Performance Shares, Performance Units or other Performance Awards after the commencement of a Performance Cycle.

## ARTICLE VIII.

### DEFERRED SHARE UNITS

Section 8.1 Grant. Subject to Article XII, the Administrator is authorized to make awards of Deferred Share Units to any Participant selected by the Administrator at such time or times as shall be determined by the Administrator without regard to any election by the Participant to defer receipt of any compensation or bonus amount payable to him. The grant date of any freestanding Deferred Share Unit under the Plan will be the date on which such freestanding Deferred Share Unit is awarded by the Administrator or on such other future date as the Administrator shall determine in its sole discretion. In addition, subject to Article XII, on fixed dates established by the Administrator and subject to such terms and conditions as the Administrator shall determine, the Administrator may permit a Participant to elect to defer receipt of all or a portion of his annual compensation and/or annual incentive bonus ("Deferred Annual Amount") payable by the Company or a Subsidiary and receive in lieu thereof an Award of elective Deferred Share Units ("Elective Deferred Share Units") equal to the greatest whole number that may be obtained by dividing (i) the amount of the Deferred Annual Amount, by (ii) the Fair Market Value of one Share on the date of payment of such compensation and/or annual bonus. Each Award of Deferred Share Units shall be evidenced by an Award Agreement that shall specify (x) the number of Shares to which the Deferred Share Units pertain, (y) the time and form of payment of the Deferred Share Units and (z) such terms and conditions not inconsistent with the Plan as the Administrator shall determine, including customary representations, warranties and covenants with respect to securities law matters and such provisions as may be required pursuant to Section 409A of the Code. Upon the grant of Deferred Share Units pursuant to the Plan, the Company shall establish a notional account for the Participant and will record in such account the number of Deferred Share Units awarded to the Participant. No Shares will be issued to the Participant at the time an award of Deferred Share Units is granted. Subject to Article XII, Deferred Share Units may become payable on a Corporate Event, termination of employment or on a specified date or dates set forth in the Award Agreement evidencing such Deferred Share Units.

Section 8.2 Rights as a Stockholder. A Participant shall not have any rights as a stockholder in respect of Deferred Share Units awarded pursuant to the Plan (including but not limited to the right to vote on any matter submitted to the Company's stockholders) until such time as the Shares attributable to such Deferred Share Units have been issued to such Participant or his or her beneficiary.

**Section 8.3 Vesting.** Unless the Administrator provides otherwise at or after the grant date, the portion of each Award of Deferred Share Units that consists of freestanding Deferred Share Units, together with any dividend equivalents credited with respect thereto, will be subject to a restriction period of such length and subject to such terms and conditions as determined by the Administrator. In its discretion, the Administrator may establish performance-based vesting conditions with respect to Awards of Deferred Share Units (in lieu of, or in addition to, time-based vesting) based on one or more of the Performance Goals listed in Section 7.4; provided that any Award of Deferred Share Units made to any Covered Employee that is intended to qualify as performance-based compensation under Section 162(m) of the Code shall be subject to the same restrictions and limitations applicable to Awards of Performance Shares and Performance Units under Section 7.5 and Section 7.8. Except as otherwise provided in the applicable Award Agreement or as provided in Section 11.4, the portion of each Award of Deferred Share Units that consists of Elective Deferred Share Units, together with any dividend equivalents credited with respect thereto, shall not be subject to any restriction period and shall be non-forfeitable at all times.

**Section 8.4 Further Deferral Elections.** A Participant may elect to further defer receipt of Shares issuable in respect of Deferred Share Units (or an installment of an Award) for a specified period or until a specified event, subject in each case to the Administrator's approval and to such terms as are determined by the Administrator, all in its sole discretion. Subject to any exceptions adopted by the Administrator, such election must generally be made at least twelve (12) months prior to the prior settlement date of such Deferred Share Units (or any such installment thereof) and must defer settlement for at least five (5) years after such prior settlement date. A further deferral opportunity does not have to be made available to all Participants, and different terms and conditions may apply with respect to the further deferral opportunities made available to different Participants.

**Section 8.5 Settlement.** Subject to this Article VIII, upon the date specified in the Award Agreement evidencing the Deferred Share Units, for each such Deferred Share Unit the Participant shall receive, in the Administrator's discretion, (i) a cash payment equal to the Fair Market Value of one (1) Share as of such payment date, (ii) one (1) Share or (iii) any combination of cash and Shares.

## ARTICLE IX.

### **OTHER STOCK-BASED AWARDS**

**Section 9.1 Grant of Stock-Based Awards.** The Administrator is authorized to make Awards of other types of equity-based or equity-related awards ("Stock-Based Awards") not otherwise described by the terms of the Plan in such amounts and subject to such terms and conditions as the Administrator shall determine. All Stock-Based Awards shall be evidenced by an Award Agreement. Such Stock-Based Awards may be granted as an inducement to enter the employ of the Company or any Subsidiary or in satisfaction of any obligation of the Company or any Subsidiary to an officer or other key employee, whether pursuant to this Plan or otherwise, that would otherwise have been payable in cash or in respect of any other obligation of the Company. Such Stock-Based Awards may entail the transfer of actual Shares, or payment in cash or otherwise of amounts based on the value of Shares and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

**ARTICLE X.**

**DIVIDEND EQUIVALENTS**

Section 10.1 Generally. Dividend Equivalents may be granted to Participants at such time or times as shall be determined by the Administrator. Dividend Equivalents may be granted in tandem with other Awards, in addition to other Awards, or freestanding and unrelated to other Awards. The grant date of any Dividend Equivalents under the Plan will be the date on which the Dividend Equivalent is awarded by the Administrator, or such other date as the Administrator shall determine in its sole discretion. Dividend Equivalents shall be evidenced in writing, whether as part of the Award Agreement governing the terms of the Award, if any, to which such Dividend Equivalent relates, or pursuant to a separate Award Agreement with respect to freestanding Dividend Equivalents, in each case, containing such provisions not inconsistent with the Plan as the Administrator shall determine, including customary representations, warranties and covenants with respect to securities law matters; provided that no Dividend Equivalent shall vest or be payable based on the exercise of an Option or SAR.

**ARTICLE XI.**

**TERMINATION AND FORFEITURE**

Section 11.1 Termination for Cause. Unless otherwise determined by the Administrator at or after the grant date and set forth in the Award Agreement covering the Award or otherwise in writing, if a Participant's employment or service terminates for Cause, all Options and SARs, whether vested or unvested, and all other Awards that are unvested or unexercisable or otherwise unpaid (or were unvested or unexercisable or unpaid at the time of occurrence of Cause) shall be immediately forfeited and canceled, effective as of the date of the Participant's termination of service. Notwithstanding the foregoing, unless otherwise determined by the Administrator at or after the grant date and set forth in the Award Agreement covering the Award or otherwise in writing, any Award that vested or was paid to the Participant or otherwise settled during the twelve months prior to or any time after the Participant engaged in the conduct that gave rise to the termination for Cause shall upon demand by the Administrator be immediately forfeited and disgorged or paid to the Company together with all gains earned or accrued due to the exercise of such Awards or sale of Company Common Stock issued pursuant to such Awards.

Section 11.2 Termination for Any Other Reason. Unless otherwise determined by the Administrator at or after the grant date and set forth in the Award Agreement covering the Award or otherwise in writing, if a Participant's employment or service terminates for any reason other than Cause:

(a) All Awards that are unvested or unexercisable shall be immediately forfeited and canceled, effective as of the date of the Participant's termination of service.

(b) All Options and SARs that are vested shall remain outstanding until (x) in the case of termination for death or Disability, the first anniversary of the date of the Participant's death, (y) the 60th day after the date of termination for any reason other than death or Disability or

(z) the Award's normal expiration date, whichever is earlier, after which any unexercised Options and SARs shall immediately terminate.

Section 11.3 Post-Termination Informational Requirements. Before the settlement of any Award following termination of employment or service, the Administrator may require the Participant (or the Participant's Eligible Representative, if applicable) to make such representations and provide such documents as the Administrator deems necessary or advisable to effect compliance with Applicable Law and determine whether the provisions of Section 11.1 or Section 11.4 may apply to such Award.

Section 11.4 Forfeiture of Awards.

(a) Forfeiture for Financial Reporting Misconduct. If the Company is required to prepare an accounting restatement due to material noncompliance by the Company with any financial reporting requirement under the securities laws, (x) with respect to any Participant who either knowingly or grossly negligently engaged in the misconduct or knowingly or grossly negligently failed to prevent the misconduct as determined by the Administrator or is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, such Participant shall forfeit and disgorge to the Company (i) any Awards granted or vested and all gains earned or accrued due to the exercise of Options or SARS or sale of any Company Common Stock during the twelve (12)-month period following the filing of the financial document embodying such financial reporting requirement and (ii) any other Awards that vested based on the materially non-complying financial reporting and (y) with respect to any Participant who is a current or former member of the Leadership Team or other executive officer of the Company (as defined under Rule 3b-7 (or any successor provision) promulgated under the Exchange Act) who received incentive compensation under the Plan during the three-year period preceding the date on which the Company is required to prepare such accounting restatement, based on erroneous data, in excess of what would have been awarded or paid to such Participant under such accounting restatement, such Participant shall forfeit and disgorge to the Company such excess incentive compensation.

(b) Forfeiture under Applicable Laws or Regulations. In addition to forfeiture for reasons specified in Section 11.4(a), the Company may cancel or reduce or require the Participant to forfeit and disgorge to the Company any Awards granted or vested and any gains earned or accrued due to the exercise of Options or SARS or sale of any Company Common Stock to the extent permitted or required by Applicable Law or regulations in effect on or after the Effective Date. For the avoidance of doubt, the Administrator shall have full authority to implement any policies and procedures necessary to comply with Section 10D of the Exchange Act, as amended, and any rules promulgated thereunder.

(c) Forfeiture for Competitive Activity. Unless otherwise determined by the Administrator at or after the grant date and set forth in the Award Agreement covering the Award or otherwise in writing, if during or following a Participant's termination of employment or service with the Company or any of its Subsidiaries the Participant engages in Competitive Activity, all Options and SARs, whether vested or unvested, and all other Awards that are unvested or unexercisable or otherwise unpaid shall be immediately forfeited and canceled, effective as of the date of the Participant's termination of service. Notwithstanding the foregoing, any Award that

vested or was paid to the Participant or otherwise settled more than twelve (12) months prior to the date the Participant engaged in Competitive Activity, as determined by the Administrator in its sole discretion, shall not be recovered from the Participant. Any Award vested, paid or otherwise settled in the twelve (12) months prior to the date that the Participant engaged in Competitive Activity or at any time thereafter shall upon demand by the Administrator be immediately forfeited and disgorged or paid to the Company together with all gains earned or accrued due to the exercise of such Awards or sale of any Company Common Stock issued pursuant to such Awards.

(d) Forfeiture for Other Misconduct. Unless otherwise determined by the Administrator, if (i) the Participant's performance is deemed to contribute substantially to the Company or a Subsidiary incurring significant financial losses; (ii) the Participant's performance is deemed to contribute substantially to a significant downward restatement of any published results of the Company or a Subsidiary; (iii) the Participant engages in conduct that results in or contributes substantially to significant reputational harm to the Company; (iv) the Participant materially breaches or contributes substantially to a material breach of applicable legal and/or regulatory requirements; (v) the Participant engages in conduct that constitutes Cause or (vi) the Participant engages in conduct that results in or contributes substantially to a material breach of the Company's applicable internal policies and procedures, including without limitation those policies in respect of risk management, compliance, disciplinary and any applicable supervisory practices, the Administrator in its sole discretion may suspend the vesting of any Awards granted (or a portion thereof) and/or require the forfeiture and disgorgement to the Company of any Awards (or a portion thereof) granted or vested during the twelve months prior to or any time after the Participant engaged in such misconduct and all gains earned or accrued due to the exercise of such Awards or sale of any Company Common Stock issued pursuant to such Awards.

(e) Other Recoupment Policies. Awards granted under this Plan (and gains earned or accrued in connection with Awards) shall also be subject to such generally applicable policies as to forfeiture, disgorgement and recoupment (including, without limitation, upon the occurrence of material financial or accounting errors, financial or other misconduct) as may be adopted by the Administrator or the Board from time to time and communicated to Participants. Any such policies may (in the discretion of the Administrator or the Board) be applied to outstanding Awards at the time of adoption of such policies, or on a prospective basis only. The implementation of policies and procedures pursuant to this Section 11.4 and any modification of the same shall not be subject to any restrictions on amendment or modification of Awards.

Section 11.5 Pre-Public Offering Awards. The provisions of this Article XI (other than the provisions of Section 11.4(a) and Section 11.4(b)) shall not apply to any Awards granted prior to a Public Offering unless expressly provided otherwise in the Award Agreement.

## **ARTICLE XII.**

### **ADMINISTRATION**

Section 12.1 Administrator. The Plan shall be administered by the Board or an Administrator appointed by the Board, which Administrator shall be constituted to comply with Applicable Laws.

Section 12.2 Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a committee, the specific duties delegated by the Board to such Administrator, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion to:

- (a) determine the Fair Market Value;
- (b) determine the type or types of Awards to be granted to each Participant;
- (c) select the Service Providers to whom Awards may from time to time be granted hereunder;

(d) determine all matters and questions related to the termination of service of a Service Provider with respect to any Award granted to him or her hereunder, including, but not by way of limitation of, all questions of whether a particular Service Provider has taken a leave of absence, all questions of whether a leave of absence taken by a particular Service Provider constitutes a termination of service, and all questions of whether a termination of service of a particular Service Provider resulted from discharge for Cause. For the purpose of clarification, for such purpose the Board shall be the Administrator of any Award granted to a Director who is not an Employee of the Company or any of its Subsidiaries hereunder, and the Board will therefore determine all matters and questions related to the termination of a Director who is not an Employee of the Company or any of its Subsidiaries as a Service Provider with respect to any Award granted to him or her hereunder;

(e) delegate, subject to such terms or conditions or guidelines as it shall determine, to any officer or group of officers (including the chief executive officer) or Director or group of Directors of the Company or its Subsidiaries, its authority and powers under the Plan with respect to Awards to any Service Provider who is not (i) a Director of the Board or (ii) an “officer” as defined in Rule 16a-1 promulgated under the Exchange Act (or any successor provision); provided that any delegation to one or more officers (including the chief executive officer) of the Company shall be subject to and comply with Section 152 and 157(c) of the Delaware General Corporation Law (or successor provision) to the extent applicable;

(f) determine the number of Awards to be granted and the number of Shares to which an Award will relate;

(g) approve forms of agreement for use under the Plan, which need not be identical for each Service Provider;

(h) determine the terms and conditions of any Awards granted hereunder (including, but not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions and any restriction or limitation regarding any Awards or the Company Common Stock relating thereto) based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(i) prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to Subplans established for the purpose of satisfying applicable foreign laws;

(j) determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise or purchase price of an Award may be paid in, cash, Company Common Stock, other Awards, or other property, or an Award may be canceled, forfeited or surrendered;

(k) suspend or accelerate the vesting of any Award granted under the Plan;

(l) construe and interpret the terms of the Plan and Awards granted pursuant to the Plan; and

(m) make all other decisions and determinations that may be required pursuant to the Plan or as the Administrator deems necessary or advisable to administer the Plan.

Section 12.3 Compensation, Professional Assistance, Good Faith Actions. The Administrator may receive such compensation for its services hereunder as may be determined by the Board. All expenses and liabilities incurred by the Administrator in connection with the administration of the Plan shall be borne by the Company. The Administrator may employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Administrator, the Company and its officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations, decisions and determinations made by the Administrator, in good faith shall be final and binding upon all Participants, the Company and all other interested persons. The Administrator shall not be personally liable for any action, determination or interpretation made with respect to the Plan or the Awards, and the Administrator shall be fully protected by the Company with respect to any such action, determination or interpretation.

Section 12.4 Participants Based Outside the United States. To conform with the provisions of local laws and regulations, or with local compensation practices and policies, in foreign countries in which the Company or any of its Subsidiaries or Affiliates operate, but subject to the limitations set forth herein regarding the maximum number of shares issuable hereunder and the maximum award to any single Participant, the Administrator may (i) modify the terms and conditions of Awards granted to Participants employed outside the United States (“Non-U.S. Awards”), (ii) establish subplans with such modifications as may be necessary or advisable under the circumstances (“Subplans”) and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan. The Administrator’s decision to grant Non-U.S. Awards or to establish Subplans is entirely voluntary, and at the complete discretion of the Administrator. The Administrator may amend, modify or terminate any Subplans at any time, and such amendment, modification or termination may be made without prior notice to the Participants. The Company, Subsidiaries, Affiliates and members of the Administrator shall not incur any liability of any kind to any Participant as a result of any change, amendment or termination of any Subplan at any time. The benefits and rights provided under any Subplan or by any Non-U.S. Award (x) are wholly discretionary and,

although provided by either the Company, a Subsidiary or Affiliate, do not constitute regular or periodic payments and (y) are not to be considered part of the Participant's salary or compensation under the Participant's employment with the Participant's local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. If a Subplan is terminated, the Administrator may direct the payment of Non-U.S. Awards (or direct the deferral of payments whose amount shall be determined) prior to the dates on which payments would otherwise have been made, and, in the Administrator's discretion, such payments may be made in a lump sum or in installments.

### **ARTICLE XIII.**

#### **CHANGE IN CONTROL**

##### **Section 13.1 Accelerated Vesting and Payment.**

(a) **Accelerated Vesting.** Unless the Administrator otherwise determines in the manner set forth in Section 13.1(b) or as otherwise provided in an Award Agreement, upon the occurrence of a Change in Control, (i) all Service Awards shall become immediately vested or exercisable and be settled in shares of Company Common Stock, (ii) each outstanding Performance Award with a Performance Cycle in progress at the time of the Change in Control shall be deemed to be earned and become vested and/or paid out in an amount equal to the product of (A) such Participant's target award opportunity with respect to such Performance Award for the Performance Cycle in question and (B) the percentage of Performance Goals achieved as of the date of the Change in Control (which Performance Goals shall be pro-rated, if necessary or appropriate, to reflect the portion of the Performance Cycle that has been completed), and all other Performance Awards shall be canceled and forfeited upon consummation of the Change in Control and (iii) shares of Company Common Stock underlying all Awards that are vested (as provided in this Section 13.1(a) or otherwise) shall be issued or released to the Participant holding such Award; provided, that, at the discretion of the Administrator (as constituted immediately prior to the Change in Control), each Service Award may be canceled in exchange for an amount equal to the product of (A)(I) in the case of Options and Stock Appreciation Rights, the excess, if any, of the product of the Change in Control Price over the exercise price for such Award and (II) in the case of other such Awards, the Change in Control Price, multiplied by (B) the aggregate number of shares of Company Common Stock covered by such Award. Notwithstanding the foregoing, the Administrator may, in its discretion, instead terminate any outstanding Options or Stock Appreciation Rights if either (x) the Company provides holders of such Options and Stock Appreciation Rights with reasonable advance notice to exercise their outstanding and unexercised Options and Stock Appreciation Rights, or (y) the Administrator reasonably determines that the Change in Control Price is equal to or less than the exercise price for such Options or Stock Appreciation Rights.

(b) **Timing of Payments.** Payment of any amounts calculated in accordance with Section 13.1(a) shall be made in cash or, if determined by the Administrator (as constituted immediately prior to the Change in Control), in shares of common stock of the new employer having an aggregate fair market value equal to such amount and shall be payable in full, as soon as reasonably practicable, but in no event later than 30 days, following the Change in Control. For purposes

hereof, the fair market value of one share of common stock of the new employer shall be determined by the Administrator (as constituted immediately prior to the consummation of the transaction constituting the Change in Control), in good faith.

Section 13.2 Alternative Awards. Notwithstanding Section 13.1, except as otherwise provided in an Award Agreement, no cancellation, termination, acceleration of exercisability or vesting, lapse of any restrictions or settlement or other payment shall occur with respect to any outstanding Award, if the Administrator (as constituted immediately prior to the consummation of the transaction constituting the Change in Control) reasonably determines, in good faith, with the approval of a majority of the members of the Leadership Team, prior to the Change in Control, that such outstanding Awards shall be honored or assumed, or new rights substituted therefor (such honored, assumed or substituted Award being hereinafter referred to as an “Alternative Award”) by the new employer, provided, that any Alternative Award must:

(a) provide the Participant (or each Participant in a class of Participants) with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Award, including, but not limited to, an identical or better exercise or vesting schedule and identical or better timing and methods of payment;

(b) have substantially equivalent economic value to such Award (determined at the time of the Change in Control) and

(c) have terms and conditions which provide that in the event that the Participant suffers an involuntary termination without Cause within two years following the Change in Control,

(i) all outstanding Service Awards held by a terminated Participant shall become vested and exercisable and any restrictions on such outstanding Service Awards shall lapse and

(ii) each outstanding Performance Award held by a terminated Participant with a Performance Cycle in progress at the time of both the Change in Control and the termination of employment shall be deemed to be earned and become vested and/or paid out in an amount equal to the product of (x) such Participant’s target award opportunity with respect to such Award for the Performance Cycle in question and (y) the greater of the percentage of Performance Goals (which Performance Goals shall be pro-rated, if necessary or appropriate, to reflect the portion of the Performance Cycle that has been completed) achieved as of the date of the Change in Control and as of the last day of the fiscal quarter ended on or immediately prior to the date of Termination of Service. The portion of any Performance Award that does not vest in accordance with the preceding sentence shall immediately be forfeited and canceled without any payment therefor.

(iii) Payments. To the extent permitted under Section 14.14, all amounts payable hereunder shall be payable in full, as soon as reasonably practicable, but in no event later than 10 business days, following the Participant’s termination of employment.

Section 13.3 Section 409A. Notwithstanding anything in Section 13.2, if any Award is subject to Section 409A of the Code and an Alternative Award would be deemed a non-compliant

material modification (as defined in Section 409A of the Code) of such Award, then no Alternative Award shall be provided and such Award shall instead be treated as provided in Section 13.1.

Section 13.4 Pre-Public Offering Awards. The provisions of this Article XIII shall not apply to any Awards granted prior to a Public Offering unless expressly provided otherwise in the Award Agreement.

#### ARTICLE XIV.

#### OTHER PROVISIONS

##### Section 14.1 Changes in Company Common Stock; Disposition of Assets and Corporate Events.

(a) In the event of any recapitalization (including a leveraged recapitalization), reclassification, stock split, extraordinary dividend, reverse stock split, reorganization, merger, consolidation, acquisition, disposition, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or any disposition of all or substantially all of the capital stock or assets of the Company (including, but not limited to, an Equity Restructuring), exchange of Company Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Company Common Stock or other securities of the Company, the acquisition or disposition of any material assets or business or other similar corporate transaction or event that affects the Company Common Stock (each, a “Corporate Event”) such that an adjustment to the Awards or Plan is determined by the Administrator to be necessary in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to an Award, then the Administrator shall, in such manner as it may deem equitable, adjust any or all of:

(i) the number and kind of Shares (or other securities or property) with respect to which an Award may be granted under the Plan (including, but not limited to, adjustments of the limitations in Section 2.1 on the maximum number and kind of Shares which may be issued);

(ii) the number and kind of Shares (or other securities or property) subject to outstanding Awards;

(iii) the grant or exercise or base price per Share for any outstanding Awards under the Plan;

(iv) the terms and conditions of any outstanding Awards (including, without limitation, any applicable financial or other Performance Goals) or

(v) make such other provision with respect to the holder or holders of outstanding Awards (which may include, without limitation, provision for dividend equivalents or other compensation inside or outside of the Plan);

it being understood that any such adjustment or other provision shall be implemented in such manner as the Administrator determines is necessary to preserve the economic value represented by the

Award immediately prior to such event (except that, for the avoidance of doubt, economic value of any Option or SAR need not reflect any value other than the spread value of such Award at such time) and not cause the Award to become subject to the provisions of or any additional taxes, interest or penalties imposed by Section 409A of the Code. All determinations and adjustments made by the Administrator in good faith pursuant to this Section 14.1(a) shall be final and binding on the affected Participants and the Company.

(b) Subject to Section 14.14, upon the occurrence of a Corporate Event, the Administrator is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is necessary in order to (x) prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under this Plan, (y) facilitate such Corporate Event or (z) give effect to such changes in laws, regulations or accounting principles:

(i) The Administrator may provide, on such terms and conditions as it deems appropriate, either by the terms of the applicable Award Agreement or by action taken prior to the occurrence of such Corporate Event, and either automatically or upon the Participant's request, for either (A) the purchase of any outstanding Award for an amount of cash, securities, or other property equal to the amount that could have been attained upon the exercise of the portion of such Award that was vested and exercisable (and such additional portion of the Award as the Administrator may determine) immediately prior to the occurrence of such Corporate Event or (B) the replacement of such vested (and other) portion of such Award with other rights or property selected by the Administrator in its sole discretion;

(ii) In its sole discretion, the Administrator may provide, either by the terms of the applicable Award Agreement or by action taken prior to the occurrence of such Corporate Event, that, if, as of the date of the occurrence of such Corporate Event, the Administrator determines in good faith that no amount would have been obtained upon the vesting or exercise of the Award, then the Award (or any portion thereof) will terminate upon the occurrence of such Corporate Event and cannot vest, be exercised or become payable after such Corporate Event;

(iii) The Administrator may provide, on such terms and conditions as it deems appropriate, either by the terms of the applicable Award Agreement or by action taken prior to the occurrence of such Corporate Event, that for a specified period of time prior to such Corporate Event, such Award shall be exercisable as to all Shares covered thereby or a specified portion of such Shares, notwithstanding anything to the contrary in (A) Section 4.2 or (B) the provisions of the applicable Award Agreement;

(iv) In its sole discretion and on such terms and conditions as it deems appropriate, the Administrator may provide, either by the terms of the applicable Award Agreement or by action taken prior to the occurrence of such Corporate Event, that upon such Corporate Event, such Award (or any portion thereof) be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or Awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of Shares and prices; and

(v) The Administrator may make adjustments in the number and type of Shares (or other securities or property) subject to the Plan and outstanding Awards (or any portion thereof) and/or in the terms and conditions of (including the exercise price), and the criteria included in, outstanding Awards and Awards which may be granted in the future.

(c) With respect to Awards granted prior to a Public Offering, in connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Section 14.1(a) and Section 14.1(b), the Administrator will equitably adjust each outstanding Award, which adjustments may include adjustments to the number and type of securities subject to each outstanding Award and/or the exercise price or grant price thereof, if applicable, the grant of new Awards to Participants, and/or the making of a cash payment to Participants, as the Administrator deems necessary to reflect such Equity Restructuring. The adjustments provided under this Section 14.1(c) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company; provided that whether an adjustment is equitable shall be determined in the discretion of the Administrator.

(d) Any adjustment of an Award pursuant to Section 14.1 shall be effected in compliance with Section 409A of the Code.

(e) The Administrator may include such further provisions and limitations in any Award Agreement or Stockholders Agreement as it may deem equitable and in the best interests of the Company and its Subsidiaries.

(f) To the extent required by the terms of an Award Agreement, the Company shall notify the Participant prior to the date of a Corporate Event.

#### Section 14.2 Transferability.

(a) Awards Not Transferable. Unless otherwise agreed to in writing by the Administrator, no Award or interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law, by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 14.2 shall prevent transfers by will or by the applicable laws of descent and distribution.

(b) Transferability of Shares. Prior to the day that is one hundred eighty (180) days (or such shorter or longer period as determined by the managing underwriters to be appropriate in order to avoid a material adverse impact on marketability or price) after the consummation of a Public Offering, no Participant shall without the prior consent of the Administrator transfer any Shares issued pursuant to an Award except for (i) transfers to the Company, (ii) transfers (A) by gift to, or for the benefit of, any member or members of a Participant's immediate family (which shall include any spouse, or any lineal ancestor or descendant, niece, nephew, adopted child or sibling of him or her or such spouse, niece, nephew or adopted child),

(B) to a trust under which the distribution of the Shares may be made only by such Participant and/or such Participant's immediate family or (C) to a partnership or limited liability company for the benefit of the immediate family of such Participant and the partners or members of which are only such Participant and such Participant's immediate family or (iii) any transfer of such Shares by a Participant to his or her heirs, executors or legatees by operation of law or court order upon the death or incapacity of such Participant (each such transfer, a "Permitted Transfer").

#### Section 14.3 Amendment, Suspension or Termination of the Plan or Award Agreements.

(a) The Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator; provided that without the approval by a majority of the shares entitled to vote at a duly constituted meeting of shareholders of the Company, no amendment or modification to the Plan may (i) except as otherwise expressly provided in Section 14.1, increase the number of shares of Stock subject to the Plan or the individual Award limitations specified in Section 2.2; (ii) modify the class of persons eligible for participation in the Plan or (iii) materially modify the Plan in any other way that would require shareholder approval under Applicable Law.

(b) Except as provided by Section 14.1, neither the amendment, suspension nor termination of the Plan shall, without the consent of the holder of the Award, adversely alter or impair any rights or obligations under any Award theretofore granted. Except as provided by Section 14.1, notwithstanding the foregoing, the Administrator at any time, and from time to time, may amend the terms of any one or more existing Award Agreements, provided, however, that the rights of a Participant under an Award Agreement shall not be adversely impaired without the Participant's written consent. The Company shall provide a Participant with notice of any amendment made to such Participant's existing Award Agreement in accordance with the terms of this Section 14.3(b).

(c) No Award may be granted during any period of suspension nor after termination of the Plan, and in no event may any Award be granted under this Plan after the expiration of ten (10) years from the Effective Date.

Section 14.4 Application of Certain Provisions of the Stockholders Agreement to the Awards. The provisions of Section 12 of the Stockholders Agreement shall apply to all Awards granted pursuant to this Plan prior to a Public Offering, regardless of whether the Participant is a party to such agreement or whether any Shares have been issued.

Section 14.5 Effect of Plan upon Other Award and Compensation Plans. The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company or any of its Subsidiaries. Nothing in this Plan shall be construed to limit the right of the Company or any of its Subsidiaries (a) to establish any other forms of incentives or compensation for Service Providers or (b) to grant or assume options or restricted stock other than under this Plan in connection with any proper corporate purpose, including, but not by way of limitation, the grant or assumption of options or restricted stock in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association.

Section 14.6 At-Will Employment. Nothing in the Plan, the Stockholders Agreement or any Award Agreement hereunder shall confer upon the Participant any right to continue as a Service Provider of the Company or any of its Subsidiaries or shall interfere with or restrict in any way the rights of the Company and any of its Subsidiaries, which are hereby expressly reserved, to discharge any Participant at any time for any reason whatsoever, with or without Cause, except to the extent expressly provided otherwise in a written employment or other agreement between the Participant and the Company or any of its Subsidiaries.

Section 14.7 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

Section 14.8 Conformity to Securities Laws. The Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated under any of the foregoing, to the extent the Company, any of its Subsidiaries or any Participant is subject to the provisions thereof. Notwithstanding anything herein to the contrary, the Plan shall be administered, and Awards shall be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and Awards granted hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 14.9 Term of Plan. The Plan originally became effective on November 19, 2008. The Plan, as amended and restated, shall become effective on the date that it is approved by the Board (the “Effective Date”) and shall continue in effect, unless sooner terminated pursuant to Section 14.3, until the tenth anniversary of the Effective Date. The provisions of the Plan shall continue thereafter to govern all outstanding Awards.

Section 14.10 Governing Law. To the extent not preempted by federal law, the Plan shall be construed in accordance with and governed by the laws of the State of Delaware regardless of the application of rules of conflict of law that would apply the laws of any other jurisdiction.

Section 14.11 Severability. In the event any portion of the Plan or any action taken pursuant thereto shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provisions had not been included, and the illegal or invalid action shall be null and void.

Section 14.12 Governing Documents. In the event of any contradiction between the Plan and any Award Agreement or any other written agreement between a Participant and the Company or any Subsidiary of the Company that has been approved by the Administrator, the terms of the Plan shall govern, unless it is expressly specified in such Award Agreement or other written document that a specific provision of the Plan shall not apply.

Section 14.13 Withholding Taxes. In addition to any rights or obligations with respect to Withholding Taxes under the Plan or any applicable Award Agreement, the Company or any Subsidiary employing a Service Provider shall have the right to withhold from the Service Provider, or otherwise require the Service Provider or an assignee to pay, any Withholding Taxes arising as a result of grant, exercise, vesting or settlement of any Award or any other taxable event occurring

pursuant to the Plan or any Award Agreement, including, but not limited to, to the extent permitted by law, the right to deduct any such Withholding Taxes from any payment of any kind otherwise due to the Service Provider or to take such other actions (including, but not limited to, withholding any Shares or cash deliverable pursuant to the Plan or any Award) as may be necessary to satisfy such Withholding Taxes; provided, however, that in the event that the Company withholds Shares issued or issuable to the Participant to satisfy the Withholding Taxes, the Company shall withhold a number of whole Shares having a Fair Market Value, determined as of the date of withholding, not in excess of the minimum of tax required to be withheld by law (or such lower amount as may be necessary to avoid liability award accounting); provided, that, any Shares withheld to satisfy the Withholding Taxes may be rounded up to the nearest whole number of Shares; and provided, further, that with respect to any Award subject to Section 409A of the Code, in no event shall Shares be withheld pursuant to this Section 14.13 (other than upon or immediately prior to settlement in accordance with the Plan and the applicable Award Agreement) other than to pay taxes imposed under the U.S. Federal Insurance Contributions Act (FICA) and any associated U.S. federal withholding tax imposed under Section 3401 of the Code and in no event shall the value of such Shares (other than upon immediately prior to settlement) exceed the amount of the tax imposed under FICA and any associated U.S. federal withholding tax imposed under Section 3401 of the Code. The Participant shall be responsible for all Withholding Taxes and other tax consequences of any Award granted under this Plan.

Section 14.14 Section 409A. To the extent that the Administrator determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the adoption of the Plan. In the case of any “nonqualified deferred compensation” (within the meaning of Section 409A) that may be treated as payable in the form of “a series of installment payments,” as defined in Treasury Regulation Section 1.409A-2(b)(2)(iii), a Participant’s or designated beneficiary’s right to receive such payments shall be treated as a right to receive a series of separate payments for purposes of such Treasury Regulation. Notwithstanding any provision of the Plan to the contrary, in the event that following the adoption of the Plan, the Administrator determines that any Award may be subject to Section 409A of the Code and related regulations and Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the adoption of the Plan), the Administrator may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, (b) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance or (c) comply with any correction procedures available with respect to Section 409A of the Code. Notwithstanding anything else contained in this Plan, any Award Agreement or the Stockholder’s Agreement to the contrary, if a Service Provider is a Specified Employee (under any Company Specified Employee policy in effect at the time of the Service Provider’s Separation from Service (as defined below) or, if no such policy is in effect, as defined in Section 409A of the Code)

any payment required to be made to a Service Provider hereunder upon or following his or her Separation from Service (as such term is defined in Section 409A of the Code) shall be delayed until after the six-month anniversary of the Service Provider's Separation from Service to the extent necessary to comply with, and avoid imposition on such Service Provider of any tax penalty imposed under, Section 409A of the Code. Should payments be delayed in accordance with the preceding sentence, the accumulated payment that would have been made but for the period of the delay shall be paid in a single lump sum during the ten-day period following the six-month anniversary of the Separation from Service. Notwithstanding the foregoing, neither the Company nor the Administrator, nor any of the Company's directors, officers or employees shall have any liability to any person in the event Section 409A applies to any payment or right under this Plan in a manner that results in adverse tax consequences for the Participant or any of his beneficiaries or transferees.

Section 14.15 Notices. Except as provided otherwise in an Award Agreement, all notices and other communications required or permitted to be given under this Plan or any Award Agreement shall be in writing and shall be deemed to have been given if delivered personally, sent by email or any other form of electronic transfer approved by the Administrator, sent by certified or express mail, return receipt requested, postage prepaid, or by any recognized international equivalent of such delivery, (i) in the case of notices and communications to the Company, to 8283 Greensboro Drive, McLean, VA 22102 to the attention of the Law Department or (ii) in the case of a Participant, to the last known address, or email address or, where the individual is an employee of the Company or one of its subsidiaries, to the individual's workplace address or email address or by other means of electronic transfer acceptable to the Administrator. All such notices and communications shall be deemed to have been received on the date of delivery, if sent by email or any other form of electronic transfer, at the time of dispatch or on the third business day after the mailing thereof.

**SECOND AMENDED AND RESTATED  
BOOZ ALLEN HAMILTON HOLDING CORPORATION  
ANNUAL INCENTIVE PLAN**

(Effective as of October 1, 2010 and amended and restated as of January 28, 2020)

**SECTION 1. PURPOSE**

The purposes of the Plan are to enable the Company and its Subsidiaries to attract, retain, motivate and reward the best qualified Executive Officers and key employees by providing them with the opportunity to earn competitive compensation directly linked to the Company's performance.

**SECTION 2. DEFINITIONS**

Unless the context requires otherwise, the following words as used in the Plan shall have the meanings ascribed to each below, it being understood that masculine, feminine and neuter pronouns are used interchangeably and that each comprehends the others.

(a) "Act" means the Securities Exchange Act of 1934, as amended.

(b) "Board" means the Board of Directors of the Company.

(c) "Committee" means the Compensation Committee of the Board or such other committee or subcommittee of the Board or the Compensation Committee as the Board or Compensation Committee shall designate from time to time.

(d) "Common Stock" means the class A common stock of the Company, par value \$0.01 per share, and such other class of stock into which such common stock is hereafter converted or exchanged.

(e) "Company" means Booz Allen Hamilton Holding Corporation.

(f) "Company Approved Departure" means a termination of employment that the Company (through the members of its senior management), in its sole discretion, determines to be in the best interest of the Company and the Company's approval of such termination as a Company Approved Departure is approved or ratified by the Board or the Committee.

(g) "Disability" means "disability," as such term is defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

(h) "Equity Incentive Plan" means the Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation, as amended from time to time.

(i) “Executive Officer” means “executive officer” as defined in Rule 3b-7 promulgated under the Act.

(j) “Participant” means (i) each Executive Officer of the Company and (ii) each other employee of the Company or a Subsidiary whom the Committee expressly designates as a participant under the Plan.

(k) “Performance Period” means each fiscal year or another period as designated by the Committee, so long as such period does not exceed one year.

(l) “Plan” means this Second Amended and Restated Booz Allen Hamilton Holding Corporation Annual Incentive Plan, as set forth herein and as may hereafter be amended from time to time.

(m) “Subsidiary” means any business entity in which the Company owns, directly or indirectly, fifty percent (50%) or more of the total combined voting power of all classes of stock entitled to vote, and any other business organization, regardless of form, in which the Company possesses, directly or indirectly, 50% or more of the total combined equity interests.

### SECTION 3. AWARDS

(a) Performance Criteria. The Committee shall establish the performance objective or objectives that must be satisfied in order for a Participant to receive an award for a Performance Period. Performance objectives may be established on a Company-wide basis or with respect to one or more business units, divisions, Subsidiaries, or products; and in either absolute terms or relative to the performance of one or more comparable companies or an index covering multiple companies.

(b) When establishing performance objectives for a Performance Period, the Committee may exclude any or all “extraordinary items” as determined under U.S. generally accepted accounting principles and as identified in the financial statements, notes to the financial statements or management’s discussion and analysis in the annual report, including, without limitation, the charges or costs associated with restructurings of the Company or any Subsidiary, discontinued operations, extraordinary items, capital gains and losses, dividends, share repurchase, other unusual or non-recurring items, and the cumulative effects of accounting changes. The Committee may also adjust the performance objectives for any Performance Period as it deems equitable in recognition of unusual or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such other factors as the Committee may determine (including, without limitation, any adjustments that would result in the Company paying non-deductible compensation to a Participant).

(c) Maximum Amount Payable. If the Committee (or its delegate pursuant to Section 5(b)) determines that the performance objectives established for the relevant Performance Period under Section 3(a) have been satisfied, each Participant who is employed by the Company or one of its Subsidiaries on the last day of the Performance Period for which the award is payable shall

be entitled to receive an annual award in an amount not to exceed US \$5,000,000. Unless otherwise determined by the Committee in its sole discretion, if a Participant's employment terminates for any reason other than for cause (including, without limitation, his death, disability, retirement under the terms of any retirement plan maintained by the Company or a Subsidiary or Company Approved Departure) prior to the last day of the Performance Period for which the award is payable, the maximum award payable to such Participant under the preceding sentence shall be multiplied by a fraction, the numerator of which is the number of days that have elapsed during the Performance Period in which the termination occurs prior to and including the date of the Participant's termination of employment and the denominator of which is the total number of days in the Performance Period.

(d) Termination of Employment. Unless otherwise determined by the Committee in its sole discretion, if a Participant's employment terminates for any reason prior to the date on which the award is paid hereunder, except as otherwise provided in a Participant's employment or other similar agreement, such Participants shall forfeit all rights to any and all awards that have not yet been paid under the Plan; provided that if a Participant's employment terminates as a result of death, Disability or Company Approved Departure, the Committee shall give consideration at its sole discretion to the payment of a partial award with regard to the portion of the Performance Period worked. Notwithstanding the foregoing, if a Participant's employment terminates for any reason prior to the date on which the award is paid hereunder, the Committee, in its discretion, may waive any forfeiture pursuant to this Section 3 in whole or in part.

(e) Negative Discretion. Notwithstanding anything else contained in Section 3(b) to the contrary, the Committee shall have the right, in its absolute discretion, (i) to reduce or eliminate the amount otherwise payable to any Participant under Section 3(b) based on individual performance or conduct or any other factors that the Committee, in its discretion, shall deem appropriate and (ii) to establish rules or procedures that have the effect of limiting the amount payable to each Participant to an amount that is less than the maximum amount otherwise authorized under Section 3(b).

(f) Affirmative Discretion. Notwithstanding any other provision in the Plan to the contrary (including, without limitation, the maximum amounts payable under Section 3(b)), but subject in the case of awards paid in shares of the Company's Common Stock or other awards under the Equity Incentive Plan to the maximum number of shares available for issuance under the Equity Incentive Plan, the Committee shall have the right, in its discretion, to grant any annual award in cash, in shares of the Company's Common Stock, in other awards under the Equity Incentive Plan or in any combination thereof, to any Participant (except the Plan for the year in which the amount paid would ordinarily be deductible by the Company for federal income tax purposes in an amount up to the maximum award payable under Section 3(b)), based on individual performance or any other criteria that the Committee deems appropriate.

#### SECTION 4. PAYMENT

Except as otherwise provided hereunder, payment of any award amount determined under Section 3 shall be made to each Participant as determined by the Committee and in any event no

later than two and a half months after the end of the fiscal year in which the Performance Period ends. The Committee shall determine whether any bonus payable under the Plan is payable in cash, in shares of Common Stock (including, but not limited to, restricted common stock or restricted stock units) or other awards under the Equity Incentive Plan, or in any combination thereof. The Committee shall have the right to impose whatever conditions it deems appropriate with respect to the award of shares of Common Stock or other awards, including conditioning the vesting of such shares or other awards on the performance of additional service.

## SECTION 5. GENERAL PROVISIONS

(a) Administration. The Committee shall be responsible for the administration of the Plan. The Committee shall establish the performance objectives for any fiscal year or other Performance Period determined by the Committee in accordance with Section 3 and certify whether such performance objectives have been obtained. The Committee may prescribe, amend and rescind rules and regulations relating to the administration of the Plan and make all other determinations necessary or advisable for the administration and interpretation of the Plan. Any authority exercised by the Committee under the Plan shall be exercised by the Committee in its sole discretion. Determinations, interpretations or other actions made or taken by the Committee under the Plan shall be final, binding and conclusive for all purposes and upon all persons.

(b) Delegation by the Committee. All of the powers, duties and responsibilities of the Committee specified in this Plan may be exercised and performed by any officer, including the chief executive officer, or group of officers of the Company or its Subsidiaries, or director or group of directors of the Board any portion of its authority and powers under the Plan with respect to Participants who are not Executive Officers or directors of the Board (provided that any delegation to one or more officers of the Company or its Subsidiaries shall be subject to and comply with applicable law) and any determination, interpretation or other action taken by such committee shall have the same effect hereunder as if made or taken by the Committee.

(c) Tax Withholding. The Company shall have the power to withhold, or to require the Participant to remit to the Company, an amount in cash sufficient to satisfy all U.S. federal, state, local and any non-U.S. withholding tax or other governmental tax, charge or fee requirements in respect of any payment under the Plan.

(d) No Guarantee of Employment. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, or confer upon any Participant any right to continue in the employ or retention of the Company.

(e) Unfunded Plan; Plan Not Subject to ERISA. The Plan is an unfunded plan and Participants shall have the status of unsecured creditors of the Company. The Plan is not intended to be subject to the Employee Retirement Income and Security Act of 1974, as amended.

(f) Freedom of Action. Nothing in the Plan shall be construed as limiting or preventing the Company or any of its affiliates from taking any action that it deems appropriate

or in its best interest (as determined in its sole and absolute discretion) and no Participant (or person claiming by or through a Participant) shall have any right relating to the diminishment in the value of any award or any associated return as a result of any such action. The foregoing shall not constitute a waiver by a Participant of the terms and provisions of the Plan.

(g) Forfeiture of Award Amounts.

(i) Forfeiture for Financial Reporting Misconduct. If the Company is required to prepare an accounting restatement due to material noncompliance by the Company with any financial reporting requirement under the securities laws, (x) (with respect to any Participant who either knowingly or grossly negligently engaged in the misconduct or knowingly or grossly negligently failed to prevent the misconduct as determined by the Committee or is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, such Participant shall forfeit and disgorge to the Company any award amounts (A) received during the twelve (12)-month period following the filing of the financial document embodying such financial reporting requirement or (B) earned based on the materially non-complying financial reporting, and (y) with respect to any Participant who is a current or former Executive Officer of the Company who received incentive compensation under the Plan during the three-year period preceding the date on which the Company is required to prepare such accounting restatement, based on erroneous data, in excess of what would have been awarded or paid to such Participant under such accounting restatement, such Participant shall forfeit and disgorge to the Company such excess incentive compensation.

(ii) Forfeiture under Applicable Laws or Regulations. In addition to forfeiture for the reasons specified in subsection (i) of this Section 5(g), the Company may cancel or reduce or require the Participant to forfeit and disgorge to the Company any award amounts and any gains earned or accrued with respect to any equity award or common stock granted or received pursuant to an Award under the Plan to the extent permitted or required by applicable law, regulation, or stock exchange rule in effect on or after the effective date of the Plan. For the avoidance of doubt, the Committee shall have full authority to implement any policies and procedures necessary to comply with Section 10D of the Act and any rules promulgated thereunder.

(iii) Forfeiture for Other Misconduct. Unless otherwise determined by the Committee, if (i) the Participant's performance is deemed to contribute substantially to the Company or a subsidiary incurring significant financial losses; (ii) the Participant's performance is deemed to contribute substantially to a significant downward restatement of any published results of the Company or a subsidiary; (iii) the Participant engages in conduct that results in or contributes substantially to significant reputational harm to the Company; (iv) the Participant materially breaches or contributes substantially to a material breach of applicable legal and/or regulatory requirements; (v) the Participant engages in conduct that constitutes "cause" under any plan or agreement that the Participant is subject to or (vi) the Participant engages in conduct that results in or contributes substantially to a material breach of the Company's applicable internal

policies and procedures, including without limitation those policies in respect of risk management, compliance, disciplinary and any applicable supervisory practices, the Committee in its sole discretion may suspend the payment of any Awards granted (or a portion thereof) and/or require the forfeiture and disgorgement to the Company of any Awards (or a portion thereof) granted or paid during the twelve months prior to or any time after the Participant engaged in such misconduct and all gains earned or accrued due to the exercise of such Awards or sale of any common stock issued pursuant to such Awards.

(iv) Other Recoupment Policies. Awards granted under this Plan shall also be subject to such generally applicable policies as to forfeiture, disgorgement and recoupment as may be adopted by the Board or the Committee from time to time and communicated to Participants. Any such policies may (in the discretion of the Board or the Committee) be applied to outstanding awards at the time of adoption of such policies, or on a prospective basis only. The implementation of policies and procedures pursuant to this Section 5(g) and any modification of the same shall not be subject to any restrictions on amendment or modification of awards.

(h) Term of Plan. The Plan shall be effective with respect to fiscal periods beginning on or after April 1, 2020.

(i) Amendment or Alteration. Notwithstanding Section 5(a), the Board or the Committee may at any time amend, suspend, discontinue or terminate the Plan.

(j) Severability. The holding of any provision of this Plan to be illegal, invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Plan, which shall remain in full force and effect.

(k) Assignment. Except as otherwise provided in this Section 5(k), this Plan shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. Neither this Plan nor any right or interest hereunder shall be assignable by the Participant, his beneficiaries, or legal representatives; provided that nothing in this Section 5(k) shall preclude the Participant from designating a beneficiary to receive any benefit payable hereunder upon his death, or the executors, administrators or other legal representatives of the Participant or his estate from assigning any rights hereunder to the person or persons entitled thereunto. This Plan shall be assignable by the Company to a Subsidiary or Affiliate of the Company; to any corporation, partnership or other entity that may be organized by the Company, its general partners or its Participants as a separate business unit in connection with the business activities of the Company or Participants; or to any corporation, partnership or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation, partnership or other entity, or any corporation, partnership, or other entity to or with which all or any portion of the Company's business or assets may be sold, exchanged or transferred.

(l) 409A Compliance. This Plan is intended to provide for payments that are exempt from the provisions of Section 409A the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder (“Section 409A”) to the maximum extent possible and otherwise to be administered in a manner consistent with the requirements, where applicable, of Section 409A. Where reasonably possible and practicable, the Plan shall be administered in a manner to avoid the imposition on Participants of immediate tax recognition and additional taxes pursuant to Section 409A. In the case of any “nonqualified deferred compensation” (within the meaning of Section 409A) that may be treated as payable in the form of “a series of installment payments,” as defined in Treasury Regulation Section 1.409A-2(b)(2)(iii), a Participant’s or designated beneficiary’s right to receive such payments shall be treated as a right to receive a series of separate payments for purposes of such Treasury Regulation. Notwithstanding the foregoing, neither the Company nor the Committee, nor any of the Company’s directors, officers or employees shall have any liability to any person in the event Section 409A applies to any payment or right under this Plan in a manner that results in adverse tax consequences for the Participant or any of his or her beneficiaries or transferees. Notwithstanding any provision of this Plan to the contrary, the Board or the Committee may unilaterally amend, modify or terminate the Plan or any right hereunder if the Board or Committee determines, in its sole discretion, that such amendment, modification or termination is necessary or advisable to comply with applicable U.S. law, as a result of changes in law or regulation or to avoid the imposition of an additional tax, interest or penalty under Section 409A.

Notwithstanding the terms of this Plan to the contrary, if at the time of the Participant’s “separation from service” within the meaning of Section 409A, he or she is a “specified employee” within the meaning of Section 409A, any payment of any “nonqualified deferred compensation” amounts (within the meaning of Section 409A and after taking into account all exclusions applicable to such payments under Section 409A) required to be made to the Participant upon or as a result of the separation from service (as defined in Section 409A) shall be delayed until after the six-month anniversary of the termination from service to the extent necessary to comply with and avoid the imposition of taxes, interest and penalties under Section 409A. Any such payments to which he or she would otherwise be entitled during the first six months following his or her termination from service will be accumulated and paid without interest on the first payroll date after the six-month anniversary of the separation from service (unless another Section 409A-compliant payment date applies) or within thirty days thereafter. These provisions will only apply if and to the extent required to avoid the imposition of taxes, interest and penalties under Section 409A.

(m) No Attachment. Except as required by law, no right to receive payments under this Plan shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge or hypothecation, or to execution, attachment, levy or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect.

(n) Headings. The Section headings appearing in this Plan are used for convenience of reference only and shall not be considered a part of this Plan or in any way modify, amend, or affect the meaning of any of its provisions.

(o) Rules of Construction. Whenever the context so requires, the use of the masculine gender shall be deemed to include the feminine and vice versa, and the use of the singular shall be deemed to include the plural and vice versa. That this Plan was drafted by the Company shall not be taken into account in interpreting or construing any provision of this Plan.

(p) Governing Law. This Plan and its enforcement shall be governed by, and construed in accordance with, the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) OF THE  
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Horacio Rozanski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Booz Allen Hamilton Holding Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, 2020

By: /s/ Horacio Rozanski

Horacio Rozanski  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) OF THE  
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Lloyd W. Howell, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Booz Allen Hamilton Holding Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, 2020

By: /s/ Lloyd W. Howell, Jr.

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Lloyd W. Howell, Jr.  
Executive Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the report on Form 10-Q of Booz Allen Hamilton Holding Corporation (the "Company") for the fiscal quarter ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned President and Chief Executive Officer of the Company certifies, to the best of his knowledge and belief pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 31, 2020

By: /s/ Horacio Rozanski

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Horacio Rozanski  
President and Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to Booz Allen Hamilton Holding Corporation and will be retained by Booz Allen Hamilton Holding Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the report on Form 10-Q of Booz Allen Hamilton Holding Corporation (the "Company") for the fiscal quarter ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Executive Vice President, Chief Financial Officer and Treasurer of the Company certifies, to the best of his knowledge and belief pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 31, 2020

By: /s/ Lloyd W. Howell, Jr.

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Lloyd W. Howell, Jr.  
Executive Vice President, Chief Financial Officer and Treasurer (Principal  
Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Booz Allen Hamilton Holding Corporation and will be retained by Booz Allen Hamilton Holding Corporation and furnished to the Securities and Exchange Commission or its staff upon request.